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, 2016

OR

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

For the transition period from to

OR

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

Date of event requiring this shell company report

Commission file number 1-31517

中国电信股份有限公司
(Exact Name of Registrant as Specified in Its Charter)

China Telecom Corporation Limited
(Translation of Registrant's Name into English)

People's Republic of China
(Jurisdiction of Incorporation or Organization)

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

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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, 2016, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

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 ☒

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FORWARD-LOOKING STATEMENTS

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

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

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

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

- any changes in the regulations or policies of the Ministry of Industry and Information Technology (prior to March 2008, the Ministry of Information Industry, or the MII), or the MIIT, and other relevant government authorities relating to, among other matters:
  - the granting and approval of licenses;
  - tariff policies;
  - interconnection and settlement arrangements;
  - capital investment priorities;
  - the provision of telephone and other telecommunications services to rural areas in the PRC;
  - the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and
  - spectrum and numbering resources allocation;
- the effects of competition on the demand for and price of our services;
- any potential further restructuring or consolidation of the PRC telecommunications industry;
- changes in the PRC telecommunications industry as a result of the issuance of the fourth generation mobile telecommunications, or 4G, licenses by the MIIT;
- the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business;
- changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government's specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit;
- results and effects of any investigation by the relevant PRC regulatory authorities; 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, 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, 2015 and 2016, 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, 2012, 2013 and 2014 and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2012 and 2013 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

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

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

	As of or for the year ended December 31,					
	2012 RMB	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2016 US$
	(in millions, except share numbers and per share and per ADS data)					
Consolidated Statements of Comprehensive Income Data:						
Operating revenues	283,176	321,584	324,394	331,202	352,285	50,740
Operating expenses	(261,968)	(294,116)	(295,886)	(304,760)	(325,084)	(46,822)
Operating income	21,208	27,468	28,508	26,442	27,201	3,918
Earnings before income tax	19,817	23,088	23,257	26,693	24,097	3,471
Income tax	(4,753)	(5,422)	(5,498)	(6,551)	(5,988)	(862)
Profit attributable to equity holders of the Company	14,949	17,545	17,680	20,054	18,004	2,593
Basic earnings per share(1)	0.18	0.22	0.22	0.25	0.22	0.03
Basic earnings per ADS(1)	18.47	21.68	21.85	24.78	22.25	3.20
Cash dividends declared per share	0.07	0.08	0.08	0.08	0.09	0.01

	As of or for the year ended December 31,					
	2012 RMB	2013 RMB	2014 RMB	2015 RMB	2016 RMB	2016 US$
	(in millions, except share numbers and per share and per ADS data)					
Consolidated Statements of Financial Position Data:						
Cash and cash equivalents	30,099	16,070	20,436	31,869	24,617	3,546
Accounts receivable, net	18,782	20,022	21,562	21,105	21,423	3,086
Total current assets	65,375	52,783	59,543	78,108	73,972	10,654
Property, plant and equipment, net	373,781	374,341	372,876	373,981	389,648	56,121
Total assets	545,291	543,239	561,274	629,561	652,368	93,961
Short-term debt	6,523	27,687	43,976	51,636	40,780	5,874
Current portion of long-term debt and payable	10,212	20,072	82	84	62,276	8,970
Accounts payable	68,948	81,132	88,458	118,055	122,444	17,636
Total current liabilities	193,610	200,098	206,325	255,929	318,998	45,945
Long-term debt and payable	83,070	62,617	62,494	64,830	9,370	1,350
Deferred revenues (including current portion)	3,445	2,431	1,858	2,482	3,558	512
Total liabilities	279,191	264,575	271,166	324,810	336,073	48,405
Equity attributable to equity holders of the Company	265,139	277,741	289,183	303,784	315,324	45,416
Consolidated Cash Flow Data:						
Net cash generated from operating activities	70,722	88,351	96,405	108,750	101,130	14,566
Net cash used in investing activities(2)	(48,295)	(107,948)	(81,708)	(102,250)	(99,038)	(14,264)
Capital expenditures(2)	(50,071)	(70,921)	(80,273)	(101,898)	(96,673)	(13,924)
Net cash (used in) / generated from financing activities	(19,802)	5,637	(10,327)	4,809	(9,555)	(1,376)

(1) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2012, 2013, 2014, 2015 and 2016 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 25, 2016, a final dividend of RMB6,489 million (RMB0.080182 per share equivalent to HK$0.095 per share, pre-tax) for the year ended December 31, 2015 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 21, 2017, a final dividend of approximately RMB7,548 million (RMB0.093261 equivalent to HK$0.105 per share, pre-tax) for the year ended December 31, 2016 was proposed for shareholders' approval at the forthcoming annual general meeting.

Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For any date and period, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 30, 2016 (RMB6.9430 to US$1.00 and HK$7.7534 to US$1.00). We make no representation that any Renminbi or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars or vice versa, as the case may be, at any particular rate, the rates stated below, or at all. For a detailed explanation of the risk of currency rate fluctuations, please see "D. Risk Factors—Risks Relating to the People's Republic of China— Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows." under this Item. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange. Examples of such government regulations and restrictions are set forth in "Risk Factors—Risks Relating to the People's Republic of China—Government control of currency conversion may adversely affect our financial condition."

On April 21, 2017, the daily exchange rates reported by the Federal Reserve Board was RMB6.8845 to US$1.00 and HK$7.7757 to US$1.00. The following table sets forth additional information concerning exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our future periodic reports or any information to be provided to you.

	RMB per US$1.00			HK$ per US$1.00	
	High	**Low**		**High**	**Low**
October 2016	6.7819	6.6685	October 2016	7.7600	7.7536
November 2016	6.9195	6.7534	November 2016	7.7581	7.7546
December 2016	6.9580	6.8771	December 2016	7.7674	7.7534
January 2017	6.9575	6.8360	January 2017	7.7580	7.7540
February 2017	6.8821	6.8517	February 2017	7.7627	7.7575
March 2017	6.9132	6.8687	March 2017	7.7714	7.7611
April 2017 (through April 21, 2017)	6.8988	6.8778	April 2017 (through April 21, 2017)	7.7757	7.7687

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2012, 2013, 2014, 2015 and 2016 calculated by averaging the exchange rates on the last day of each month during each of the relevant years.

Average Exchange Rate

	RMB per US$ 1.00	HK$ per US$1.00
2012	6.2990	7.7556
2013	6.1412	7.7565
2014	6.1704	7.7554
2015	6.2869	7.7519
2016	6.6549	7.7618

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 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 nationwide. We have been authorized by China Telecom Group to operate 4G business nationwide based on both LTE/Time Division Duplex standard ("TD-LTE") technologies and Frequency Division Long Term Evolution standard ("LTE FDD") technologies. We cannot assure you that: (i) our 4G services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned 4G services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for 4G services for us to deliver these services profitably; (iv) our competitors' 4G, or newer technology based, services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in providing 4G services. The failure of any of these possible developments to occur could impede our growth, which could have a material adverse effect on our business, financial condition and results of operations. We expect that the market competition will be further intensified as a result of our competitors expanding their 4G services, which could materially and adversely affect our business and prospect.

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 businesses. 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. Television cable companies providing fixed-line broadband services, Internet services providers and mobile software and application developers (such as Over-the-Top messaging services providers who offer contents and services on the Internet without their proprietary telecommunications network infrastructure), are competing with us in voice or data services. During the past few years, some of our traditional revenue contributors have experienced a slowdown in the growth rate or negative growth, primarily due to the alternative means of communication becoming increasingly popular among the consumers. See " – D. Risk Factors – Risks Relating to our Business – We may further lose wireline telephone subscribers and revenues derived from our wireline voice services may continue to decline, which may adversely affect our results of operations, financial condition and prospects."

In addition, the PRC government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry. For more details of the three-network convergence policy, please see "Item 4. Information on the Company – B. Business Overview – Regulatory and Related Matters – Three-Network Convergence Policy." For a series of government measures to encourage non-State owned companies to provide telecommunications services that could compete with our services, see "Item 4. Information on the Company – B. Business Overview – Competition." As of December 31, 2016, the MIIT granted broadband access pilot enterprises licenses to over 200 private companies. In 2016, MIIT further opened up broadband access markets to private capital in seven provinces on a province-wide basis and an additional 12 pilot cities. As of December 31, 2016, 42 mobile virtual network operators obtained the licenses from the MIIT, and there were a total of 43 million users of mobile virtual network. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

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

The 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. 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 will be of significant importance to the development of our mobile business and our results of operations. In particular, given that, in principle, we, CUCL and CMCL expect that construction of new tower assets would be carried out by the Tower Company, our mobile business depends on the lease arrangement between us and the Tower Company. Because we do not control the Tower Company, we cannot assure you that it will act in the best interests of us. 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 in order to expand our mobile network coverage, or if we cannot receive quality services on a timely basis from the Tower Company, the growth of our mobile business as well as our financial condition and results of operations may be materially and adversely affected.

In addition, as part of its periodic review of our filings, the staff of the Division of Corporation Finance of the SEC sent us three rounds of comments in September 2016, November 2016 and February 2017, respectively, regarding our annual report on Form 20-F for the fiscal year ended December 31, 2015. These comments mainly relate to the background, execution process and accounting treatments of the aforesaid transactions with Tower Company. We have responded to the latest comments in March 2017, and have not yet received a formal reply from the SEC to our latest response letter. Thus we do not know if the SEC considers certain comments to remain unresolved, and whether and how those unresolved comments could affect any of our past or current disclosure. As such, there remains uncertainty whether we would be required to amend our past or current disclosure, including the financial statements, which could result in us incurring costs and require our management and employees to devote further efforts on this matter. To the extent that any such amendment occurs, we cannot assure you that it would not cause any adverse effect on our stock price.

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

We continued to lose wireline telephone subscribers and revenues derived from our wireline voice services continued to decline during the past several years mainly due to the increasing popularity of mobile voice services and other alternative means of communication, such as Over-the-Top messaging services. Tariffs for mobile voice services have continued to decrease in recent years, which further accelerated substitution of the wireline voice services by the mobile voice services. The number of our wireline telephone subscribers decreased by 6.4% at the end of 2015 compared to that at the end of 2014 and further decreased by 5.6% at the end of 2016. Revenues from our wireline voice services decreased by 11.8% in 2015 compared to 2014 and further decreased by 12.2% in 2016. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 10.4% in 2014 to 8.9% in 2015 and 7.4% in 2016.

However, we cannot assure you that we will be successful in mitigating the adverse impact of the substitution of wireline voice services by mobile voice services and other alternative means of communication or in slowing down the decline of our revenues generated from wireline voice services. Migration from wireline voice services to mobile services and other alternative means of communication may further intensify in the future, which may affect the financial performance of our wireline voice services and thus adversely affect our results of operations, financial condition and prospects as a whole.

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

China Telecom Group, a wholly state-owned enterprise, owned approximately 70.89% of our outstanding shares as of April 24, 2017. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

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

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

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

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

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

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

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

Under the relevant telecommunications regulations, telecommunications operators are required to interconnect with networks of other operators. China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group's networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. The effective provision of our 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.

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

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

The telecommunications market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. We cannot assure you that we will be successful in responding to these developments. In addition, new services or technologies, such as mobile Internet, the three-network convergence, cloud computing and Internet of Things, may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and changes in industry standards, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. For example, we have begun to research and develop Software-Defined Networking ("SDN") and Network Functions Virtualization ("NFV") technologies. These new virtualized networks will increase the flexibility of networks. However, 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 may also be adversely affected by external factors, some of which are beyond our control. For example, we began our research on 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, relevant regulations, as well as the technological standard for 5G services. If we are unable to respond to these uncertainties, such inability may materially and adversely affect our business in the future.

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

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

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

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

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

Communications fraud, in which a person defrauds another by means of telecommunications technologies including SMS, telephone, and Internet, poses a risk to us. If communications fraud is committed over our network, we may incur liability as a result of the inadequacy in our measures to prevent such fraud. On September 23, 2016, six departments including the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Public Security, the MIIT, the People's Bank of China and the China Banking Regulatory Commission jointly released the Announcement on Preventing and Cracking Down on Telecom and Internet Frauds (关于防范和打击电信网络诈骗犯罪的通告) and the MIIT issued the Implementation Opinions on the Work of Further Prevention and Crack Down on Communications Fraud (关于进一步防范和打击通讯信息诈骗工作的实施意见) on November 7, 2016. We have implemented various measures to strengthen our management and control over sales and distribution channels, including full-scale implementation of the compliance review of sales agencies, real name verification of employee numbers, awareness campaigns as well as taking and storing the photo of customers when they conduct business with us. 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.

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 change our cost structure.

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

- industry policies and regulations;
- licensing;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;

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

Other PRC governmental authorities also take part in regulating tariff policies, capital investment and foreign investment in the telecommunications industry. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our flexibility to respond to market conditions or to changes in our cost structure. For example, 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 2015 October which would allow handset data subscribers who subscribe to our monthly data packages to rollover the unused data remaining in the monthly packages to the next month. In order to further implement the policy requirements of the PRC government regarding network speed upgrade and tariff reduction, we will cease to charge handset subscribers domestic long distance and roaming fees commencing before October 1, 2017. Meanwhile, we will reduce the fees of international long distance calls and significantly reduce the tariff of Internet dedicated line access for small and medium enterprises during the year. On January 6, 2016, the MIIT issued the Guidance on the Wholesale Price Adjustments of Mobile Telecommunication Resale Business (关于移动通信转售业务批发价格调整的指导意见), pursuant to which the MIIT required that the wholesale price for resale of mobile telecommunications services should be lower than the per unit price (or package price) for similar businesses of the mobile networks operators. On December 1, 2016, the amended PRC Regulations on the Management of Radio Operation (中华人民共和国无线电管理条例) came into effect. The amended provision provided that a permit is required for using certain radio frequencies, which may be obtained through a bidding process or auctions. As such, we may incur additional costs in the future when we need to obtain the permit to use certain radio frequencies, such as the frequency bands for 5G, which will affect our cost structure. We may face further policy requirements imposed by the PRC government on price adjustment in the future. Any such requirements could materially adversely affect our revenues, profitability and results of operations. In addition, the PRC government has taken various initiatives and promulgated a number of regulations to encourage private capital to invest in the telecommunications industry, all of which have intensified, and are expected to continue to intensify, the competition in the telecommunications industry in the PRC. See " – D. Risk Factors – Risks Relating to our Business – We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations."

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

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

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government. The MIIT has the authority to delineate the scope of universal service obligations. The MIIT, together with other governmental authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate for the expenses incurred in the "Village to Village" and the "Broadband China" projects before the establishment of a universal service fund. 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 "Village to Village" 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 and Ministry of Supervision of the PRC on December 27, 2015, Mr. Chang Xiaobing, the former Chairman of Unicom Group and the then Chairman of China Telecom Group was under investigation by such authorities for suspected serious disciplinary violations. Mr. Chang was appointed as the chief executive officer of the Company on September 1, 2015 and the director and chairman of the Company on October 23, 2015. On December 30, 2015, Mr. Chang resigned from his positions as the executive director, chairman and chief executive officer of the Company with effect from the same date. Prior to his resignation, Mr. Chang had worked at the Company for four months. Mr. Chang is currently on trial in a PRC court and is awaiting sentencing. The investigation and trial conducted by the PRC authorities on Mr. Chang may harm our reputation and adversely affect our financial condition and results of operations as well as the trading price of our securities.

Risks Relating to the People's Republic of China

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

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

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

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

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

Economic developments in the PRC have a significant effect on our financial condition and results of operations. Although the PRC has been one of the world's fastest growing economies in terms of GDP growth in the past 30 years, the global financial crisis that unfolded in 2008 and continued in the past few years, coupled with the on-going structural reform of the PRC economy, has led to a marked slowdown in, and may continue to slow down, the economic growth of the PRC. For example, the GDP growth rate of the PRC decreased from 11.4% in 2007 to 6.7% in 2016. The PRC economy may continue to grow at a relatively slow pace in the next few years. There is no assurance that the GDP growth rate of the PRC will not further decline. A slowdown in economic growth could reduce business activities and demand for our services. The global economy may continue to deteriorate in the future and continue to have an adverse impact on the PRC economy. Any significant slowdown in the PRC economy could have a material adverse effect on the PRC telecommunications industry as well as our business and operations.

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

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

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

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

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

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

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In April 2012, the PRC government expanded the daily floating band of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign currency exchange market from 0.5% to 1.0%, which was further expanded to 2.0% in March 2014. According to the exchange rates published by the People's Bank of China on December 31, 2016, the exchange rate of Renminbi depreciated by 6.4% against the U.S. dollars from December 31, 2015. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, in which our obligations are denominated. For further information on our foreign exchange risks and certain exchange rates, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rate Information" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Rate Risk." We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

Holders of H shares may be subject to PRC taxation.

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

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

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

Several natural disasters and health hazards have struck mainland China in recent years. In 2013, a major earthquake registering 7.0 on the Richter scale struck Sichuan Province, and floods struck 18 provinces including Gansu and Heilongjiang Provinces, causing widespread damages to telecommunications equipment in the affected areas and resulting in disruptions of the telecommunications services. In 2014, three major earthquakes registering 6.1, 6.5 and 6.6, respectively, on the Richter scale struck Yunan Province and another major earthquake registering 6.3 on the Richter scale struck Sichuan Province, causing severe damages to telecommunications equipment as well as disruptions to telecommunications services in the affected areas. In July 2016, southern China suffered severe rainstorms and flooding, which resulted in significant 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 natural disasters or health hazards in the PRC or other regions in the world may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

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

Item 4. Information on the Company.

A. History and Development of the Company

Our Restructuring and Initial Public Offering in 2002

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

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

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

Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

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

Our Acquisition of the CDMA Business

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

Related Transactions

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

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

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

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

Pursuant to the CDMA Network Acquisition Agreement, (i) RMB25,500 million of the Final Consideration was paid in January 2013 and (ii) the balance of the Final Consideration, or the Deferred Payment, will be payable at any time on or before the fifth anniversary of the Completion Date. Payment of the Final Consideration was and will be funded from our internal resources and relevant debt financing sources. The Company may, from time to time, prepay all or part of the Deferred Payment at any time after the Completion Date without any penalty until the fifth anniversary of the Completion Date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecom Group at half-yearly intervals and the interest will accrue from the day following the Completion Date. The interest rate will be set at a five basis points premium to the yield of the five-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the Completion Date and will be adjusted once a year in accordance with the last yield of the five-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rates for the first year, the second year, the third year, 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.

Changes in Our Corporate Organization in 2013

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

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

On August 19, 2013, we set up a subsidiary, Zhejiang Yixin Technology Co., Ltd., or Zhejiang Yixin, with Netease, Inc., a leading Internet technology company in China, to launch "YiChat", a mobile Internet multimedia instant messaging application for smartphones. As of December 31, 2016, Zhejiang Yixin had a registered capital of RMB11 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, Chengdu E-store Technology Co., Ltd., which engages in software technology development. The registered capital of Chengdu E-store Technology Co., Ltd. is RMB45 million.

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

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

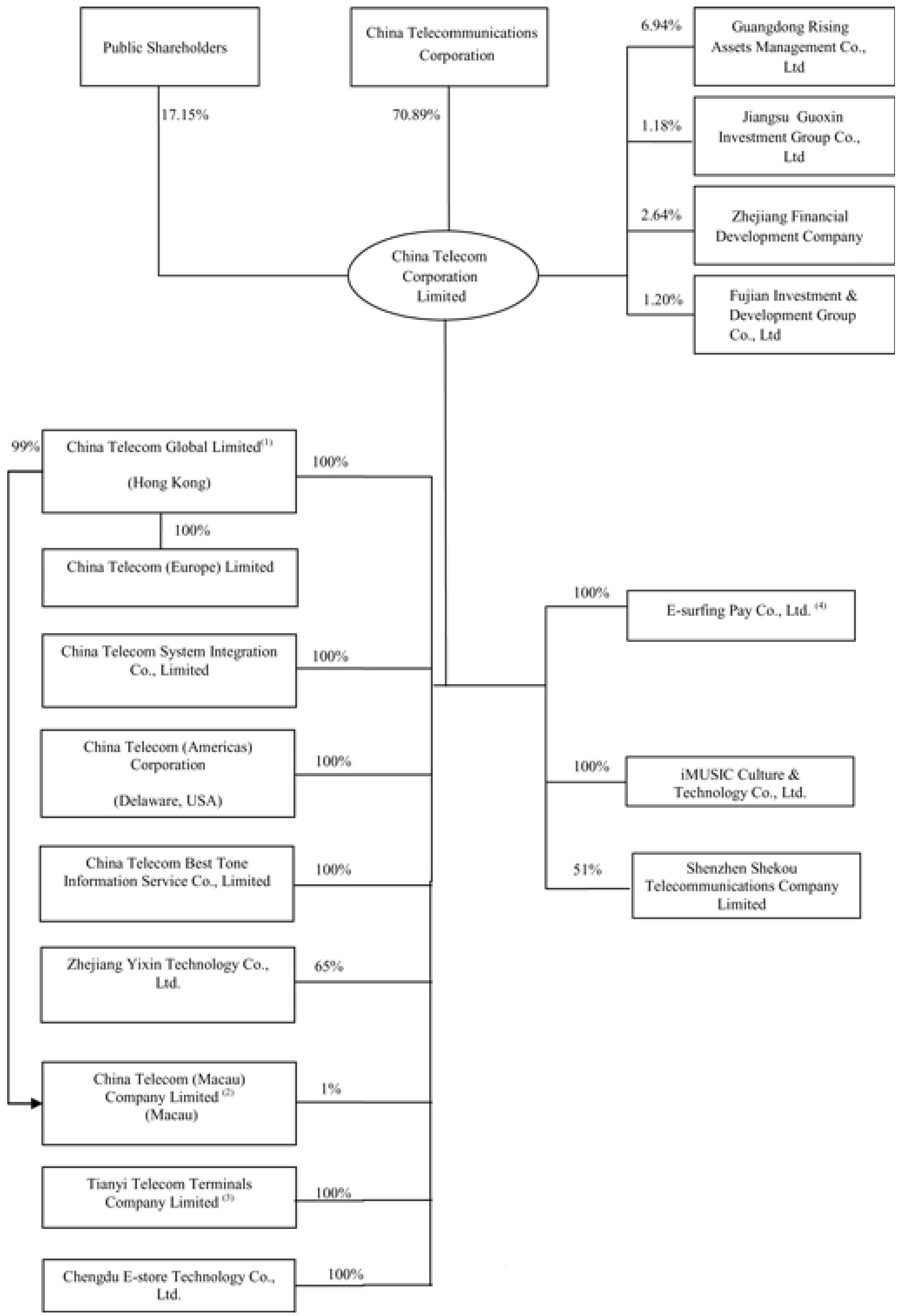
On October 14, 2015, the Company entered into the Transfer Agreement with (i) CMCL and related subsidiaries (together, "Mobile"), (ii) CUCL and Unicom New Horizon Telecommunications Company Limited ("New Horizon", together with CUCL, "Unicom"), (iii) China Reform Holding Company Limited ("CRHC") and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

The Company realized a gain (subject to deduction of relevant expenses and taxes) from the tower assets disposal described above, which was calculated based on the surplus of the final consideration for the tower assets disposal over the book value of such assets as of the completion date. The total gain from the tower assets disposal was RMB7,231 million. As the Company holds 27.9% of the share capital of Tower Company following the completion of such tower assets disposal, 72.1% of the aforesaid gain has been recognized at the completion date of such tower assets disposal in the Company's consolidated statement of comprehensive income for 2015 and the remaining 27.9% of the aforesaid gain is deferred over the remaining useful life of the tower assets. Upon completion of the disposal of tower assets by the Company to the Tower Company, the Company and Tower Company entered into the Lease Agreement on July 8, 2016 that sets forth the pricing and related arrangements in relation to the lease of telecommunications towers and related assets (including both acquired towers and new towers). A copy of the English translation of Lease Agreement is filed as Exhibit 4.71 to this annual report.

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 – The 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, remedy the weakness of having relatively less base stations at 800 MHz bandwidth 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.

Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 24, 2017:



(1) Formerly known as China Telecom (Hong Kong) International Limited
(2) Formerly known as China Unicom (Macau) Company Limited.
(3) Formerly known as Unicom Huasheng Telecommunications Technology Co., Ltd.
(4) Formerly known as Bestpay Co., Ltd.

In addition, our Company has a branch in each of 22 provinces, five autonomous regions and four centrally administered municipalities in the PRC.

General Information

Our principal executive offices are located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033 and our telephone number is (+86-10) 5850-1508. Our website address is www.chinatelecom-h.com. The information on our website is not a part of this annual report. We have appointed CT Corporation System at 13th floor, 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

B. Business Overview

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

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

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

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

In February, 2015, China Telecom Group was granted by the MIIT the permit, and authorized us, to provide 4G services based on LTE FDD technologies nationwide.

Our Operation Strategy

In 2016, we continued to leverage on our economies of scale and focus on our data business to further increase both of our revenues and profits. In particular, we have implemented the following operational strategies:

- We focused on developing our 4G business and rapidly grew our 4G customers base;
- We continued to expand our optic fiber broadband services to promote intelligent upgrade in broadband;
- We successfully promoted "6-mode multi-mode" as national standard, enabling terminal standard back to international mainstream;
- We continued deepening in reforms and innovation to stimulate corporate intrinsic momentum;
- We reinforced our efforts in promoting Internet applications to attract more customers;
- We accelerated the Internet-oriented transformation of marketing channels and improved marketing efficiency; and
- We focused on improving service quality for our 4G and broadband services to enhance customer experience.

In addition, in June 2016, we established a comprehensive transformation and upgrades strategy (Transformation 3.0) and strived to be a leading integrated intelligent information services operator. We plan to focus on the main theme of making our network and operation more intelligent and data-driven and will promote the development of the ecosystems around our businesses. We promptly determined and established the implementation path to pragmatically promote network intelligentization, service ecologicalization and operation intellectualization. We have commenced the implementation of Transformation 3.0 strategy with the following initiatives:

- We completed the top-level design on network reconstitution, published the CTNet2025 Network Structure White Paper and launched a number of network reconstitution projects encompassing various areas such as network framework, fundamental scientific R&D, network engineering and product development;
- We established five key business ecospheres, namely Intelligent Connection, Smart Family, Internet Finance, IoT and new ICT applications to provide intelligent-connected and vertically-integrated intelligent applications services for users; and
- We focused on data-driven initiatives. We commenced to implement various key measures including construction of corporate-level Big Data platform, enhancement of database management, reinforcement of IT system support and improvement of data applications capabilities.

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,		
	2014	**2015**	**2016**
Mobile subscribers (in millions)	185.6	197.9	215.0
of which: 4G terminal users (in millions)	7.1	58.5	121.9
Mobile voice usage (in billion minutes)	655.9	667.5	720.6
Mobile SMS Usage (in billion messages)	64.6	56.8	54.7
Handset data traffic (in kTB)	266.6	554.7	1,277.0
Wireline broadband subscribers (in millions)	107.0	113.1	123.1
of which: Fiber-to-the-Home (FTTH) subscribers (in millions)	42.6	71.0	106.0
Access lines in service (in millions)	143.6	134.3	126.9
Wireline local voice usage (in billion pulses)	130.4	110.9	93.4
e-Surfing HD subscribers	31.3	40.4	61.3
BestPay average monthly active users	—	3.5	16.2
Internet of Things connected devices[1]	—	1.0	14.2

(1) China Telecom completed the construction of its efficiently-centralized operating platform for Internet of Things and operation commenced in April 2016.

Our Products and Services

Voice Services

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

Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2016, as part of our effort to develop our 4G services, we further expanded our mobile subscriber base through marketing efforts in open channel sales of 4G mobile handsets by promoting “6-mode multi-mode” as the national standard. In addition, we accelerated subscribers migration to 4G services and expanded our subscriber base.

Amid the intense market competition in 2016, the number of subscribers of our mobile services grew by 8.6% from 197.9 million as of December 31, 2015 to 215.0 million as of December 31, 2016. The mobile voice usage increased to 720.6 billion minutes in 2016 from 667.5 billion minutes in 2015.

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 126.9 million as of December 31, 2016 from 134.3 million as of December 31, 2015. The total local wireline usage decreased by approximately 15.8% from 110.9 billion pulses in 2015 to 93.4 billion pulses in 2016. Total domestic long distance wireline usage was 20,183 million minutes in 2016, representing a decrease of approximately 22.4% from 26,005 million minutes in 2015. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2016 was 387 million minutes, representing a decrease of approximately 22.3% from 498 million minutes in 2015.

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.

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 other services, which create the synergy that mutually benefits our Internet access, mobile and other services.

In 2016, we focused on promotion of Hundred-Mbps broadband products with trial runs of Gbps products and continued to accelerate the optic fiber upgrade of our network and to increase the broadband connection speed. In 2016, we primarily achieved full coverage of our optic fiber network in the southern urban areas. The number of our wireline broadband subscribers reached 123.1 million as of December 31, 2016, up by 8.9% from 113.1 million as of December 31, 2015. Among these subscribers, Fiber-to-the-Home subscribers, or FTTH subscribers, reached 106.0 million, accounting for approximately 86.1% of the total wireline broadband subscribers as of December 31, 2016, representing an increase of 49.3% over the number of FTTH subscribers as of December 31, 2015. In addition, by utilizing our competitive wireline broadband access capacity, we continued to develop and incorporate new applications and services in order to build customer loyalty and increase the overall value of our services.

Moreover, we further enhanced the coverage and access capabilities of our wireless broadband network by focusing on developing our 4G services. In 2016, we primarily achieved full coverage of our 4G network nationwide. We built approximately 380,000 new 4G base stations, reaching a total of approximately 890,000 4G base stations as of December 31, 2016, and deployed 4G+ (LTE-A) in all cities. We diversified our products, optimized our 4G packages, and promoted the data traffic products including “spare time package”, “holiday package” and “dedicated data traffic package”. As of December 31, 2016, the number of our 4G terminal users reached 121.9 million, accounting for 56.7% of our mobile subscribers. In 2016, our total handset Internet data traffic reached 1,277.0 kTB, representing an increase of 130.2% over 2015, of which the aggregate 4G handset Internet data traffic increased nearly 3 times, and the monthly average mobile data traffic per 4G terminal use reached 1,029 MB, significantly contributing to the volume and revenue of our data services.

Information and Application Services

Our information and application services include four core applications namely Internet protocol TV(e-surfing HD), or IPTV (e-surfing HD), VPN, family cloud and video call as well as Internet data center, or IDC, services, IP-virtual private dial-up network, or IP-VPDN, services, which are based on wireline Internet related services. In addition, we have caller ID services, short messaging services, or SMS, multimedia messaging services, or MMS and email services, content based services and applications, such as content services relating to music, and industry-specific applications for government and enterprises, such as government administration and supervision, transport and logistics, digital hospital and integrated e-Surfing radio-frequency identification, or RFID services, which are based on wireline voice related services.

We strengthened our research and development capability in relation to the emerging businesses with demonstrable 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, VPN, family cloud and video call, achieving stable expansion in the subscriber base. By the end of 2016, the number of e-surfing HD subscribers reached 61.33 million, representing a net increase of 20.95 million over last year. With respect to the development of internet finance, we promoted certain new businesses including consumer finance installments. The number of average monthly active users of "BestPay" reached 16.21 million in 2016, representing an increase of 361.8% over last year, while the number of active merchants reached 300,000 in 2016, growing by 773.5% over last year. With respect to the development of Internet of Things ("IoT"), we centralized our business operations into one-stop service, launched the construction of NarrowBand-IoT ("NB-IoT") and formed e-Surfing IoT industry alliance focusing on the expansion in key industries such as Internet of vehicles, achieving a net increase of 13.21 million connected devices. With respect to the development of cloud services, we improved the infrastructure deployment of cloud and IDC as well as launching "e-Surfing cloud 3.0" products.

We experienced rapid growth in our IDC businesses in 2016. Revenue from IDC service was RMB 15,936 million, representing an increase of 27.9 % over last year, while revenue from cloud service was RMB1,500 million, representing an increase of 48.8% over last year. Revenue from Big Data services was RMB410 million, representing an increase of 81.4% over last year. We published the "Internet+" Action White Paper and prominently enhanced the scale and quality of big orders. We enhanced our efficiently-centralized cloud resource operating capacity by constructing the "2+31+X" (including two data centers in Inner Mongolia and Guizhou, 31 provincial-level IDCs and flexible urban edge nodes according to customers' demand) cloud resource layout in China. As of December 31, 2016, approximately 204,000 cabinets were put into service. The Inner Mongolia data center and the Guizhou data center were put into operation in 2013 and 2015, respectively. In terms of the designed capacities, the Inner Mongolia data center and the Guizhou data center can accommodate 150,000 frames and 2,400,000 servers in the aggregate. In addition, we promoted the construction of Data Center Interconnect, or DCI, and have achieved interconnection of two cloud bases and key IDCs in 10 provinces.

The usage volume of our mobile SMS decreased by 3.6% from 56.8 billion messages in 2015 to 54.7 billion messages in 2016.

Telecommunications Network Resource Services and Lease of Network Equipment

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

In 2016, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop shop, tailored services and comprehensive solutions to these customers. These customers can enjoy a full range of consulting and technical support and services by contacting any of our designated account managers.

Other Services

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

Our Customers and Brand Management

In 2016, we continued to promote our full-service brand names under our enterprise brand "China Telecom," and further enhanced "e-Surfing" as our leading brand name through, among others, promoting our "e-Surfing 4G+" mobile business, "multi-mode" handsets as well as content application services. Through providing contents to our services on a multi-dimensional level and our coordinated marketing efforts, we continue to enhance the brand recognition and market influence for "e-Surfing."

Tariffs

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

Wireline Voice Services

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

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

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

Mobile Voice Services

Generally we charge subscribers of our mobile voice services the following categories of tariffs: local usage charges, long-distance call charges and roaming charges. 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 will cease to charge handset subscribers domestic long distance and roaming fees commencing before October 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, we will significantly reduce the tariff of Internet dedicated line access for small and medium enterprises in 2017.

Telecommunications Network Resource Services and Lease of Network Equipment

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

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

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other mobile, 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 and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group's networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. Our interconnection arrangements with China Telecom Group and other telecommunications operators enable our subscribers to communicate with the subscribers of those operators and to make and receive local, domestic and international long distance calls 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.

As of December 31, 2016, subscribers of our mobile services can roam on mobile networks in more than 200 countries and regions based on international roaming agreements between China Telecom Group and the local CDMA operators or GSM/WCDMA/LTE roaming providers. A mobile service subscriber using roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenues and expenses with international operators in accordance with roaming agreements between China Telecom Group and the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

Marketing, Sales, Distribution and Customer Services

Marketing, Sales and Distribution

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

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

We implement our marketing strategy through an integrated sales and distribution channel network, which covers: (i) dedicated service channel comprising customer managers specifically assigned to market our services to industrial clients, commercial clients and campus clients; (ii) electronic-based service channel such as customer service hotlines, online service centers, mobile applications and third-party e-commerce platforms; (iii) business outlets channel, including self-owned and third-party business outlets (including mobile handset chain stores, electronics chain stores, supermarkets and large-scale telecommunications equipment distribution stores). As part of our strategy to provide integrated services, we continue to enhance resources sharing with respect to information relating to sales and distribution across our sales and distribution networks. In 2016, we deepened the promotion of channel operation, effectively expanded the channel scale, refining and optimizing the "channel overview" and "superior channel" systems while remarkably enhancing precision sales and service capabilities of the channels. We strengthened coordination between direct sales channels, physical channels and electronic channels for market development. Regarding physical stores, we expanded the open channels coverage in core business districts, built Smart Family experience stores in urban communities and promoted the establishment of sales outlets for "multi-mode" handsets in rural market. At the same time, we initiated cooperation with various industries and widely expanded into the household electrical appliance stores, comprehensively promoting sales and service integration. In direct sales channels, we leveraged the edges in big orders development and good customer relations, achieved remarkable enhancement in the volume of big orders. In electronic channels, we leveraged online stores and mobile online stores service system, resulting in the consistent enhancement in sales volume of data traffic packages and customer acquisition.

Since 2015, we implemented "the Excellent 100" program to encourage handset manufacturers to produce popular 4G handsets that are compatible with our network, which in turn enriched our 4G handset portfolio. In addition, we and China Unicom jointly published the "White Paper of "6-mode Multi-mode" Handsets" in July 2016 to promote "6-mode" handsets and provide more convenience to customers. In 2016, "multi-mode" handsets became the national standard. We also promoted signature handsets such as security handsets, video handsets and Taobao handsets to cater to the differentiated needs of our customers. The portfolio of handsets offered was further enlarged and the cost performance was further enhanced. In 2016, we offered approximately 1,000 4G terminal devices models, including approximately 374 "multi-mode" 4G terminal models and 120 4G+ terminal models to our customers. The sales of "multi-mode" 4G terminal models accounted for more than 80% of the total 4G terminal models sold to our customers in 2016.

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. In addition to our own service channels, we are partnering with third-party Internet-based channels, including launching customer service platforms on "Yichat" and "Wechat", two mobile messaging applications, as well as "Weibo", a Chinese microblogging website. Our customer services typically include service inquiries, service applications, customers' complaints, product and service promotions, service initiation and termination, payment reminder services and emergency services. Through establishing and implementing our customer full-service standard, we have significantly improved our basic customer services, such as service processing time, request responding time and providing service related and other information to customers through text messages. To strengthen customer relations, we are committed to promoting premium-level services and scaled up bonus points rewards to customers. In 2016, we were ranked first in the industry in terms of customer satisfaction in both wireline and mobile Internet access services 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.

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

Network Architecture

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

- Access networks: Access networks include wireline access network based on copper cables and optic fibers and wireless access network based on CDMA, TD-LTE and LTE FDD, which are directly connected to customers to provide data and voice services.
- Data networks: Data networks include Internet network and basic data network, and provide network support for all telecommunications services based on IP.
- Core networks: Core networks include our wireline telephone network, mobile core network, and support our basic telecommunications services.
- Transport networks: Transport networks provide electronic transmission of various service signals for access networks, data networks and core networks.
- Service networks: The service networks provide the platform and ancillary systems for a variety of value-added services and application products.
- Support networks: Support networks include signaling networks, digital synchronous networks and various network management systems, in order to support the reliable and effective operation of our networks and services at all levels.

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 will make full use of the advantage in the coverage reach of the low frequency of 800MHz, rapidly finishing the construction of 4G network in rural areas at a low cost, primarily achieving nationwide full coverage of 4G, as well as deepening the coverage and supplementing the volume of 4G data in urban areas. In 2017, we plan to establish a 4G network with broad coverage and high quality nationwide, which would also help support our deployment of Voice over LTE ("VoLTE") and NB-IoT in the future.

Equipment procurement

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

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 24.5% of our total amount of annual purchases in 2016. Purchases from our single largest supplier of telecommunications equipment accounted for approximately 8.6% of our total amount of annual purchases in 2016.

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 China (Shanghai) Pilot Free Trade Zone. See "—Regulatory and Related Matters—Licensing" included elsewhere under this Item.

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

In recent years, the PRC Government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry, in 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 (关于移动通信转售业务批发价格调整的指导意见), pursuant to which the MIIT required that the wholesale price for resale of mobile telecommunications services should be lower than the per unit price (or package price) for similar businesses of the mobile networks operators.

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 two more Notices on Further Broadening the Scope of Trial Opening of the Broadband Access Business on September 23, 2015 and October 13, 2016, respectively, opening up the broadband access market to private capital in all the cities in Liaoning, Fujian, Henan, Hubei, Guangdong, Shaanxi provinces and Ningxia autonomous region on a province-wide basis and over 40 cities in other provinces. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition. As of December 31, 2016, the MIIT had granted broadband access pilot enterprises licenses to over 200 private companies. As of December 31, 2016, we had entered into resale contracts with 24 out of the 42 mobile virtual network operators which had obtained the licenses from the MIIT, and 22 of these companies had started to offer 4G services.

Trademarks

We conduct our business under the "China Telecom" brand name and logo. Currently, China Telecom Group owns certain trademarks in the PRC, some of which have been registered with the Trademark Office of the PRC State Administration for Industry and Commerce, or the Trademark Office, and some of which are in the process of being registered with the Trademark Office. China Telecom Group has executed a trademark license agreement with us. Under this agreement, China Telecom Group agreed to grant to us and our subsidiaries the right to use these trademarks upon the completion of the registration on a royalty-free basis until December 31, 2018, which is automatically renewable for three more years 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.

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, which is the virtual telephone switchboard with an unified number nationwide designed for enterprises and institutions and the incoming calls with the tariff shared between the enterprises/institutions and callers who will only bear the local telephone usage fees.

On November 7, 2016, the Standing Committee of the National People's Congress announced that the Cybersecurity Law of the People's Republic of China shall come into force on June 1, 2017. It specifies the principle of cyberspace sovereignty, the safety obligations of network products and services providers as well as the safety 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. Telecom operators shall comply with the requirements under the Cybersecurity Law of the People's Republic of China in respect of network operating security and network information security.

Furthermore, on November 7, 2016, the MIIT issued the Implementation Opinions on the Work of Further Prevention and Crack Down on Communication Information 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.

Telecommunications Regulations

The PRC's State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000 and were amended on July 29, 2014 and February 6, 2016, respectively, by the Decision of the State Council on Amending Certain Administrative Regulations. The Telecommunications Regulations are substantially consistent with, and are primarily intended to streamline and clarify, the then existing rules and policies for the telecommunications industry. The Telecommunications Regulations provide the primary regulatory framework for the PRC's telecommunications industry in the interim period prior to the adoption of the telecommunications law.

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

Licensing

The Telecommunications Regulations adopt the existing regulatory distinction between basic and value-added telecommunications services, which are subject to different licensing requirements. On December 28, 2015, the MIIT promulgated the Telecommunications Service 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 our business from our status as a subsidiary controlled by China Telecom Group, which holds the licenses required for operating our telecommunications business. In January 2009, China Telecom Group received a license from the MIIT to operate 3G services nationwide, which permits China Telecom Group to provide 3G services based on CDMA2000 technology. We have been authorized by China Telecom Group to operate 3G services nationwide based on CDMA2000 technology. In December 2013, China Telecom Group, Unicom Group and China Mobile Group received licenses from the MIIT to operate 4G services nationwide based on TD-LTE technology. We have been authorized by China Telecom Group to operate 4G services nationwide based on TD-LTE technology. 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 shall be no more than 50.0%.
- For fixed line services:
  - there is no longer any geographic restriction and the ownership shall be no more than 49.0%.

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

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

Tariff Setting

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

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

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.

Interconnection

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

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

On December 30, 2013, the MIIT issued the Guidance Opinions on Building New National Network Interconnection Hubs, pursuant to which seven new interconnection hubs altogether have been built in Chengdu, Wuhan, Xi'an, Shenyang, Nanjing, Chongqing and Zhengzhou, in addition to the three existing interconnection hubs in Beijing, Shanghai and Guangzhou. The operations of these new interconnection hubs have significantly improved the quality and speed of interconnection between the telecommunications networks. On November 9, 2016, the MIIT approved the addition of new national Internet backbone networks direct access points in Hangzhou, Fuzhou and Gui'an of Guiyang, achieving 13 Internet backbone networks direct access points upon completion of such three new additions.

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. The MIIT will assess the above interconnection settlement policy once every two years based on the development conditions of the telecommunications market and will make adjustments when appropriate. Meanwhile, the SMS interconnection settlement standard is adjusted from RMB0.03 per message to RMB0.01 per message, and the MMS interconnection settlement standard is adjusted from RMB0.10 per message to RMB0.05 per message.

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

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

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

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 (2) Operator A retains RMB0.06 per minute, and operator B gets the rest of the international long distance tariff.
	Using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) Operator B collects the tariff from the subscribers (2) Operator B pays operator A RMB0.06 per minute
International long distance operator	Operator B through domestic long distance network of operator C and international gateway of domestic operator A	(1) Operator A pays not more than RMB0.54 per minute to operator C, operator C pays not more than RMB0.06 per minute to operator B, where operator A and operator C, or operator B and operator C can be the same operator

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

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) Operator A pays RMB0.03 per SMS to operator B. Starting January 1, 2014, operator A pays RMB0.01 per SMS to operator B.

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

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) Operator A pays RMB0.10 per MMS to operator B. Starting January 1, 2014, operator A pays RMB0.05 per MMS to operator B.

The primary interconnection settlement arrangement for the Internet backbone networks in China is the interconnection settlement through the network access points, or the NAPs, which is determined by the MIIT. The MIIT announced in 2013 that it would reduce the interconnection settlement charges for the Internet backbone networks by 30% per year in the next five years starting from 2013. The interconnection settlement charges for the NAPs was further reduced by the MIIT starting from November 1, 2016, and is currently set as RMB180,000 per gigabyte per month.

Technical Standards

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

Telecommunications Resources

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

In 2016, we paid approximately RMB177 million of usage fees for the telecommunications network numbers and approximately RMB390 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 service 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 service agreements could not be observed due to force majeure or adjustment of national policies.

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

Universal Services

Under the Telecommunications Regulations, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the MIIT has been given authority by the PRC government to delineate the scope of its universal service obligations. The MIIT, 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 telecommunication operators, including broadband coverage in 98% of the administrative villages and over 12Mbps broadband access capacity in rural villages, by 2020. Pursuant to the notice, the central government subsidies will be granted to the pilot areas determined by the MOF and the MIIT and the universal services providers will be selected through an open bidding process.

The PRC government currently uses financial resources to compensate the expenses incurred in the “Village to Village” and the “Broadband China” projects before the establishment of a universal service fund. We, together with other telecommunications operators, have undertaken the “Village to Village” project since 2004. Under the “Broadband China” projects, our Company had invested in the construction of broadband network facilities in certain remote villages of 21 provinces and autonomous regions by the end of 2016. The compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under “Village to Village” and the “Broadband China” projects. However, we believe the expenses for such operation and maintenance will not have a material effect on our financial condition.

State-Owned Assets Supervision

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

In September 2016, as part of the PRC government’s efforts to reform state-owned enterprises and increase their competitiveness, Unicom Group joined the first group of state-owned enterprises for a pilot program on state-owned enterprise reform, and it is currently contemplating, developing and progressing significant matters relating to the reform. However, the related plan is still under further deliberation.

Three-Network Convergence Policy

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

“Broadband China” Policy

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

Mobile Telecommunications Resale Business

On May 17, 2013, the MIIT issued the Trial Plan of Resale of Mobile Telecommunications Services, pursuant to which the MIIT would grant qualified companies mobile telecommunications resale business approvals on a pilot basis which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators or resell such services to customers. On January 6, 2016, the MIIT issued the Guidance on the Wholesale Price Adjustments of Mobile Telecommunications Resale Business (关于移动通信转售业务批发价格调整的指导意见), pursuant to which the MIIT required that the wholesale price for resale of mobile telecommunications services should be lower than the per unit price (or package price) for similar businesses of the mobile networks operators. For a series of government measures to encourage non-State owned companies to provide 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 SAT issued the Notice on Expanding the Pilot Program of Replacing the Business Tax with VAT, promulgating the relevant implementing rules.

Amended Employment Contract Law

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

Mobile Number Portability Trial

In 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. With the evolution of the operators' networks into VoLTE, the MIIT and the operators will jointly study the next steps in technology solutions to mobile number portability with respect to such evolution in network technologies.

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

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

As of the date of this report, we are not aware of any activity, transaction or dealing by us or any of our affiliates in 2016 that requires disclosure in this under Section 13(r) of the Exchange Act of 1934, as amended, except as set forth below.

China Telecom Global Limited, a wholly owned subsidiary of the Company, entered into a rate agreement for international voice services with Telecommunication Infrastructure Company of Iran ("TIC"), which is a government-controlled entity, in October 2016, which confirmed the preliminary charge rates for international voice services between the parties. The purpose for the agreement is to obtain the charge rates for the parties, which will serve the basis for future cooperation. The rate agreement is not binding on the parties to proceed with signing of the definitive agreement or implementation of the business arrangement, but only serves as the price references for future negotiation. The official business relationship between the parties should be based on a framework agreement or a definitive service agreement. The agreement was subsequently terminated in February 2017. Prior to the termination of the agreement, we did not commence any negotiation with TIC on any framework agreement or any definitive service agreement, and no business was conducted between the two parties. No revenue was generated, and no cost or expenditure was incurred in relation to the agreement. The Company does not currently have any plans to enter into any business arrangements with ITC or other telecommunications operators in Iran.

C. Organization Structure

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

D. Property, Plants and Equipment

Properties

Executive Offices

Our principal executive offices are located in Beijing and we obtained the right to occupy and use these offices pursuant to an agreement we entered into with China Telecom Group in September 2002 and supplemental agreements on October 26, 2003, April 13, 2004, December 15, 2005, December 26, 2007, March 31, 2008, August 25, 2010, August 22, 2012 and September 23, 2015, respectively. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Ongoing Related Party Transactions between Us and China Telecom Group 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 establishment of new subsidiaries in 2014 and the tower assets disposal in 2015 described under "Item 4. Information on the Company—A. History and Development of the Company—Changes in Our Corporate Organization in 2014" and "Establishment of the Tower Company and the Disposal and Lease of the Telecommunications Towers".

On October 14, 2015, the Company entered into the Transfer Agreement with the Tower Company and certain other parties thereto, pursuant to which the Company agreed to sell certain telecommunications towers and related assets in an aggregate amount of RMB30,131 million and inject cash in the amount of RMB2,966 million to the Tower Company in exchange for 33,097 million new shares, with a par value of RMB1.00 per share, issued by the Tower Company. Following the completion of such transaction, the Company holds 27.9% of the share capital of the Tower Company. The Company realized a gain (subject to deduction of relevant expenses and taxes) from such tower assets disposal, which was calculated based on the surplus of the final consideration for the tower assets disposal over the book value of such assets as at the completion date. The total gain from the tower assets disposal was RMB7,231 million. As the Company holds 27.9% of the share capital of Tower Company following the completion of such tower assets disposal, 72.1% of the aforesaid gain has been recognized at the completion date in the Company's consolidated statement of comprehensive income for 2015 and the remaining 27.9% of the aforesaid gain is deferred over the remaining useful life of the tower assets. As a result, a gain from the tower assets disposal in the amount of RMB5,214 million was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2015. 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). 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 32(b) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Overview

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

Financial Overview

Our operating revenues increased by 6.4%, from RMB331,202 million in 2015 to RMB352,285 million in 2016. The increase was mainly attributable to revenues growth from Internet services, information and application services and telecommunications network resource services and lease of network equipment as well as other services. Our total operating expenses increased by 6.7%, from RMB304,760 million in 2015 to RMB325,084 million in 2016. The increase in operating expenses was primarily due to increases in network operations and support expenses and other operating expenses. Our operating income increased by 2.9%, from RMB26,442 million in 2015 to RMB27,201 million in 2016. The profit attributable to equity holders of the Company decreased by 10.2%, from RMB20,054 million in 2015 to RMB18,004 million in 2016.

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,					
	2014		2015		2016	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)					
Operating Revenues: (1)						
Voice services(2)	88,260	27.3%	78,593	23.7%	70,120	19.9%
Internet services(3)	112,431	34.7%	126,546	38.2%	150,405	42.7%
Information and application services(4)	65,358	20.1%	66,343	20.1%	66,838	19.0%
Telecommunications network resource services and lease of network equipment(5)	17,332	5.3%	17,635	5.3%	17,773	5.0%
Other services(6)	41,013	12.6%	42,085	12.7%	47,149	13.4%
Total operating revenues	324,394	100.0%	331,202	100.0%	352,285	100.0%

(1) Before June 1, 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, and relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the VAT Reform (Caishui [2014] No.43) jointly issued by the Ministry of Finance and the State Administration of Taxation, from June 1, 2014, the pilot program of replacing business tax with VAT is extended to cover the telecommunications industry. VAT is excluded from operating revenues. With effect from June 1, 2014, the Group is no longer required to pay business tax of 3% on telecommunications services.

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

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

(4) 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.

(5) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.

(6) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services.

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

	Year Ended December 31,					
	2014		2015		2016	
	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	66,345	20.5%	67,664	20.4%	67,938	19.3%
Network operations and support expenses	68,651	21.2%	81,240	24.5%	94,092	26.7%
Selling, general and administrative expenses	62,719	19.3%	54,472	16.4%	56,417	16.0%
Personnel expenses	50,653	15.6%	52,541	15.9%	54,460	15.5%
Other operating expenses	47,518	14.6%	48,843	14.8%	52,177	14.8%
Total operating expenses	295,886	91.2%	304,760	92.0%	325,084	92.3%

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

	Year Ended December 31,					
	2014		2015		2016	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)					
Operating revenues	324,394	100.0%	331,202	100.0%	352,285	100.0%
Operating expenses	295,886	91.2%	304,760	92.0%	325,084	92.3%
Operating income	28,508	8.8%	26,442	8.0%	27,201	7.7%
Profit attributable to equity holders of the Company	17,680	5.5%	20,054	6.1%	18,004	5.1%
Net cash flow from operating activities	96,405	—	108,750	—	101,130	—

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations contained elsewhere in this annual report are based on our consolidated financial statements which have been prepared in accordance with IFRS. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our 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 on going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 2 to our consolidated financial statements included elsewhere in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue recognition

Our revenue recognition methods are as follows:

(i) Voice usage fee is recognized as the service is provided.

(ii) Fees received for wireline installation charges for periods prior to January 1, 2012 are deferred and recognized over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortized over the same expected customer relationship period. From 2012 onwards, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.

(iii) Monthly service fees are recognized in the month during which the services are provided to customers.

(iv) Revenue from sale of prepaid calling cards is recognized as the cards are used by customers.

(v) Revenue derived from information and application services is recognized when 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, is presented on a gross basis. Revenues from all other information and application services are presented on an 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 a principal in the arrangements with third parties:

i) We are responsible for providing the applications or services desired by customers, and take responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;

ii) We take title of the inventory of the applications before they are ordered by customers;

iii) We have risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;

iv) We have latitude in establishing selling prices with customers;

v) We can modify the applications or perform part of the services;

vi) We have discretion in selecting suppliers used to fulfill an order; and

vii) We determine the nature, type, characteristics, or specifications of the applications or services.

If majority of the indicators of risks and responsibilities exists 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 does 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.

(vi) Revenue from the provision of Internet and telecommunications network resource services is recognized when the services are provided to customers.

(vii) Interconnection fees from domestic and foreign telecommunications operators are recognized when the services are rendered as measured by the minutes of traffic processed.

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

(ix) Sale of equipment is recognized on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognized when the service is provided to customers.

We offer promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: the undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which are the sales of terminal equipment. We recognize revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognized based upon the actual usage of such services. During each of the years in the three-year period ended December 31, 2016, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote our core business of the provision of telecommunications services, and the fair value of the telecommunications services approximates the total contract consideration.

Accounting for Long-lived Assets

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

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

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

Impairment. The carrying amounts of long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically in order to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at 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, 2016, provision for impairment losses of RMB62 million was made against the carrying value of long-lived assets. For the year ended December 31, 2015, provision for impairment losses of RMB51 million was made against the carrying value of long-lived assets. For the year ended December 31, 2014, no provision for impairment loss was made against the carrying value of long-lived assets.

Impairment Losses for Bad and Doubtful Debts

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

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

The following table summarizes the changes in the provision for impairment losses for bad and doubtful debts for each of the years in the three-year period ended December 31, 2016:

	Year Ended December 31,		
	2014	2015	2016
	(RMB in millions)		
At beginning of year	2,198	2,478	2,935
Impairment losses for doubtful debts	2,075	2,172	2,202
Accounts receivable written off	(1,795)	(1,715)	(1,736)
At end of year	2,478	2,935	3,401

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. 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 2016 financial statements, the International Accounting Standards Board has issued the following amendments and new standards and interpretation which are not yet effective and not early adopted for the annual accounting period ended December 31, 2016:

	Effective for accounting period beginning on or after
Amendments to IAS 7, "*Disclosure Initiative*"	January 1, 2017
Amendments to IAS 12, "*Recognition of Deferred Tax Assets for Unrealized Losses*"	January 1, 2017
IFRS 9, "*Financial Instruments*"	January 1, 2018
IFRS 15, "*Revenue from Contracts with Customers" and the related Clarifications*	January 1, 2018
Amendments to IFRS 2, *"Classification and Measurement of Share-based Payment Transactions"*	January 1, 2018
Amendments to IFRS 4, "*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*"	January 1, 2018
IFRIC 22, "*Foreign Currency Transactions and Advance Consideration*"	January 1, 2018
Amendments to IAS 40, "*Transfers of Investment Property*"	January 1, 2018
Amendments to IFRSs, "*Annual Improvements to IFRS Standards 2014-2016 Cycle*"	January 1, 2017 or 2018, as appropriate
IFRS 16, "*Leases*"	January 1, 2019
Amendments to IFRS 10 and IAS 28, "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*"	A date to be determined

We are in the process of making an assessment of the impact that will result from adopting the amendments and new standards and interpretation issued by the IASB which are not yet effective for the accounting period ended on December 31, 2016. Except for IFRS 15, "Revenue from Contracts with Customers", and IFRS 16, "Leases", so far we believe that the adoption of these amendments and new standards and interpretation is unlikely to have a significant impact on its financial position and the results of operations.

IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, "Revenue", IAS 11, "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity 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.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Our directors consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until our directors perform a detailed review.

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. Under IFRS 16, lease payments in relation to lease liability will be presented as financing cash flows or allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, 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.

Our directors are in the process of making an assessment of the impact that will result from adopting IFRS 16. A preliminary assessment indicates that we will recognize a right-of-use asset and a corresponding liability in respect of all the operating leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until our directors complete a detailed review.

A. Operating Results

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Operating Revenues

Our operating revenues increased by RMB21,083 million, or 6.4% from RMB331,202 million in 2015 to RMB352,285 million in 2016. This increase was primarily driven by the revenues growth from Internet services, information and application services, telecommunications network resource services and lease of network equipment and other services, which was partially offset by a decrease in revenues from voice services.

Voice Services. Revenues from our voice services decreased by 10.8% from RMB78,593 million in 2015 to RMB70,120 million in 2016, representing 19.9% of our operating revenues in 2016. Of this, revenues from our wireline voice services decreased by 12.2% from RMB29,610 million in 2015 to RMB25,987 million in 2016. 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 9.9% from RMB48,983 million in 2015 to RMB44,133 million in 2016. 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 18.9% from RMB126,546 million in 2015 to RMB150,405 million in 2016, representing 42.7% 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 2016 was RMB70,682 million, representing an increase of 39.4% from RMB50,694 million in 2015, of which revenues attributable to mobile handset Internet access was RMB68,263 million, representing an increase of 42.9% from 2015. In addition, the number of our wireline broadband subscribers increased to 123.1 million as of December 31, 2016, representing an increase of 10.0 million, or 8.9%, from 113.1 million as of December 31, 2015. The wireline broadband revenue was RMB76,766 million in 2016, representing an increase of 3.3% from 2015.

Information and Application Services. Revenues from our information and application services increased by 0.7% from RMB66,343 million in 2015 to RMB66,838 million in 2016, representing 19.0% of our operating revenues in 2016. 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 and IPTV (e-Surfing HD) services, the revenues attributable to wireline information and application services increased by 5.5% from RMB42,034 million in 2015 to RMB44,335 million in 2016. The revenues attributable to mobile information and application services decreased by 7.4% from RMB24,309 million in 2015 to RMB22,503 million in 2016 due to a decrease in revenue from traditional services such as short and multimedia messaging services and information inquiry services.

Telecommunications Network Resource Services and Lease of Network Equipment. Revenues from our telecommunications network resource services and lease of network equipment increased by 0.8% from RMB17,635 million in 2015 to RMB17,773 million in 2016, representing 5.0% of our operating revenues in 2016. Revenue from wireline telecommunications network resource services and lease of network equipment was RMB17,595 million in 2016.

Other Services. Revenues from other services increased by 12.0% from RMB42,085 million in 2015 to RMB47,149 million in 2016. The increase in revenues from other services was primarily due to the increase in the sales of mobile terminals. The revenues from sales of mobile terminals increased by 8.1% to RMB34,612 million in 2016 from RMB32,026 million in 2015, primarily due to the growth in sales of mobile terminals driven by the sales of “multi-mode” handsets.

Operating Expenses

Our operating expenses increased by 6.7% from RMB304,760 million in 2015 to RMB325,084 million in 2016. The increase in operating expenses was primarily due to increases in network operations and support expenses and other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses increased by 0.4% from RMB67,664 million in 2015 to RMB67,938 million in 2016. The increase in depreciation and amortization due to newly added assets in 2016 was largely offset by the decrease in depreciation and amortization resulted from the disposal of tower assets.

Network Operations and Support Expenses. Our network operations and support expenses increased by 15.8% from RMB81,240 million in 2015 to RMB94,092 million in 2016, primarily due to the increase in the tower assets lease fee and related expenses.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 3.6% from RMB54,472 million in 2015 to RMB56,417 million in 2016. The selling expenses were RMB47,821 million in 2016, representing an increase of 4.1% from 2015. Commission and service expenses for third parties were RMB30,753 million in 2016, representing an increase of 15.4% from 2015, primarily due to a shift in our sales and marketing strategy that focuses more on sales through third-party channels. Advertising and promotional expenses were RMB17,068 million in 2016, representing a decrease of 11.5% from 2015, of which the terminal subsidies was RMB9,370 million in 2016, representing a decrease of 19.4% from 2015, primarily due to shift in our sales and marketing strategy away from subsidizing the cost of mobile terminal equipment offered to customers for free or at a nominal price.

Personnel Expenses. Personnel expenses increased by 3.7% from RMB52,541 million in 2015 to RMB54,460 million in 2016. This increase was primarily attributable to increased remuneration for our frontline staff. The personnel expenses as a percentage of our operating revenues decreased from 15.9% in 2015 to 15.5% in 2016.

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 RMB52,177 million in 2016, which increased by 6.8% from RMB48,843 million in 2015. The increase was primarily due to the increase in the cost of mobile terminal equipment sold, which is commensurate with the increased sales of such goods. The cost of mobile terminal equipment sold was RMB32,849 million in 2016, which increased by 6.4% from RMB30,867 million in 2015.

Net Finance Costs

Our net finance costs decreased by 24.3% from RMB4,273 million in 2015 to RMB3,235 million in 2016, primarily due to the decrease in the interest rate of the deferred consideration of Mobile Network Acquisition from 5.11% per annum in 2015 to 4.00% per annum in 2016 (adjusted in accordance with a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes once a year pursuant to the agreement).

The net exchange gain was RMB113 million in 2016, compared to a net exchange loss of RMB75 million in 2015, which was primarily due to depreciation of the Renminbi exchange rate against the U.S. dollars in 2016. According to the exchange rates published by the People's Bank of China on December 31, 2016, the exchange rate of Renminbi depreciated by 6.4% against the U.S. dollars from December 31, 2015.

Income Tax

In 2016, our income tax expense was RMB5,988 million with the effective tax rate of 24.8%. Our expected income tax expense at our statutory tax rate of 25.0% in 2016 would be RMB6,024 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 26 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 RMB18,004 million in 2016, with a net margin of 5.1%, compared to a profit attributable to equity holders of the Company of RMB20,054 million with a net margin of 6.1% in 2015.

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

Operating Revenues

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

Voice Services. Revenues from our voice services decreased by 11.0% from RMB88,260 million in 2014 to RMB78,593 million in 2015, representing 23.7% of our operating revenues in 2015. Of this, revenues from our wireline voice services decreased by 11.8%, from RMB33,587 million in 2014 to RMB29,610 million in 2015. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communications, which continued to divert revenues from wireline voice services, as well as the migration of some of our wireline telephone subscribers to our 3G and 4G services. Revenues from our mobile voice services decreased by 10.4%, from RMB54,673 million in 2014 to RMB48,983 million in 2015. 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 12.6% from RMB112,431 million in 2014 to RMB126,546 million in 2015, representing 38.2% of our operating revenues in 2015. This increase was primarily due to the increase in our mobile Internet access revenues, which was attributable to the rapid growth in the volume of and revenue from our mobile data traffic. The revenues attributable to mobile Internet access services in 2015 was RMB50,694 million, representing an increase of 34.1% from RMB37,809 million in 2014, of which revenues attributable to handset data traffic was RMB47,770 million, representing an increase of 40.1% from 2014. In addition, the number of our wireline broadband subscribers increased to 113.1 million as of December 31, 2015, representing an increase of 6.11 million, or 5.7%, from 107.0 million as of December 31, 2014. The wireline broadband revenue was RMB74,285 million, an increase of 1.1% from 2014.

Information and Application Services. Revenues from our information and application services increased by 1.5% from RMB65,358 million in 2014 to RMB66,343 million in 2015, representing 20.1% of our operating revenues in 2015. 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 and IPTV services, IT services and industry applications, the revenues attributable to wireline information and application services, increased by 10.5% from RMB38,047 million in 2014 to RMB42,034 million in 2015. The revenues attributable to mobile information and application services decreased by 11.0% from RMB27,311 million in 2014 to RMB24,309 million in 2015 due to a decrease in traditional information inquiry services.

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

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

Operating Expenses

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

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

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

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

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

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

Net Finance Costs

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

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

Income Tax

In 2015, our income tax expense was RMB6,551 million with an effective tax rate of 24.5%. Our expected income tax expense at our statutory tax rate of 25.0% in 2015 would be RMB6,673 million. The difference between our effective 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 26 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25.0%.

Profit Attributable to Equity Holders of the Company

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

Qualitative and Quantitative Analysis of the VAT Reform Impact

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

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

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

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

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

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

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

Taking into account the fact that the Company has applied VAT for the full years ended December 31, 2016 and 2015, there is no hypothetical basis for the analysis assuming business tax still applies during such periods, and thus such analysis has not been performed for the comparison between the year ended December 31, 2016 and the year ended December 31, 2015.

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,		
	2014	2015	2016
	(RMB in millions)		
Net cash flow from operating activities	96,405	108,750	101,130
Net cash used in investing activities	(81,708)	(102,250)	(99,038)
Net cash (used in) / from financing activities	(10,327)	4,809	(9,555)
Net increase / (decrease) in cash and cash equivalents	4,370	11,309	(7,463)

Cash and cash equivalents decreased by 22.8% from RMB31,869 million as of December 31, 2015, of which 92.6% was denominated in RMB, to RMB24,617 million as of December 31, 2016, of which 81.8% was denominated in RMB. Our net cash outflow was RMB7,463 million in 2016, as compared with the net cash inflow of RMB11,309 million in 2015.

Our principal source of liquidity is net cash inflow from operating activities, which was RMB101,130 million in 2016, a decrease of RMB7,620 million from RMB108,750 million in 2015. The decrease was mainly due to the increase in the costs and expenses related to operating activities.

Net cash outflow used in investing activities decreased by RMB3,212 million from RMB102,250 million in 2015 to RMB99,038 million in 2016 primarily as a result of the decrease in the capital expenditure for the year.

Net cash outflow used in financing activities was RMB9,555 million in 2016 compared to RMB4,809 million net cash inflow from financing activities in 2015. This change was primarily due to the repayment of part of the short-term commercial papers in 2016.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB245,026 million as of December 31, 2016, compared to a deficit of RMB177,821 million as of December 31, 2015. The deficit increased because the deferred consideration of RMB61,710 million for the acquisition of mobile network assets will become due at the end of 2017 and was reclassified as current liabilities.

We estimate that our current cash and cash equivalents, together with our existing credit facilities from domestic commercial banks, cash flows from operating activities, as well as funds available from short-term and long-term bank borrowings and commercial paper, will be sufficient to satisfy our future working capital requirements and capital expenditures through the end of 2017. We have established and maintained high credit ratings with our principal domestic commercial lenders, which have facilitated our ability to obtain short-term and long-term credit on favorable terms to meet our financing requirements. As of December 31, 2016, we had unutilized credit facilities of RMB161,229 million with major domestic commercial banks, from which we can draw upon.

Indebtedness

Our indebtedness as of the dates indicated was as follows:

	As of December 31,		
	2014	2015	2016
	(RMB in millions)		
Short-term debt	43,976	51,636	40,780
Long-term debt and payable maturing within one year	82	84	62,276
Long-term debt and payable	62,494	64,830	9,370
Finance lease obligations (including current portion)	—	119	102
Total debt	106,552	116,669	112,528

Our total debt decreased by RMB4,141 million from RMB116,669 million in 2015 to RMB112,528 million as of December 31, 2016, primarily due to the repayment of part of the short-term commercial papers. Our debt-to-asset ratio (total debt divided by total assets) decreased from 18.5% in 2015 to 17.2% in 2016. We believe that our Company has maintained a solid capital structure.

Our short-term debt constituted 36.2% of our total debt as of December 31, 2016. The weighted average interest rate of our short-term debt was 3.3% as of December 31, 2016, representing an increase of 0.2 percentage point from that as of December 31, 2015.

Our long-term debt and payable (including current portion) increased from RMB64,914 million as of December 31, 2015 to RMB71,646 million as of December 31, 2016.

Of our total debt as of December 31, 2016, 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, 2016 may differ from the amounts indicated below.

	Year Ended December 31,		
	2015	2016	2017 (Planned)
	(RMB in millions)		
Total capital expenditure	109,094	96,817	89,000

In 2016, we strictly controlled the total amount of capital expenditure. On the basis of steady promotion of 4G and fiber broadband network investment, we continuously optimized the investment structure to ensure the maximization of investment efficiency. In 2016, our capital expenditure was RMB96,817 million, a decrease of 11.3% from RMB109,094 million in 2015.

Our capital expenditure for 2017 is projected to be approximately RMB89,000 million. The investment in mobile networks will be mainly used for the construction of 800 MHz LTE networks, the capacity supply in additional station sites and network optimization of 1.8 GHz networks and indoor distribution systems. The investment in broadband networks will be mainly used for speeding up the construction of Gigabit networks, consolidating network access advantage, increasing the investment in bearer networks to support the development of 4G, optic fiber broadband networks and emerging businesses, expanding and updating the backbone networks, expanding city area networks to support content delivery networks, or CDN and promoting the construction of DCI. The investment in emerging businesses will be focused on cloud computing, video platforms, CDN and integrated information services.

Capital Resources

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

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

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

D. Trend Information.

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

E. Off-Balance Sheet Arrangements

As of December 31, 2016, 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, 2016:

	Payable in						
	Total	2017	2018	2019	2020	2021	After 2021
	(RMB in millions)						
Contractual Obligations(1):							
Short-term debt	40,780	40,780	—	—	—	—	—
Long-term debt and payable	71,646	62,276	1,081	1,046	1,004	945	5,294
Interest payable	4,135	682	108	156	202	250	2,737
Finance lease obligations	102	52	18	15	8	6	3
Operating lease commitments	60,981	15,492	14,351	13,704	13,256	1,112	3,066
Capital commitments	13,740	13,740	—	—	—	—	—
Total contractual obligations	191,384	133,022	15,558	14,921	14,470	2,313	11,100

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

Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

Directors and Senior Officers

Pursuant to our Articles of Association, our directors must be elected by our shareholders at a general meeting. Our directors are generally elected for a term of three years and may serve consecutive terms if re-elected. The term of office for the fifth session of the Board of Directors, or the Board, is three years, starting from May 29, 2014 until the date of the Company's annual general meeting for the year 2016 to be held on May 23, 2017, upon which the sixth session of the Board will be elected.

On April 25, 2016, Mr. Yang Jie was appointed by the Board as the Chairman and Chief Executive Officer of the Company and no longer held the offices of the President and Chief Operating Officer of the Company. On the same date, Mr. Yang Xiaowei was appointed by the Board as the President and Chief Operating Officer of the Company and no longer held the office of the Executive Vice President of the Company.

On May 10, 2016, Mr. Zhu Wei resigned from his position as a non-executive director of the Company due to change in work arrangement.

On August 19, 2016, Mr. Zhang Jiping retired from his positions as an executive director and executive vice president of the Company due to his age.

On November 4, 2016, Mr. Zhen Caiji was appointed by the Board as an executive vice president of the Company.

On December 19, 2016, Madam Chu Ka Yee resigned from her positions as the company secretary and authorized representative of the Company. On the same date, Mr. Ke Ruiwen and Madam Wong Yuk Har were appointed by the Board as the joint company secretaries. They also act as the authorized representatives 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
Yang Jie	54	Executive Director, Chairman and Chief Executive Officer
Yang Xiaowei	53	Executive Director, President and Chief Operating Officer
Ke Ruiwen	53	Executive Director, Executive Vice President and Joint Company Secretary
Sun Kangmin	59	Executive Director and Executive Vice President
Tse Hau Yin, Aloysius	69	Independent Non-Executive Director
Cha May Lung, Laura	67	Independent Non-Executive Director
Xu Erming	67	Independent Non-Executive Director
Wang Hsuehming	67	Independent Non-Executive Director
Zhen Caiji	56	Executive Vice President
Gao Tongqing	53	Executive Vice President
Chen Zhongyue	45	Executive Vice President

Yang Jie, age 54, is the Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. Yang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute, General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation, Executive Vice President, President and Chief Operating Officer of the Company, and Vice President and President of China Telecommunications Corporation. He is also the Chairman of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Yang Xiaowei, age 53, is an Executive Director, President and Chief Operating Officer of the Company. Mr. Yang is a senior engineer. He received a bachelor degree from the Computer Application Department of Chongqing University in 1998 and a master degree in computer technology from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director General and Deputy Director General of Chongqing Telecommunications Bureau, a Deputy Director General of the Chongqing Telecommunications Administration Bureau and a Director General of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the Unicom Group, Vice President of the Unicom Group, Director of the Unicom Group, and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of China Unicom Corporation Limited, Chairman of Unicom Huasheng Telecommunications Technology Co. Ltd., Executive Vice President of the Company and Vice President of China Telecommunications Corporation. He is also a Director and the President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Ke Ruiwen, age 53, is an Executive Director, Executive Vice President and Joint Company Secretary of the Company. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation and the Chairman of Supervisory Committee of China Tower Corporation Limited. Mr. Ke has extensive experience in management and the telecommunications industry.

Sun Kangmin, age 59, is an Executive Director and Executive Vice President of the Company. Mr. Sun is a senior engineer. He holds a bachelor degree. Mr. Sun served as Head of the Information Industry Department of Sichuan Province, Director General of Communication Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation, Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited and a Director of China Tower Corporation Limited. Mr. Sun has extensive experience in management and the telecommunications industry.

Tse Hau Yin, Aloysius, age 69, is an Independent Non-Executive Director of the Company. 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.

Cha May Lung, Laura, age 67, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the 12th National People's Congress, PRC, a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region and Chairman of the Financial Services Development Council of Hong Kong. She is the Non-Executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is also an Independent Non-Executive Director. She is a Non-Executive Director of Unilever, PLC and Unilever, N.V, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission ("CSRC"), and a Member of the International Advisory Council of the China Banking Regulatory Commission. Mrs. Cha served as Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director, Senior Director, Executive Director of Corporate Finance and Deputy Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University of USA in 1982.

Xu Erming, age 67, is an Independent Non-Executive Director of the Company. Professor Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China and Vice Chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited and an Independent Non-Executive Director of Comtec Solar Systems Group Limited. Over the years, Professor Xu has conducted research in areas related to strategic management, organizational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Professor Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan, Panyapiwat Institute of Management, Thailand and the Hong Kong Polytechnic University.

Wang Hsuehming, age 67, is an Independent Non-Executive Director of the Company. Madam Wang graduated from the University of Massachusetts and attended Columbia University. She was a Senior Advisor and former Chairman of BlackRock China. She was also formerly the Chairman of China at Goldman Sachs Asset Management, having joined Goldman Sachs in 1994, became a partner in 2000 and an Advisory Director from 2010 to 2011. Ms. Wang served as a Director of The Paulson Institute. With nearly 30 years of experience in financial services, she participated in pioneering efforts in China's economic reform and restructuring, including serving as an advisor to the CAAC and its subsequent regional airlines on privatization and capital equipment financing.

Zhen Caiji, age 56, is an Executive Vice President of the Company. Mr. Zhen is a professor-level senior engineer. Mr. Zhen received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Zhen served as Deputy Chief Engineer of Directorate General of Telecommunications of the Ministry of Posts and Telecommunications, President of Beijing Posts and Telecommunications Design Institute of Ministry of Information Industry, Vice President of China Academy of Telecommunication Research of Ministry of Information Industry, Deputy Chief Engineer of China Mobile Communications Corporation, President of China Academy of Telecommunications Technology, and Chairman and President of Datang Telecom Technology & Industry Group. He is also a Vice President of China Telecommunications Corporation. Mr. Zhen has extensive experience in management and the telecommunications industry.

Gao Tongqing, age 53, is an Executive Vice President of the Company. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company and General Manager of China Telecom Jiangsu branch. He is also a Vice President of China Telecommunications Corporation. Mr. Gao has extensive experience in management and the telecommunications industry.

Chen Zhongyue, age 45, is an Executive Vice President of the Company. Mr. Chen received a bachelor degree in English studies from Shanghai International Studies University and a master degree in international trade economy from Zhejiang University. Mr. Chen served as Deputy General Manager of China Telecom Zhejiang branch, Managing Director of the Public Customers Department of the Company and China Telecommunications Corporation and General Manager of China Telecom Shanxi branch. He is also a Vice President of China Telecommunications Corporation. Mr. Chen has extensive experience in management and the telecommunications industry.

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

Supervisors

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory committee. Our supervisory committee has five Supervisors. Two members of our supervisory committee are employee representatives elected by our employees. The remaining members are appointed by shareholders at a general meeting. The term of office of our Supervisors is three years, which is renewable upon re-election or re-appointment. The term of office for the fifth session of our Supervisory Committee is three years, starting from May 29, 2014 until the date of the Company's annual general meeting for the year 2016 to be held on May 23, 2017, upon which the sixth session of the Supervisory Committee will be elected.

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

Name	Age	Position
Sui Yixun	53	Supervisor (Chairman)
Tang Qi	58	Supervisor (Employee Representative)
Zhang Jianbin	51	Supervisor (Employee Representative)
Hu Jing	41	Supervisor
Ye Zhong	57	Supervisor

Sui Yixun, age 53, is the Chairman of the Supervisory Committee of the Company. Mr. Sui is currently the Managing Director of audit department of the Company and a Supervisor of Tianyi Telecom Terminals Company Limited. Mr. Sui received a bachelor degree from Beijing Institute of Posts and Telecommunications and a master degree in business administration from Tsinghua University. Mr. Sui served as Deputy General Manager of China Telecom Shandong branch, Deputy General Manager of the Northern Telecom of China Telecommunications Corporation and General Manager of China Telecom Inner Mongolia Autonomous Region branch. Mr. Sui is a senior economist and has extensive experience in operational and financial management in the telecommunications industry.

Tang Qi, age 58, is an Employee Representative Supervisor of the Company. Mr. Tang is currently the Senior President of the Shandong branch of the Company. Mr. Tang received a doctorate degree in business administration (DBA) from the Hong Kong Polytechnic University. Mr. Tang served as the Director of the marketing department of the Posts and Telecommunications Administration of Shandong province, Manager of the marketing department of China Telecommunications Corporation, General Manager of China Telecom Shandong branch, General Manager of China Telecom Chongqing branch, Vice Chairman of the Labour Union of China Telecommunications Corporation and the Company. Mr. Tang is a senior engineer and has extensive experience in operation and management in the telecommunications industry.

Zhang Jianbin, age 51, is an Employee Representative Supervisor of the Company. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department) and the Deputy General Counsel of China Telecommunications Corporation. Mr. Zhang graduated from the Law School of Peking University in 1989 and received 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.

Hu Jing, age 41, is a Supervisor of the Company. Mr. Hu is currently the Director of the audit department of the Company. Mr. Hu received a bachelor degree in accounting from the Xi'an University of Finance and Economics in 1997 and a master degree in business administration from the Northwest University in 2003. Mr. Hu served at various financial and auditing positions at Shaanxi Telecom Company and China Telecommunications Corporation. He is a member of the Chinese Institute of Certified Public Accountants and senior accountant with extensive experience in finance and auditing.

Ye Zhong, age 57, is a Supervisor of the Company. Mr. Ye is a senior accountant. He holds a bachelor degree. Mr. Ye is the Deputy General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of the Company), Chairman and General Manager of Zhejiang Provincial Innovation and Development Investment Co. Ltd., Chairman of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman of Zhejiang Financial Market Investment Co. Ltd., Chairman and General Manager of Zhejiang Agricultural Investment and Development Fund Co. Ltd. and Chairman and General Manager of Zhejiang Infrastructure Investment (including PPP) Fund Co. Ltd. Mr. Ye served as Deputy Director of the Social Security Division of the Department of Finance of Zhejiang Province, Deputy Director of the Discipline Inspection Division and Director of Supervisory Office of the Department of Finance of Zhejiang Province delegated by the Discipline Inspection Commission and Department of Supervision of Zhejiang Province. Mr. Ye has extensive experience in government's work and state-owned enterprise management.

B. Compensation

Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries, directly or indirectly, including directors, supervisors and executive vice presidents of the Company and its subsidiaries. The aggregate amount of compensation we paid to our key management personnel was approximately RMB10.687 million for the year ended December 31, 2016.

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, 2016 was approximately RMB8.978 million. The following table sets forth the compensation received or receivable by our Company's directors and supervisors(1)(2):

	Directors'/ supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses(3)	Share-based payments	Retirement scheme contributions	Total
			RMB thousands			
2016						
Executive Directors						
Yang Jie	—	174	906	—	73	1,153
Yang Xiaowei	—	165	828	—	70	1,063
Ke Ruiwen	—	148	805	—	70	1,023
Sun Kangmin	—	155	814	—	70	1,039
Zhang Jiping(4)	—	104	765	—	47	916
Non-Executive Directors						
Zhu Wei(5)	—	—	—	—	—	—
Independent Non-Executive Directors						
Tse Hau Yin	433	—	—	—	—	433
Cha May Lung	217	—	—	—	—	217
Xu Erming	200	—	—	—	—	200
Wang Hsuehming	217	—	—	—	—	217
Supervisors						
Sui Yixun	—	184	467	—	74	725
Tang Qi	—	214	450	—	107	771
Zhang Jianbin	—	172	489	—	73	734
Hu Jing	—	102	319	—	66	487
Ye Zhong	—	—	—	—	—	—
Total	1,067	1,418	5,843	—	650	8,978

(1) The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year.
(2) The independent non-executive directors' remuneration were for their services as directors of the Company.
(3) Including deferred performance bonus for the term of office from 2013 to 2015.
(4) Mr. Zhang Jiping retired from his positions as an executive director and executive vice president of the Company on August 19, 2016.
(5) Mr. Zhu Wei resigned from his position as a non-executive director of the Company on May 10, 2016.

Discretionary Bonuses for Executive Directors

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

Discretionary Bonuses for Employee Supervisors

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

Stock Appreciation Rights

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

In 2012, we approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had an exercise price of HK$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As at November 2014, 2015 and 2016, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100%, respectively, of the total stock appreciation rights granted to such person. On November 16, 2016, these stock appreciation right units expired, and no stock appreciation right units have been exercised since December 31, 2012.

Since December 31, 2012, we did not grant any stock appreciation right units.

We recognize compensation expense of the stock appreciation rights over the applicable vesting period. Changes in our payment obligation under the stock appreciation rights plan resulting from changes in fair value of our H shares for the period subsequent to the vesting period through the date of the exercise are also reflected in our earnings. For the year ended December 31, 2014, compensation expense recognized in respect of stock appreciation rights was RMB130 million. For the year ended December 31, 2015, compensation expense of RMB102 million was reversed by us in respect of stock appreciation rights as a result of decline in our share price. For the year ended December 31, 2016, compensation expense of RMB152 million was reversed by us in respect of stock appreciation rights as a result of the expiration of the stock appreciation right units granted by the Company in 2012.

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. The term of office for the fifth session of the Board lasts for three years, starting from May 2014 until the day of the Company's annual general meeting for the year 2016 to be held on May 23, 2017, upon which the sixth 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.

On May 10, 2016, Mr. Zhu Wei resigned from his position as a non-executive director of the Company due to change in work arrangement. On August 19, 2016, Mr. Zhang Jiping retired from his positions as an executive director and executive vice president of the Company due to his age. Our Board currently consists of eight directors with four Executive Directors 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 2016, 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, internal control implementation and assessment report, annual proposal for profit distribution, implementation of continuing connected transactions, lease of telecommunications towers and related assets, re-appointment and remuneration of auditors and change of directors, senior management and company secretary of the Company. During the year, the Company convened four Board meetings and completed various written resolutions. In 2016, the Chairman held a meeting to communicate with Non-Executive Directors without the presence of Executive Directors independently to ensure that the Non-Executive Directors can fully express their opinions and further facilitate the communication of different views amongst the Board.

Audit Committee

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

In 2016, the Audit Committee held four meetings and passed two written resolutions, 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 auditors, effectiveness of risk management, internal control, internal audit and implementation of continuing connected transactions. The Audit Committee reviewed the annual auditor's report, interim review reports and quarterly agreed-upon procedures reports prepared by the external auditors, communicated with the management and the external auditors with regard to the regular financial reports and proposed them for the Board's approval after review and approval by the Audit Committee itself. The Audit Committee received quarterly reports in relation to the internal audit and 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 auditors, reviewed the U.S. annual report, and communicated independently with the external auditors twice a year.

Remuneration Committee

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

The Remuneration Committee did not hold any meeting or pass any written resolution in 2016.

Nomination Committee

The Nomination Committee was established in 2005. It currently consists of three members, Ms. Cha May Lung, Laura (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 (including but not limited to gender, age, educational background or professional experience, skills, knowledge and length of service) of the board on a regular basis and making recommendations to the board regarding any proposed changes; identifying individuals suitably qualified to become board members and selecting or making recommendations to the board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; making recommendations to the board on the appointment or re-appointment of directors (especially Chairman and Chief Executive Officer) and succession planning for directors; and reviewing the Board Diversity Policy as appropriate to ensure its effectiveness and if necessary, recommend any revision suggestions to the Board for consideration and approval.

The Nomination Committee held one meeting and passed one written resolution in 2016, where it performed a review of the structure and operations of the Board and discussed the proposed appointment of Chairman and Chief Executive Officer and other related matters.

Independent Board Committee

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

The Independent Board Committee did not hold any meeting or pass any written resolution in 2016.

D. Employees

General

As of December 31, 2016, we had 287,076 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2014, 2015 and 2016:

	As of December 31,					
	2014		2015		2016	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Management, finance and administrative	49,180	16.3%	43,998	15.1%	43,194	15.1%
Sales and marketing	154,456	51.3	151,448	51.9	147,885	51.5%
Operations and maintenance	95,348	31.7	94,055	32.3	94,005	32.7%
Others	1,976	0.7	2,025	0.7	1,992	0.7%
Total	300,960	100.0%	291,526	100.0%	287,076	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, 2016, none of our directors, supervisors or other senior executives was a legal or beneficial owner of any shares of our share capital.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders

The table below sets forth information regarding the ownership of our share capital as of April 24, 2017 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

Title of Shares	Identity of Person or Group	Amount Owned	Nature of Interest	Percentage of the Respective Type of Shares(1)	Percentage of Total Shares(1)
Domestic shares	China Telecom Group	57,377,053,317	long position	85.57%	70.89%
Domestic shares	Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	long position	8.37%	6.94%

Title of Shares	Identity of Person or Group	Amount Owned	Nature of Interest	Percentage of the Respective Type of Shares(1)	Percentage of Total Shares(1)
H shares	JPMorgan Chase & Co.	1,778,739,471	long position	12.82%	2.20%
		140,049,822	short position	1.01%	0.17%
		1,270,135,868	lending pool	9.15%	1.57%
H shares	BlackRock, Inc.	875,734,752	long position	6.31%	1.08%
H shares	GIC Private Limited	838,531,200	long position	6.04%	1.04%
H shares	The Bank of New York Mellon Corporation	750,064,125	long position	5.40%	0.93%
		721,643,841	lending pool	5.20%	0.89%
H shares	Templeton Global Advisors Limited	703,545,865	long position	5.07%	0.87%

(1) The percentage figures above have been rounded off to the nearest second decimal place.
(2) Information disclosed hereby is based on the information available on the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

China Telecom Group, located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033, is our controlling shareholder and is a wholly state-owned enterprise regulated by the State Council. Guangdong Rising Assets Management Co., Ltd., located at 17 Pearl River West Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC, is a state-owned enterprise owned and controlled by the provincial governments in Guangdong Province. JP Morgan Chase & Co. is located at 270 Park Avenue, New York, New York 10017, U.S.A. BlackRock, Inc. is located at 1209 Orange Street, Wilmington DE 19801. GIC Private Limited is located at 168 Robinson Road, No. 37-01 Capital Tower, Singapore 068912. The Bank of New York Mellon Corporation is located at Corporate Trust Center 1209 Orange Street Wilmington, Delaware, 19801 USA. Templeton Global Advisors Limited is located at Box N-7759, Lyford Cay, Nassau, Bahamas.

Based solely on information contained in an Amendment No. 10 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the SEC, on February 7, 2017 by Franklin Resources, Inc., or FRI, Charles B. Johnson, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited, 1,788,564,999 shares of our Company, or the FRI Shares, representing approximately 12.9% of the total number of our H shares outstanding as of December 31, 2016, were beneficially owned by investment companies or other managed accounts that were investment management clients of investment managers that were direct or indirect subsidiaries of FRI. These subsidiaries of FRI were generally granted all investment and/or voting power over the FRI Shares owned and, as a result, may be deemed to be the beneficial owners of the FRI Shares for the purposes of Rule 13d-3 of the Exchange Act. Each of Charles B. Johnson and Rupert H. Johnson, Jr. owned in excess of 10% of the outstanding common stock of FRI and was a principal shareholder of FRI. Each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. could be deemed a beneficial owner of securities held by persons and entities for whom or for which the subsidiaries of FRI provided investment management services. However, each of FRI, Charles B. Johnson, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited disclaims beneficial ownership of any of the FRI Shares. The principal place of business of each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr., is One Franklin Parkway, San Mateo, CA 94403-1906, U.S.A. The principal place of business of Templeton Global Advisors Limited is Templeton Building, Lyford Cay, Nassau, Bahamas. The above disclosure is based solely on the information contained in the FRI Schedule 13G/A. For the numbers of our H shares that each of the subsidiaries of FRI has sole power to vote or to direct the voting of, or sole power to dispose or to direct the disposition of, or shared power to dispose or to direct the disposition of, and other details of the FRI Schedule 13G/A, please see the Schedule 13G/A jointly filed with the SEC by FRI, Charles B. Johnson, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited on February 7, 2017.

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 24, 2016, China Telecom Group, a wholly state-owned enterprise, directly owned and controlled 70.89% of our issued share capital. Accordingly, transactions between China Telecom Group and us constitute connected transactions under the Listing Rules.

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

Our Independent Non-Executive Directors have confirmed that all connected transactions for the year ended December 31, 2016 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.

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, 2016:

Transactions	**Transaction Amounts (RMB millions)**
Net transaction amount of centralized services	523
Net expenses for interconnection settlement	172
Lease of property from China Telecom Group	559
Lease of property to China Telecom Group	37
Provision of IT services by China Telecom Group	1,609
Provision of IT services to China Telecom Group	312
Provision of supplies procurement services by China Telecom Group	5,206
Provision of supplies procurement services to China Telecom Group	2,780
Provision of engineering services by China Telecom Group	18,936
Provision of community services by China Telecom Group	2,871
Provision of ancillary telecommunications services by China Telecom Group	13,941
Provision of Internet applications channel services to China Telecom Group	332
Interest on amounts due to and loans from China Telecom Group	2,928
Lease of CDMA network facilities from China Telecom Group	154
Lease of inter-provincial transmission optic fibers from China Telecom Group	16
Lease of land use rights from China Telecom Group	6

On September 23, 2015, the Company and the 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 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:

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 the pricing terms) for a further term of three years expiring on December 31, 2018. 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.

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 the pricing terms) for a further term of three years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Interconnection Settlement Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Interconnection Settlement Agreement, and the parties shall consult and decide on matters relating to such renewal.

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 the pricing terms) for a further term of three years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Property Leasing Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Property Leasing Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

IT Services Framework Agreement

Pursuant to the IT services framework agreement signed between the Company and China Telecommunications Corporation on 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.

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 the pricing terms) for a further term of three years expiring on December 31, 2018. No later than 30 days prior to the expiry of the IT Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the IT Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Community Services Framework Agreement

Pursuant to the community services framework agreement signed between the Company and China Telecommunications Corporation on 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 the pricing terms) for a further term of three years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Community Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Community Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Supplies Procurement Services Framework Agreement

Pursuant to the supplies procurement services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the "Supplies Procurement Services Framework Agreement"), China Telecommunications Corporation and/or its associates and the Company provide each other with supplies procurement services, including the comprehensive procurement services, the sale of proprietary telecommunications equipment, resale of third-party equipment, management of tenders, verification of technical specifications, storage, transportation and installation services.

Where the procurement services are provided on an agency basis, the maximum commission for such procurement services shall be calculated at: (1) not more than 1% of the contract value for procurement of imported telecommunications supplies; or (2) not more than 3% of the contract value for the procurement of domestic telecommunications supplies and domestic non-telecommunications supplies.

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

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 the pricing terms) for a further term of three years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Supplies Procurement Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Supplies Procurement Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Engineering Framework Agreement

Pursuant to the engineering framework agreement signed between the Company and China Telecommunications Corporation on 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 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 the pricing terms) for a further term of three years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Engineering Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Engineering Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Ancillary Telecommunications Services Framework Agreement

Pursuant to the ancillary telecommunications services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the "Ancillary Telecommunications Services Framework Agreement"), China Telecommunications Corporation and/or its associates provide the Company with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services. The pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Ancillary Telecommunications Services Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Ancillary Telecommunications Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Ancillary Telecommunications Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

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 with the same terms (except the pricing terms) for a further term of 3 years expiring on December 31, 2018. 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 with the same terms (except the pricing terms) for a further term of 3 years expiring on December 31, 2018. No later than 30 days prior to the expiry of the Internet Applications Channel Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Internet Applications Channel Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

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 its terms for a further term expiring on December 31, 2018. 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.

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

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

Our Short Term Borrowings from China Telecom Group

We from time to time borrow short term unsecured loans from China Telecom Group to supplement our working capital needs. As of December 31, 2016, the aggregate outstanding principal amount of such loans was RMB5,271 million, which bear interest at fixed rates ranging from 3.5% to 4.1% per annum. See Note 15 to our audited financial statements included elsewhere in this report for details.

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".

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

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

Legal Proceeding

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

Policy on Dividend Distributions

Pursuant to the shareholders' approval at the annual general meeting held on May 25, 2016, a final dividend of RMB6,489 million (RMB0.080182 per share equivalent to HK$0.095 per share, pre-tax) for the year ended December 31, 2015 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 21, 2017, a final dividend of approximately RMB7,548 million (RMB0.093261 equivalent to HK$0.105 per share, pre-tax) for the year ended December 31, 2016 was proposed for shareholders' approval at the forthcoming annual general meeting.

The declaration and payment of dividends for years following 2016 will depend upon our financial results, our shareholders' interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries, if any, to us, possible effects on our creditworthiness and other factors our directors may deem relevant. Our Board will declare dividends, if any, in Renminbi with respect to our H shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to shareholders' approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of our H shares will share proportionately on a per share basis in all dividends and other distributions declared by our Company.

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

Item 9. The Offer and Listing.

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

As of December 31, 2016 and April 24, 2017, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2016 and April 24, 2017, there were, respectively, 48 and 45 registered holders of American depositary receipts evidencing 3,854,591 and 4,179,518 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York Mellon.

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

	Price per Share (HK$)		Price per ADS (US$)	
	High	**Low**	**High**	**Low**
Annual				
2012	4.91	3.29	63.48	42.05
2013	4.40	3.56	57.97	45.35
2014	5.17	3.15	66.61	40.35
2015	6.02	3.44	78.28	43.67
2016	4.29	3.31	55.66	42.67
Quarterly				
Third Quarter, 2014	5.17	3.88	66.61	49.17
Fourth Quarter, 2014	5.04	4.31	64.79	55.30
First Quarter, 2015	5.04	4.22	65.85	56.01
Second Quarter, 2015	6.02	4.5	78.28	57.72
Third Quarter, 2015	4.66	3.65	59.29	47.04
Fourth Quarter, 2015	4.20	3.44	54.36	43.67
First Quarter, 2016	4.10	3.31	52.57	43.00
Second Quarter, 2016	4.29	3.31	55.66	42.67
Third Quarter, 2016	4.19	3.44	53.87	44.82
Fourth Quarter, 2016	4.15	3.56	53.34	45.98
First Quarter, 2017	3.82	3.57	49.45	45.98
Monthly				
October 2016	4.15	3.98	53.34	51.14
November 2016	4.06	3.62	52.09	46.80
December 2016	3.77	3.56	48.75	45.98
January 2017	3.72	3.61	48.52	46.93
February 2017	3.78	3.65	49.10	47.16
March 2017	3.82	3.57	49.45	45.98
April 2017 (through April 24, 2017)	3.92	3.79	50.35	48.78

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 13 of our Articles of Association provides that our scope of business includes, among other things, operation of basic and value-added telecommunications businesses.

Directors

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

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

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

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

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

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

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

Dividends

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

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

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

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

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

Voting Rights and Shareholders' Meetings

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

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

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

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

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

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

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

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

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

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

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

Liquidation Rights

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

Increases in Share Capital

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

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

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

Decrease in Share Capital and Repurchase

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

Ownership Threshold

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

Restrictions on Large or Controlling Shareholders

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

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

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

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

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

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

Sources of Shareholders' Rights

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

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

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

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

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

Enforceability of Shareholders' Rights

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

Restrictions on Transferability and the Share Register

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

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

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

C. Material Contracts

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

D. Exchange Controls

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

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

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

E. Taxation

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

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

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

People's Republic of China

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

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

Taxation of Dividends

Individual Investors. According to the PRC Individual Income Tax Law and its implementing regulations, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20.0%. For a foreign individual who is not a PRC resident, the receipt of dividends from a PRC company is normally subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty. For example, Hong Kong and Macau individual residents are subject to a withholding tax of 10% on dividends paid to them. According to the Notice on 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% with respect to dividends received by the mainland individual investors for investing in our H shares through the Southbound Trading Link. The tax levied on dividends derived from the investment by mainland securities investment funds in our H shares through the Southbound Trading Link shall be ascertained by reference to the rules applicable to the individual investors. We are not required to withhold income tax on dividends derived by the mainland enterprise investors through the Southbound Trading Link, and such enterprises shall report the income and make tax payment by themselves.

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

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

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

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

Taxation of Capital Gains

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

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

Additional PRC Tax Considerations

PRC Stamp Duty. PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the PRC Provisional Regulations Concerning Stamp Duty, or the Provisional Regulations, 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. Gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong. There is no tax treaty in effect between the United States and Hong Kong, and the PRC-US Treaty does not apply to Hong Kong.

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

Stamp Duty

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

The withdrawal of H shares upon the surrender of American Depositary Receipts, or ADRs, and the issuance of ADRs upon the deposit of H shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a change in the beneficial ownership of the H shares under Hong Kong law. The issuance of the ADRs upon the deposit of H shares issued directly to the 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 our voting stock;
- a person that holds H shares or ADSs as part of a straddle or a hedging or conversion transaction;
- a person that purchases or sells shares or ADSs as part of a wash sale for tax purposes; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as the PRC-US Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the 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.

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 depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Subject to certain limitations, the PRC tax withheld and paid over to the PRC will be creditable or deductible against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates.

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

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

Taxation of Capital Gains

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

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

Hong Kong Stamp Duty

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

PFIC Rules

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

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

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

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

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

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

Foreign Exchange Rate Risk

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

The following tables provide information regarding our financial instruments that are sensitive to foreign exchange rates as of December 31, 2016 and 2015, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

As of December 31, 2016:

	Expected Maturity							
	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
	(RMB equivalent in millions, except interest rates)							
Assets:								
Cash and cash equivalents								
United States dollars	4,079	—	—	—	—	—	4,079	4,079
Japanese yen	12	—	—	—	—	—	12	12
Euro	51	—	—	—	—	—	51	51
Hong Kong dollars	184	—	—	—	—	—	184	184
Other currencies	145	—	—	—	—	—	145	145
Short-term bank deposits								
United States dollars	311	—	—	—	—	—	311	311
Japanese yen	—	—	—	—	—	—	—	—
Liabilities:								
Debts in Japanese yen								
Fixed rate	—	—	—	—	—	—	—	—
Average interest rate	—	—	—	—	—	—		
Debts in United States dollars								
Fixed rate	52	52	52	50	36	204	446	388
Average interest rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%		
Variable rate	—	—	—	—	—	—	—	—
Average interest rate(1)	—	—	—	—	—	—		
Debts in Euro								
Fixed rate	30	24	24	24	23	114	239	212
Average interest rate	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		
Variable rate	—	—	—	—	—	—	—	—
Average interest rate(1)	—	—	—	—	—	—		
Debts in other currencies								
Fixed rate	5	—	—	—	—	—	5	5
Average interest rate(1)	3%	—	—	—	—	—		

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2016.

As of December 31, 2015:

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

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

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, 2015 and 2016, our debt consisted of fixed and variable rate debt obligations with maturities from 2015 to 2060 and from 2016 to 2060, respectively.

The following tables present cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2015 and 2016, respectively.

As of December 31, 2016:

	Expected Maturity							
	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**	**Fair Value**
	(RMB equivalent in millions, except interest rates)							
Liabilities:								
Debts in Renminbi								
Fixed rate	40,333	1,005	970	930	886	4,976	49,100	49,099
Average interest rate	3.2%	1.2%	1.2%	1.2%	1.2%	1.2%		
Variable rate	62,636	—	—	—	—	—	62,636	62,817
Average interest rate[(1)]	4.1%	—	—	—	—	—		
Debts in Japanese yen								
Fixed rate	—	—	—	—	—	—	—	—
Average interest rate	—	—	—	—	—	—		
Debts in United States dollars								
Fixed rate	52	52	52	50	36	204	446	388
Average interest rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%		
Variable rate	—	—	—	—	—	—	—	—
Average interest rate[(1)]	—	—	—	—	—	—		
Debts in Euro								
Fixed rate	30	24	24	24	23	114	239	212
Average interest rate	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		
Variable rate	—	—	—	—	—	—	—	—
Average interest rate[(1)]	—	—	—	—	—	—		
Debts in other currencies								
Fixed rate	5	—	—	—	—	—	5	5
Average interest rate[(1)]	3%	—	—	—	—	—		

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2016.

As of December 31, 2015:

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

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

Item 12. Description of Securities Other than Equity Securities.

The Bank of New York Mellon, as the depositary 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 depositary 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 depositary 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 depositary or its agent when the ADR holder deposit or withdraw shares
• Expenses of the depositary	• Conversion of foreign currency to U.S. dollars
	• Cable, telex and facsimile transmission expenses
• Taxes and other governmental charges the depositary 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 depositary receipt facility. The amount of such reimbursements is subject to certain conditions and limits. From April 23, 2016 to April 24, 2017, with respect to certain expenses incurred by us in connection with our depositary 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$42,273.52 reimbursement, net of withholding tax. The Bank of New York Mellon also waived certain costs of US$162,793.23 in connection with the administration of the ADR program and other services provided to our registered shareholders for the year 2016.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

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

Material Modifications to the Rights of Security Holders

None.

Use of Proceeds

Not applicable.

Item 15. Controls and Procedures.

Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting.

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

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

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

As of December 31, 2016, our management, with the participation of our Chief Executive Officer and the person performing the functions of the principal financial officer, conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

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

We have audited China Telecom Corporation Limited and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The management of China Telecom Corporation Limited and subsidiaries is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on China Telecom Corporation Limited and subsidiaries' internal control over financial reporting based on our audit.

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

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

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

In our opinion, China Telecom Corporation Limited and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of China Telecom Corporation Limited and subsidiaries as of and for the year ended December 31, 2016, and our report dated March 21, 2017 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu

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

March 21, 2017

Changes in Internal Control Over Financial Reporting

During the fiscal year ended December 31, 2016, there was no change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert.

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

Item 16B. Code of Ethics.

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

Item 16C. Principal Accountant Fees and Services.

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2015 and 2016:

	Audit Fees (including VAT)	Audit-Related Fees	Tax Fees	Other Fees
2015	RMB68.80 million	RMB1.27 million	RMB0.45 million	RMB0.15 million
2016	RMB71.00 million	RMB0.83 million(1)	RMB0.80 million(2)	—

(1) Audit-related fees in the amount of RMB0.83 million were paid for the advisory services provided to us regarding our internal control.
(2) Tax fees in the amount of RMB0.80 million were paid for profit tax filing assistance service.

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

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

Not applicable.

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

None.

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

Not applicable.

Item 16G. Corporate Governance.

Our Company was incorporated under the PRC laws on September 10, 2002 as a joint stock company with limited liability. Our 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 eight 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.

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.

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	Articles of Association (as amended) (English translation) (18)
2.1	Form of H Share Certificate.(1)
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt.(2)
2.3	We agree to provide the Securities and Exchange Commission, upon request, copies of instruments defining the rights of holders of our long-term debt.
4.1	Supplemental Trademark License Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation).(3)
4.2	Sale and Purchase Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation).(3)
4.3	Supplemental Connected Transactions Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation).(3)
4.4	Form of Underwriting Agreement.(4)
4.5	Supplemental Trademark License Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation).(5)
4.6	Supplemental Connected Transactions Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation).(6)
4.7	Conditional Sale and Purchase Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation).(7)
4.8	Supplemental Conditional Sale and Purchase Agreement, dated June 9, 2005, between the Registrant and China Telecommunications Corporation (English summary).(8)
4.9	Supplemental Centralized Services Agreement, dated December 15, 2005, between the Registrant and China Telecommunications Corporation (English summary).(9)
4.10	Property Leasing Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).(10)
4.11	IT Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).(10)
4.12	Equipment Procurement Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).(10)
4.13	Engineering Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). (10)
4.14	Community Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). (10)
4.15	Ancillary Telecommunications Service Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). (10)
4.16	Strategic Agreement, dated August 30, 2006, between the Registrant and China Communications Services Corporation Limited (English summary). (10)
4.17	Supplemental Agreement to the Strategic Agreement, dated June 15, 2007, between the Registrant and the China Communications Services Corporation Limited (English Summary). (10)

Exhibits	Description
4.18	Supplemental Agreement to the Strategic Agreement, dated October 29, 2009, between the Registrant and the China Communications Services Corporation Limited (English Summary). [13]
4.19	Master Agreement for sales and purchase of equity interests in China Telecom (Hong Kong) International Limited, China Telecom System Group Integration Co., Ltd. and China Telecom (USA) Corporation, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. [10]
4.20	Stock Purchase Agreement in respect of sales and purchase of shares in China Telecom (USA) Corporation, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. [10]
4.21	Share Purchase Agreement in respect of sales and purchase of shares in China Telecom (Hong Kong) International Limited, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. [10]
4.22	Share Transfer Agreement in respect of transfer of shareholdings in China Telecom System Integration Co., Limited, dated June 15, 2007, among China Telecommunications Corporation, China Huaxin Post and Telecommunications Economy Development Center and China Telecom Corporation Limited. [10]
4.23	Agreement on the Transfer of the Entire Equity Interests in China Telecom Group Beijing Corporation, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Translation). [11]
4.24	Form Merger Agreement, dated January 10, 2008, between the Registrant and each of certain subsidiaries wholly owned by the Registrant (English Translation). [11]
4.25	Supplemental Agreement to the Centralized Services Agreement, dated December 26, 2007, between the Registrant and China Telecommunications Corporation (English Summary). [11]
4.26	Supplemental Agreement to the Centralized Services Agreement, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Summary). [11]
4.27	Framework Agreement for Transfer of CDMA Business, dated June 2, 2008, among the Registrant, China Unicom Limited and China Unicom Corporation Limited (English Summary). [11]
4.28	Supplemental Agreement to the Interconnection Settlement Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.29	Supplemental Agreement to the IT Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.30	Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.31	Supplemental Agreement to the Engineering Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.32	Supplemental Agreement to the Community Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.33	Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.34	CDMA Network Capacity Lease Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English translation). [12]
4.35	Agreement for Transfer of CDMA Business, dated July 27, 2008, between the Registrant, China Unicom Limited and China Unicom Corporation Limited (English summary). [12]
4.36	Merger Agreement, dated November 14, 2008, between the Registrant and China Telecommunications Corporation Beijing Corporation (English translation). [12]
4.37	Supplemental Agreement to the Optic Fiber Leasing Agreement, dated July 10, 2008, between the Registrant and China Telecommunications Corporation (English summary). [12]
4.38	Underwriting Agreement regarding Medium Term Notes of China Telecom Corporation Limited in 2008, dated April 15, 2008, among the Registrant, Industrial and Commercial Bank of China Limited and CITIC Securities Company Limited (English summary), and its Supplemental Agreement, dated December 15, 2008 (English summary). [12]

Exhibits	Description
4.39	Underwriting Agreement regarding the First Tranche of Short-Term Commercial Paper of China Telecom Corporation Limited in 2008, dated July 7, 2008, among the Registrant, Bank of Communications Co., Ltd. and China Development Bank (English summary). (12)
4.40	Underwriting Agreement regarding the First Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated September 8, 2009 (as supplemented on September 9, 2009), among the Registrant, Bank of Communications Co., Ltd. and Agricultural Bank of China Limited (English summary). (13)
4.41	Underwriting Agreement regarding the Second Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated October 19, 2009 (as supplemented respectively on October 20, 2009 and December 4, 2009), among the Registrant, Agriculture Bank of China Limited and China Merchants Bank Co., Ltd. (English summary). (13)
4.42	Underwriting Agreement regarding the Third Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated October 19, 2009 (as supplemented respectively on October 20, 2009 and December 4, 2009), among the Registrant, China Construction Bank Corporation and Industrial and Commercial Bank of China Ltd. (English summary). (13)
4.43	Supplemental Agreement to the Centralized Services Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.44	Supplemental Agreement to the Interconnection Settlement Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.45	Supplemental Agreement to the Property Leasing Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.46	Supplemental Agreement to the IT services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.47	Supplemental Agreement to the Community Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.48	Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.49	Supplemental Agreement to the Engineering Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.50	Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.51	Supplemental Agreement to the CDMA Network Capacity Lease Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.52	Supplemental Agreement to the Trademark License Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.53	Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14)
4.54	Agreement on the Acquisition of CDMA Network Assets and Associated Liabilities, dated August 20, 2012, between the Registrant and China Telecommunications Corporation (English summary) (15)
4.55	Agreement on the Disposal of Equity Interest in E-surfing Media Co., Ltd., dated April 26, 2013, between the Registrant and China Telecommunications Corporation (English Summary) (15)
4.56	Agreement on the Acquisition of China Telecom (Europe) Limited, dated December 16, 2013, between the Registrant and China Telecommunications Corporation (16)
4.57	Internet Applications Channel Services Framework Agreement, dated December 16, 2013, between the Registrant and China Telecommunications Corporation (English Summary) (16)
4.58	Promoters' Agreement for China Communications Facilities Services Corporation Limited (currently known as China Tower Corporation Limited) dated July 11, 2014, among the Registrant, China United Network Communications Corporation Limited and China Mobile Communication Company Limited (17)

Exhibits	Description
4.59	Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash, dated October 14, 2015, among the Registrant, the Tower Company, CUCL, CMCL, CRHC and other parties thereto (English translation) (18)
4.60	Share Subscription Agreement, dated January 29, 2016, between the Registrant and the Tower Company (English translation) (18)
4.61	Supplemental Agreement to the Centralized Services Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.62	Supplemental Agreement to the Interconnection Settlement Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.63	Supplemental Agreement to the Property Leasing Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.64	Supplemental Agreement to the IT Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.65	Supplemental Agreement to the Community Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.66	Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.67	Supplemental Agreement to the Engineering Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.68	Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.69	Supplemental Agreement to the Internet Applications Channel Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.70	Supplemental Agreement to the Optic Fiber Leasing Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) (18)
4.71	Lease Agreement, dated July 8, 2016, between the Registrant and the Tower Company (English translation)
8.1	List of subsidiaries of the Registrant
11.1	Code of Ethics (English translation).(3)
12.1	Certification of CEO pursuant to Rule 13a-14(a)
12.2	Certification of CFO pursuant to Rule 13a-14(a)
13.1	Certification of CEO pursuant to Rule 13a-14(b)
13.2	Certification of CFO pursuant to Rule 13a-14(b)

(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-100042), filed with the Securities and Exchange Commission on November 5, 2002.
(2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-100617), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H shares.
(3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 001-31517), filed with the Securities and Exchange Commission.
(4) Incorporated by reference to Exhibit 1.1 to our Form 6-K filed on April 29, 2004
(5) Incorporated by reference to Exhibit 1.2 to our Form 6-K filed on April 29, 2004.
(6) Incorporated by reference to Exhibit 1.3 to our Form 6-K filed on April 29, 2004.
(7) Incorporated by reference to Exhibit 1.5 to our Form 6-K filed on April 29, 2004.
(8) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 001-31517), filed with the Securities and Exchange Commission.
(9) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 001-31517), filed with the Securities and Exchange Commission.
(10) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-31517), filed with the Securities and Exchange Commission.

(11) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 001-31517), filed with the Securities and Exchange Commission.

(12) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2008 (File No. 001-31517), filed with the Securities and Exchange Commission.

(13) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2009 (File No. 001-31517), filed with the Securities and Exchange Commission.

(14) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 001-31517), filed with the Securities and Exchange Commission.

(15) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2012 (File No. 001-31517), filed with the Securities and Exchange Commission.

(16) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2013 (File No. 001-31517), filed with the Securities and Exchange Commission.

(17) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2014 (File No. 001-31517), filed with the Securities and Exchange Commission.

(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.

SIGNATURES

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

CHINA TELECOM CORPORATION LIMITED

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

Date: April 28, 2017

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial position of China Telecom Corporation Limited and subsidiaries (the "Group") as of December 31, 2015 and 2016, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of China Telecom Corporation Limited and subsidiaries as of December 31, 2015 and 2016, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2016, 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 21, 2017 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hong Kong, the People's Republic of China
March 21, 2017

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2016
(Amounts in millions)

	Note	December 31, 2015 RMB	December 31, 2016 RMB
ASSETS			
Current assets			
Cash and cash equivalents	**4**	31,869	24,617
Short-term bank deposits		2,519	3,331
Accounts receivable, net	**5**	21,105	21,423
Inventories	**6**	6,281	5,081
Prepayments and other current assets	**7**	16,229	19,470
Income tax recoverable		105	50
Total current assets		78,108	73,972
Non-current assets			
Property, plant and equipment, net	**8**	373,981	389,648
Construction in progress	**9**	69,103	80,381
Lease prepayments		23,609	22,955
Goodwill	**10**	29,920	29,923
Intangible assets	**11**	10,739	11,244
Interests in associates	**12**	34,473	34,572
Investments	**13**	1,624	1,535
Deferred tax assets	**14**	4,655	5,061
Other assets	**18**	3,349	3,077
Total non-current assets		551,453	578,396
Total assets		629,561	652,368
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	**15**	51,636	40,780
Current portion of long-term debt and payable	**15**	84	62,276
Accounts payable	**16**	118,055	122,444
Accrued expenses and other payables	**17**	82,934	91,087
Income tax payable		2,154	1,106
Current portion of finance lease obligations		38	52
Current portion of deferred revenues	**18**	1,028	1,253
Total current liabilities		255,929	318,998
Non-current liabilities			
Long-term debt and payable	**15**	64,830	9,370
Finance lease obligations		81	50
Deferred revenues	**18**	1,454	2,305
Deferred tax liabilities	**14**	2,061	4,770
Other non-current liabilities		455	580
Total non-current liabilities		68,881	17,075
Total liabilities		324,810	336,073
Equity			
Share capital	**19**	80,932	80,932
Reserves	**20**	222,852	234,392
Total equity attributable to equity holders of the Company		303,784	315,324
Non-controlling interests		967	971
Total equity		304,751	316,295
Total liabilities and equity		629,561	652,368

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(Amounts in millions, except per share data)

	Note	Year ended December 31, 2014 RMB	2015 RMB	2016 RMB
Operating revenues	**21**	324,394	331,202	352,285
Operating expenses				
Depreciation and amortization		(66,345)	(67,664)	(67,938)
Network operations and support	**22**	(68,651)	(81,240)	(94,092)
Selling, general and administrative		(62,719)	(54,472)	(56,417)
Personnel expenses	**23**	(50,653)	(52,541)	(54,460)
Other operating expenses	**24**	(47,518)	(48,843)	(52,177)
Total operating expenses		(295,886)	(304,760)	(325,084)
Operating income		28,508	26,442	27,201
Gain from Tower Assets Disposal (as defined in Note 17)		—	5,214	—
Net finance costs	**25**	(5,291)	(4,273)	(3,235)
Investment income		6	8	40
Equity in income / (loss) of associates		34	(698)	91
Earnings before income tax		23,257	26,693	24,097
Income tax	**26**	(5,498)	(6,551)	(5,988)
Profit for the year		17,759	20,142	18,109
Other comprehensive income for the year				
Items that may be reclassified subsequently to profit or loss:				
Change in fair value of available-for-sale equity securities		(54)	652	(228)
Deferred tax on change in fair value of available-for-sale equity securities		14	(163)	57
Exchange difference on translation of financial statements of subsidiaries outside mainland China		3	129	190
Share of other comprehensive income of associates		(3)	3	6
Other comprehensive income for the year, net of tax		(40)	621	25
Total comprehensive income for the year		17,719	20,763	18,134
Profit attributable to				
Equity holders of the Company		17,680	20,054	18,004
Non-controlling interests		79	88	105
Profit for the year		17,759	20,142	18,109
Total comprehensive income attributable to				
Equity holders of the Company		17,640	20,675	18,029
Non-controlling interests		79	88	105
Total comprehensive income for the year		17,719	20,763	18,134
Basic earnings per share	**28**	0.22	0.25	0.22
Number of shares (in millions)	**28**	80,932	80,932	80,932

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(Amounts in millions)

		Attributable to equity holders of the Company									
	Note	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory reserves RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total Equity RMB
Balance as of January 1, 2014		80,932	17,064	10,746	67,392	427	(944)	102,124	277,741	923	278,664
Profit for the year		—	—	—	—	—	—	17,680	17,680	79	17,759
Other comprehensive income for the year		—	—	—	—	(43)	3	—	(40)	—	(40)
Total comprehensive income for the year		—	—	—	—	(43)	3	17,680	17,640	79	17,719
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	(77)	(77)
Dividends	**27**	—	—	—	—	—	—	(6,198)	(6,198)	—	(6,198)
Appropriations	**20**	—	—	—	1,680	—	—	(1,680)	—	—	—
Balance as of December 31, 2014		80,932	17,064	10,746	69,072	384	(941)	111,926	289,183	925	290,108
Profit for the year		—	—	—	—	—	—	20,054	20,054	88	20,142
Other comprehensive income for the year		—	—	—	—	492	129	—	621	—	621
Total comprehensive income for the year		—	—	—	—	492	129	20,054	20,675	88	20,763
Acquisition of non-controlling interests		—	(1)	—	—	—	—	—	(1)	(6)	(7)
Contribution from non-controlling interests		—	87	—	—	—	—	—	87	40	127
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	(80)	(80)
Dividends	**27**	—	—	—	—	—	—	(6,160)	(6,160)	—	(6,160)
Appropriations	**20**	—	—	—	1,901	—	—	(1,901)	—	—	—
Balance as of December 31, 2015		80,932	17,150	10,746	70,973	876	(812)	123,919	303,784	967	304,751
Profit for the year		—	—	—	—	—	—	18,004	18,004	105	18,109
Other comprehensive income for the year		—	—	—	—	(165)	190	—	25	—	25
Total comprehensive income for the year		—	—	—	—	(165)	190	18,004	18,029	105	18,134
Disposal of a subsidiary		—	—	—	—	—	—	—	—	(15)	(15)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	(86)	(86)
Dividends	**27**	—	—	—	—	—	—	(6,489)	(6,489)	—	(6,489)
Appropriations	**20**	—	—	—	1,638	—	—	(1,638)	—	—	—
Balance as of December 31, 2016		80,932	17,150	10,746	72,611	711	(622)	133,796	315,324	971	316,295

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(Amounts in millions)

	Note	Year ended December 31, 2014	2015	2016
		RMB	RMB	RMB
Net cash from operating activities	**(a)**	96,405	108,750	101,130
Cash flows used in investing activities				
Capital expenditure		(80,273)	(101,898)	(96,673)
Purchase of investments	**(b)**	(2,990)	(10)	(3,099)
Lease prepayments		(184)	(124)	(99)
Proceeds from disposal of property, plant and equipment		710	755	1,560
Proceeds from disposal of lease prepayments		121	58	10
Proceeds from disposal of Investments		—	2	—
Net cash outflow from disposal of a subsidiary		—	—	(50)
Purchase of short-term bank deposits		(2,566)	(3,764)	(3,237)
Maturity of short-term bank deposits		3,474	2,731	2,550
Net cash used in investing activities		(81,708)	(102,250)	(99,038)
Cash flows (used in) / from financing activities				
Principal element of finance lease payments		(1)	(14)	(59)
Proceeds from bank debt and other loans		53,022	67,875	110,446
Repayment of bank debt and other loans		(56,819)	(56,862)	(113,366)
Payment of dividends		(6,198)	(6,160)	(6,489)
Payment for the acquisition of non-controlling interests		—	(7)	—
Contribution from non-controlling interests		—	127	—
Payment for the acquisition price of the Seventh Acquisition	**(c)**	(278)	—	—
Cash distributions to non-controlling interests		(53)	(150)	(87)
Net cash (used in) / from financing activities		(10,327)	4,809	(9,555)
Net increase / (decrease) in cash and cash equivalents		4,370	11,309	(7,463)
Cash and cash equivalents at beginning of year		16,070	20,436	31,869
Effect of changes in foreign exchange rate		(4)	124	211
Cash and cash equivalents at end of year		20,436	31,869	24,617

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(Amounts in millions)

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

	Year ended December 31,		
	2014	**2015**	**2016**
	RMB	**RMB**	**RMB**
Earnings before income tax	23,257	26,693	24,097
Adjustments for:			
Depreciation and amortization	66,345	67,664	67,938
Impairment losses for doubtful debts	2,084	2,231	2,277
Impairment losses for long-lived assets	—	51	62
Write down of inventories	151	147	175
Investment income	(6)	(8)	(40)
Equity in (income) / loss of associates	(34)	698	(91)
Interest income	(304)	(375)	(353)
Interest expense	5,650	4,573	3,701
Foreign exchange (gain) /loss	(55)	75	(113)
Net loss on retirement and disposal of long-lived assets	2,287	1,573	1,867
Gain from Tower Assets Disposal	—	(5,214)	—
Increase in accounts receivable	(3,594)	(1,778)	(2,348)
Decrease / (increase) in inventories	2,280	(2,199)	1,033
Increase in prepayments and other current assets	(2,359)	(5,854)	(3,731)
(Increase) / decrease in other assets	(2)	(87)	366
Increase in accounts payable	6,473	22,156	3,779
Increase in accrued expenses and other payables	6,571	7,119	10,864
Decrease in deferred revenues	(573)	(417)	(418)
Cash generated from operations	108,171	117,048	109,065
Interest received	305	375	365
Interest paid	(5,693)	(4,601)	(3,736)
Investment income received	29	27	57
Income tax paid	(6,407)	(4,099)	(4,621)
Net cash from operating activities	96,405	108,750	101,130

(b) The amount for the year ended December 31, 2016 includes the payment for the cash injection amounting to RMB2,966 ("Cash Consideration") to China Tower Corporation Limited ("China Tower") in relation to the Tower Assets Disposal. The Cash Consideration was paid in February 2016.

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

See accompanying notes to consolidated financial statements.

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, telecommunication network resource services and lease of network equipment, 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 lease of network equipment, International Internet access and transit, and Internet data center service in certain countries of the Asia Pacific, Europe, Africa, South America and North America regions. The operations of the Group in the mainland China are subject to the supervision and regulation by the PRC government.

Organization

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

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

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

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

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

On August 1, 2011 and December 1, 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd and E-surfing Media Co., Ltd., acquired the e-commerce business and video media business (collectively the "Fifth Acquired Group") from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 (hereinafter, referred to as the "Fifth Acquisition"). The Company disposed the equity interest in E-surfing Media Co., Ltd. to China Telecommunications Corporation in 2013.

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

Organization (continued)

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

On 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"), and was paid by June 30, 2014.

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

Basis of presentation

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

Merger with subsidiaries

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 21, 2017.

The consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities at fair value (Note 2(l)).

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances, the results of which form the basis of making the judgements 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.

Judgements made by management in the application of IFRS that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 36.

(b) Basis of consolidation

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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

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

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

(c) Foreign currencies

The accompanying consolidated financial statements are presented in Renminbi ("RMB"). The functional currency of the Company and its subsidiaries in mainland China is RMB. The functional currency of the Group's foreign operations is the currency of the primary economic environment in which the foreign operations operate. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those capitalized as construction in progress (Note 2(i)), are recognized as income or expense in profit or loss. For the periods presented, no exchange differences were capitalized.

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

(d) Cash and cash equivalents

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

(e) Accounts and other receivables

Accounts and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for doubtful debts (Note 2(n)) unless the effect of discounting would be immaterial, in which case they are stated at cost less allowance for doubtful debts.

(f) Inventories

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Inventories (continued)

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.

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 2(n)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Assets held under finance leases (Note 2 (m)) are amortized over their estimated useful lives on a straight-line basis. As of December 31, 2016, no asset was held by the Group under finance leases (2015: 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	6 to 10 years
Furniture, fixture, motor vehicles and other equipment	5 to 10 years

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

(h) Lease prepayments

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

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 2(n)). The cost of an item comprises direct costs of construction, capitalization of interest charge, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 10) 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 2(n)). On disposal of a cash generating unit during the year, any attributable amount of the goodwill is included in the calculation of the profit or loss on disposal.

(k) Intangible assets

The Group's intangible assets are 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 2(n)). Amortization of software is calculated on a straight-line basis over the estimated useful lives, which mainly range from three to five years.

(l) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value being recognized in other comprehensive income and accumulated separately in equity. For investments in available-for-sale equity securities, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When these investments are derecognized or impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 2(n)).

(m) 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.

Assets acquired under finance leases are classified as assets under finance leases, and 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.

(n) Impairment

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

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

- significant financial difficulty of the debtor or issuer;

- a breach of contract, such as a default or delinquency in interest or principal payments;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment (continued)

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

- 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.

(ii) Impairment of long-lived assets

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition

The revenue recognition methods of the Group are as follows:

(i) Voice usage fee is recognized as the service is provided.

(ii) Fees received for wireline installation charges for periods prior to January 1, 2012 are deferred and recognized over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortized over the same expected customer relationship period. From 2012 onwards, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.

(iii) Monthly service fees are recognized in the month during which the services are provided to customers.

(iv) Revenue from sale of prepaid calling cards is recognized as the cards are used by customers.

(v) Revenue derived from information and application services is recognized when 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, is presented on a gross basis. Revenues from all other information and application services are presented on an 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 a principal in the arrangements with third parties:

i) The Group is primarily responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;

ii) The Group takes title of the inventory of the applications before they are ordered by customers;

iii) The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;

iv) The Group has latitude in establishing selling prices with customers;

v) The Group can modify the applications or perform part of the services;

vi) The Group has discretion in selecting suppliers used to fulfill an order; and

vii) The Group determines the nature, type, characteristics, or specifications of the applications or services.

If majority of the indicators of risks and responsibilities exists 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 does not exist in the arrangements with third parties, the Group is acting as an agent, and revenues for these services are recognized on a net basis.

(vi) Revenue from the provision of Internet and telecommunications network resource services is recognized when the services are provided to customers.

(vii) Interconnection fees from domestic and foreign telecommunications operators are recognized when the services are rendered as measured by the minutes of traffic processed.

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

(ix) Sale of equipment is recognized on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognized when the service is provided to customers.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

The Group offers promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: The undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognizes revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognized based upon the actual usage of such services. During each of the years in the three-year period ended December 31, 2016, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote the Group's core business of the provision of telecommunications services, and the fair value of the telecommunication services approximates the total contract consideration.

(p) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB26,122, RMB19,291 and RMB17,068 for the years ended December 31, 2014, 2015 and 2016 respectively, among which, the costs of terminal equipment offered as part of a promotional package to our customers for free or at a nominal amount to promote the Group's telecommunication service amounted to RMB15,340, RMB11,620 and RMB9,370, for the years ended December 31, 2014, 2015 and 2016 respectively.

(q) Net finance costs

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

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

(r) Research and development expense

Research and development expenditure is expensed as incurred. For the years ended December 31, 2014, 2015 and 2016, research and development expense was RMB607, RMB792 and RMB825, respectively.

(s) Employee benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government and defined contribution retirement plans administered by independent external parties are recognized in profit or loss as incurred. Further information is set out in Note 33.

Compensation expense in respect of the stock appreciation rights granted is accrued as a charge to the profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is re-measured to fair value at the end of each reporting period with the effect of changes in the fair value of the liability charged or credited to profit or loss. Further details of the Group's stock appreciation rights scheme are set out in Note 34.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Government grants

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

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

(i) the Group will comply with all the conditions attaching to them; and

(ii) the grants will be received.

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

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

(u) Interest-bearing borrowings

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

(v) Accounts and other payables

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

(w) Provisions and contingent liabilities

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

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

(x) Value-added tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Value-added tax (continued)

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.

(y) Income tax

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

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

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

(z) Dividends

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

(aa) Related parties

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

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

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Related parties (continued)

(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.

(ab) Segmental reporting

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

3. APPLICATION OF REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- Amendments to IFRS 11, "Accounting for Acquisitions of Interests in Joint Operations"
- Amendments to IAS 1, "Disclosure Initiative"
- Amendments to IAS 16 and IAS 38, "Clarification of Acceptable Methods of Depreciation and Amortization"
- Amendments to IFRSs, "Annual Improvements to IFRSs 2012-2014 Cycle"
- Amendments to IAS 16 and IAS 41, "Agriculture: Bearer Plants"
- Amendments to IFRS 10, IFRS 12 and IAS 28, "Investment Entities: Applying the Consolidation Exception"

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

The Group has not yet applied any other new and revised standard or interpretation that is not yet effective for the current year (Note 37).

4. CASH AND CASH EQUIVALENTS

	December 31,	
	2015	2016
	RMB	RMB
Cash at bank and in hand	30,916	22,147
Time deposits with original maturity within three months	953	2,470
	31,869	24,617

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

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analyzed as follows:

	Note	December 31, 2015 RMB	December 31, 2016 RMB
Accounts receivable			
Third parties		22,766	22,932
China Telecom Group	(i)	492	949
China Tower		—	10
Other telecommunications operators in the PRC		782	933
		24,040	24,824
Less: Allowance for doubtful debts		(2,935)	(3,401)
		21,105	21,423

Note:

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

The following table summarizes the changes in allowance for doubtful debts for each of the years in the three-year period ended December 31, 2016:

	Year ended December 31, 2014 RMB	2015 RMB	2016 RMB
At beginning of year	2,198	2,478	2,935
Impairment losses for doubtful debts	2,075	2,172	2,202
Accounts receivable written off	(1,795)	(1,715)	(1,736)
At end of year	2,478	2,935	3,401

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

	December 31, 2015 RMB	December 31, 2016 RMB
Current, within 1 month	10,001	9,993
1 to 3 months	2,181	2,179
4 to 12 months	1,821	1,763
More than 12 months	731	761
	14,734	14,696
Less: Allowance for doubtful debts	(2,393)	(2,427)
	12,341	12,269

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

5. ACCOUNTS RECEIVABLE, NET (continued)

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

	December 31,	
	2015	2016
	RMB	RMB
Current, within 1 month	3,648	3,660
1 to 3 months	1,618	1,887
4 to 12 months	2,199	2,349
More than 12 months	1,841	2,232
	9,306	10,128
Less: Allowance for doubtful debts	(542)	(974)
	8,764	9,154

Ageing analysis of accounts receivable that are not impaired is as follows:

	December 31,	
	2015	2016
	RMB	RMB
Not past due	19,263	19,376
Less than 1 month past due	1,154	1,180
1 to 3 months past due	688	867
Amounts past due	1,842	2,047
	21,105	21,423

6. INVENTORIES

	December 31,	
	2015	2016
	RMB	RMB
Materials and supplies	1,236	1,200
Goods for resale	5,045	3,881
	6,281	5,081

7. PREPAYMENTS AND OTHER CURRENT ASSETS

	December 31,	
	2015	2016
	RMB	RMB
Amounts due from China Telecom Group	732	728
Amounts due from China Tower	1,789	2,278
Amounts due from other telecommunications operators in the PRC	375	326
Prepayments in connection with construction work and equipment purchases	2,119	2,642
Prepaid expenses and deposits	3,622	3,781
Value-added tax recoverable	3,797	5,197
Other receivables	3,795	4,518
	16,229	19,470

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

8. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and improvements RMB	Telecommunications network plant and equipment RMB	Furniture, fixture, motor vehicles and other equipment RMB	Total RMB
Cost/Deemed cost:				
Balance at January 1, 2015,	98,154	820,373	28,811	947,338
Additions	509	883	733	2,125
Transferred from construction in progress	3,161	79,569	1,738	84,468
Tower Assets Disposal	(3,646)	(29,221)	(121)	(32,988)
Other disposals	(732)	(51,994)	(1,894)	(54,620)
Reclassification	13	(353)	340	—
Balance at December 31, 2015	97,459	819,257	29,607	946,323
Additions	664	1,333	479	2,476
Transferred from construction in progress	2,053	78,286	1,739	82,078
Disposals	(754)	(74,976)	(1,752)	(77,482)
Disposal of a subsidiary	—	—	(3)	(3)
Reclassification	87	(128)	41	—
Balance at December 31, 2016	99,509	823,772	30,111	953,392
Accumulated depreciation and impairment:				
Balance at January 1, 2015,	(44,646)	(509,206)	(20,610)	(574,462)
Depreciation and impairment charge for the year	(4,662)	(56,862)	(2,332)	(63,856)
Written back on Tower Assets Disposal	1,520	13,051	52	14,623
Written back on other disposals	697	48,869	1,787	51,353
Reclassification	(11)	133	(122)	—
Balance at December 31, 2015	(47,102)	(504,015)	(21,225)	(572,342)
Depreciation and impairment charge for the year	(4,527)	(56,953)	(2,266)	(63,746)
Written back on disposal	681	70,010	1,651	72,342
Disposal of a subsidiary	—	—	2	2
Reclassification	(70)	83	(13)	—
Balance at December 31, 2016	(51,018)	(490,875)	(21,851)	(563,744)
Net book value at December 31, 2016	48,491	332,897	8,260	389,648
Net book value at December 31, 2015	50,357	315,242	8,382	373,981

9. CONSTRUCTION IN PROGRESS

	RMB
Balance at January 1, 2015	53,181
Additions	107,762
Tower Assets Disposal	(2,959)
Transferred to property, plant and equipment	(84,468)
Transferred to intangible assets	(4,413)
Balance at December 31, 2015	69,103
Additions	97,041
Transferred to property, plant and equipment	(82,078)
Transferred to intangible assets	(3,685)
Balance at December 31, 2016	80,381

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

10. GOODWILL

	December 31, 2015 RMB	December 31, 2016 RMB
Cost:		
Goodwill arising from acquisition of CDMA business	29,920	29,923

On October 1, 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the "CDMA business") from China Unicom Limited and China Unicom Corporation Limited (collectively "China Unicom"). The purchase price of the business combination was RMB43,800, which was fully settled as of December 31, 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of CDMA business for a net settlement amount of RMB3,471 due from China Unicom. This amount was subsequently settled by China Unicom in 2009. The business combination was accounted for using the purchase method.

The goodwill recognized in the business combination is attributable to the skills and technical talent of the acquired business's workforce, and the synergies expected to be achieved from integrating and combining the CDMA mobile communication business into the Group's telecommunications business.

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's telecommunications business. The recoverable amount of the Group's telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period and a pre-tax discount rate of 9.4% (2015: 9.7%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

Key assumptions used for the value in use calculation model are the number of subscribers, average revenue per subscriber and gross margin. Management determined the number of subscribers, average revenue per subscriber and gross margin based on historical trends and financial information and operational data.

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

11. INTANGIBLE ASSETS

	Software RMB
Cost:	
Balance at January 1, 2015	21,753
Additions	511
Transferred from construction in progress	4,413
Disposals	(376)
Balance at December 31, 2015	26,301
Additions	363
Transferred from construction in progress	3,685
Disposals	(531)
Balance at December 31, 2016	29,818
Accumulated amortization and impairment:	
Balance at January 1, 2015	(12,769)
Amortization charge for the year	(3,093)
Written back on disposals	300
Balance at December 31, 2015	(15,562)
Amortization charge for the year	(3,500)
Written back on disposals	488
Balance at December 31, 2016	(18,574)
Net book value at December 31, 2016	11,244
Net book value at December 31, 2015	10,739

12. INTERESTS IN ASSOCIATES

	December 31, 2015 RMB	December 31, 2016 RMB
Unlisted equity investments, at cost	36,325	36,347
Share of post-acquisition changes in net assets	(1,852)	(1,775)
	34,473	34,572

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

Name of company	Attributable equity interest	Principal activities
China Tower Corporation Limited	27.9%	Construction, maintenance and operation of telecommunications towers as well as ancillary facilities
Shanghai Information Investment Incorporation	24.0%	Provision of information technology consultancy services

The above associates are established and operated in the PRC and are not traded on any stock exchange.

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

12. INTERESTS IN ASSOCIATES (continued)

Summarized financial information of the Group's principal associates and reconciled to the carrying amounts of interests in associates in the Group's consolidated financial statements are disclosed below:

	China Tower Corporation Limited	
	2015 RMB	2016 RMB
Current assets	38,586	39,565
Non-current assets	231,793	272,103
Current liabilities	47,717	171,568
Non-current liabilities	96,535	14,548
Operating revenues	10,325	54,474
Loss for the year	(2,944)	(575)
Other comprehensive income for the year	—	—
Total comprehensive income for the year	(2,944)	(575)
Dividend received from the associate	—	—
Reconciled to the Group's interests in the associate		
Net assets of the associate	126,127	125,552
Non-controlling interests of the associate	—	—
Group's effective interest in the associate	27.9%	27.9%
Group's share of net assets of the associate	35,189	35,029
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	(1,939)	(1,782)
Carrying amount of the associate in the consolidated financial statements of the Group	33,250	33,247

	Shanghai Information Investment Incorporation	
	2015 RMB	2016 RMB
Current assets	6,872	6,688
Non-current assets	7,943	8,421
Current liabilities	5,228	5,754
Non-current liabilities	3,716	3,104
Operating revenues	4,094	4,222
Profit for the year	342	413
Other comprehensive income for the year	—	24
Total comprehensive income for the year	342	437
Dividend received from the associate	9	9
Reconciled to the Group's interests in the associate		
Net assets of the associate	5,871	6,251
Non-controlling interests of the associate	(1,850)	(1,940)
Group's effective interest in the associate	24.0%	24.0%
Group's share of net assets of the associate	965	1,035
Carrying amount of the associate in the consolidated financial statements of the Group	965	1,035

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

12. INTERESTS IN ASSOCIATES (continued)

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

	2015 RMB	2016 RMB
The Group's share of profit of these associates	25	21
The Group's share of other comprehensive income of these associates	3	—
The Group's share of total comprehensive income of these associates	28	21
Aggregate carrying amount of these associates in the consolidated financial statements of the Group	258	290

13. INVESTMENTS

	December 31,	
	2015 RMB	2016 RMB
Available-for-sale equity securities	1,597	1,369
Other unlisted equity investments	27	166
	1,624	1,535

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.

14. 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	
	2016 RMB	2015 RMB	2016 RMB	2015 RMB	2016 RMB	2015 RMB
Provisions and impairment losses, primarily for doubtful debts	1,531	1,291	—	—	1,531	1,291
Property, plant and equipment and others	3,410	3,174	(4,416)	(1,605)	(1,006)	1,569
Deferred revenues and installation costs	120	190	(85)	(130)	35	60
Available-for-sale equity securities	—	—	(269)	(326)	(269)	(326)
Deferred tax assets/(liabilities)	5,061	4,655	(4,770)	(2,061)	291	2,594

	Balance at January 1, 2014 RMB	Recognized in consolidated statement of comprehensive income RMB	Balance at December 31, 2014 RMB
Provisions and impairment losses, primarily for doubtful debts	1,071	85	1,156
Property, plant and equipment and others	1,247	(232)	1,015
Deferred revenues and installation costs	155	(56)	99
Available-for-sale equity securities	(177)	14	(163)
Net deferred tax assets	2,296	(189)	2,107

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

14. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	Balance at January 1, 2015 RMB	Recognized in consolidated statement of comprehensive income RMB	Balance at December 31, 2015 RMB
Provisions and impairment losses, primarily for doubtful debts	1,156	135	1,291
Property, plant and equipment and others	1,015	554	1,569
Deferred revenues and installation costs	99	(39)	60
Available-for-sale equity securities	(163)	(163)	(326)
Net deferred tax assets	2,107	487	2,594

	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

15. SHORT-TERM AND LONG-TERM DEBT AND PAYABLE

Short-term debt comprises:

	December 31, 2015 RMB	December 31, 2016 RMB
Loans from banks – unsecured	5,361	16,411
Super short-term commercial papers – unsecured	33,995	18,996
Other loans – unsecured	182	102
Loans from China Telecom Group – unsecured	12,098	5,271
Total short-term debt	51,636	40,780

The weighted average interest rate of the Group's total short-term debt as of December 31, 2015 and 2016 was 3.1% per annum and 3.3% per annum, respectively. As of December 31, 2016, the Group's loans from banks and other loans bear interest at rates ranging from 3.9% to 4.4% (2015: 3.9% to 5.6%) per annum, and are repayable within one year; as of December 31, 2016, super short-term commercial papers bear interest at rates ranging from 2.3% to 2.9% (2015: 2.1% to 3.0%) per annum and are repayable by March 2017; the loans from China Telecom Group bear interest at rates from 3.5% to 4.1% (2015: 3.5% to 4.5%) per annum and are repayable within one year.

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

15. SHORT-TERM AND LONG-TERM DEBT AND PAYABLE (continued)

Long-term debt and payable comprises:

	Interest rates and final maturity	December 31, 2015 RMB	December 31, 2016 RMB
Bank loans – unsecured			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 7.04% per annum with maturities through 2036	2,463	9,245
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060	470	446
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	261	239
Other currencies denominated		9	5
		3,203	9,935
Other loans – unsecured			
Renminbi denominated		1	1
Amount due to China Telecommunications Corporation - unsecured			
Deferred consideration of Mobile Network Acquisition – Renminbi denominated (Note (ii))		61,710	61,710
Total long-term debt and payable		64,914	71,646
Less: Current portion		(84)	(62,276)
Non-current portion		64,830	9,370

Note:

(i) The Group obtained long-term RMB denominated government loans with below-market interest rate ranging from 1.08% to 1.20% per annum through banks (the "Low-interest Loans"). The Group recognized the Low-interest Loans at their fair value on initial recognition, and accreted the discount to profit or loss using the effective interest rate method. The difference between the fair value and face value of the Low-interest Loans was recognized as government grants in deferred revenue (Note 18).

(ii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces , municipalities and autonomous regions in the PRC on December 31, 2012 (hereinafter referred to as the "Mobile Network Acquisition"). The Group may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition, which is December 31, 2017. The Group pays interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate is set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rates for 2016 and 2017 are 4.00% and 4.11%, respectively.
If the amount is not paid when due, the Group is required to pay the liquidated damages on such amount at a daily rate of 0.03% of the amount in arrears from the day following the applicable due date to the date that such amount has actually been paid in full.

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

15. SHORT-TERM AND LONG-TERM DEBT AND PAYABLE (continued)

The aggregate maturities of the Group's long-term debt and payable subsequent to December 31, 2016 are as follows:

	RMB
2017	62,276
2018	1,081
2019	1,046
2020	1,004
2021	945
Thereafter	5,294
	71,646

The Group's short-term and long-term debt and payable do not contain any financial covenants. As of December 31, 2015 and 2016, the Group had unutilized committed credit facilities amounting to RMB128,839 and RMB161,229 respectively.

16. ACCOUNTS PAYABLE

	December 31,	
	2015	2016
	RMB	RMB
Third parties	95,305	96,675
China Telecom Group	18,702	21,343
China Tower	3,272	3,697
Other telecommunications operators in the PRC	776	729
	118,055	122,444

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

17. ACCRUED EXPENSES AND OTHER PAYABLES

		December 31,	
		2015	2016
	Note	RMB	RMB
Amounts due to China Telecom Group		1,464	1,813
Amounts due to China Tower	(i)	3,097	807
Amounts due to other telecommunications operators in the PRC		31	41
Accrued expenses		17,715	21,276
Value-added tax payable		1,112	797
Customer deposits and receipts in advance		59,514	66,353
Dividend payable		1	—
		82,934	91,087

Note:

(i) The Company sold certain telecommunications towers and related assets to China Tower (the "Tower Assets Disposal") and injected Cash Consideration amounting to RMB2,966 to China Tower, in return for new shares issued by China Tower. The Cash Consideration payable was included in the amounts due to China Tower as of December 31, 2015, and was paid in February 2016.

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

18. DEFERRED REVENUES

Deferred revenues mainly represent the unearned portion of installation fees for wireline services received from customers, the unused portion of calling cards, and the unamortized portion of government grants (Note 15).

	December 31, 2015 RMB	December 31, 2016 RMB
Balance at beginning of year	1,858	2,482
Additions for the year		
— calling cards	600	753
— government grants	1,041	1,494
	1,641	2,247
Reductions for the year		
— amortization of installation fees	(416)	(294)
— usage of calling cards	(582)	(625)
— amortization of government grants	(19)	(252)
Balance at end of year	2,482	3,558
Representing:		
— current portion	1,028	1,253
— non-current portion	1,454	2,305
	2,482	3,558

Included in other assets are primarily capitalized direct costs associated with the installation of wireline services. As of December 31, 2015 and 2016, the unamortized portion of these costs was RMB560 and RMB367 respectively.

19. SHARE CAPITAL

	December 31, 2015 RMB	December 31, 2016 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.

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

20. RESERVES

	Capital reserve RMB (Note (i))	Share premium RMB	Statutory reserves RMB (Note (iii))	Other reserves RMB (Note (ii))	Exchange reserve RMB	Retained earnings RMB	Total RMB
Balance as of January 1, 2014	17,064	10,746	67,392	427	(944)	102,124	196,809
Total comprehensive income for the year	—	—	—	(43)	3	17,680	17,640
Dividends (Note 27)	—	—	—	—	—	(6,198)	(6,198)
Appropriations (Note (iii))	—	—	1,680	—	—	(1,680)	—
Balance as of December 31, 2014	17,064	10,746	69,072	384	(941)	111,926	208,251
Total comprehensive income for the year	—	—	—	492	129	20,054	20,675
Acquisition of non-controlling interests	(1)	—	—	—	—	—	(1)
Contribution from non-controlling interests	87	—	—	—	—	—	87
Dividends (Note 27)	—	—	—	—	—	(6,160)	(6,160)
Appropriations (Note (iii))	—	—	1,901	—	—	(1,901)	—
Balance as of December 31, 2015,	17,150	10,746	70,973	876	(812)	123,919	222,852
Total comprehensive income for the year	—	—	—	(165)	190	18,004	18,029
Dividends (Note 27)	—	—	—	—	—	(6,489)	(6,489)
Appropriations (Note (iii))	—	—	1,638	—	—	(1,638)	—
Balance as of December 31, 2016	17,150	10,746	72,611	711	(622)	133,796	234,392

Note:

(i) Capital reserve of the Group mainly represents the sum of (a) the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation; and (b) the difference between the consideration paid by the Group for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation, 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.
The difference between the consideration paid by the Group and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.

(ii) Other reserves of the Group represent primarily the change in the fair value of available-for-sale equity securities and the deferred tax liabilities recognized due to the change in fair value of available-for-sale equity securities.

(iii) The statutory reserves consist of statutory surplus reserve and discretionary surplus reserve.
According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRS, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended December 31, 2015 and 2016, 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, 2016, the Company transferred RMB1,638, being 10% of the year's net profit, to this reserve. For the year ended December 31, 2015, the Company transferred RMB1,901, being 10% of the year's net profit, to this reserve.
The Company did not transfer any discretionary surplus reserve for the years ended December 31, 2015 and 2016.
The statutory and discretionary surplus reserves are non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

(iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount of the Company's retained earnings determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As of December 31, 2015 and 2016, the amount of retained earnings available for distribution was RMB105,079 and RMB112,631 respectively, being the amount determined in accordance with IFRS. Final dividend of approximately RMB7,548 in respect of the financial year 2016 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 27).

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

21. OPERATING REVENUES

Operating revenues represent revenues from the provision of telecommunications services. The components of the Group's operating revenues are as follows:

	Note	Year ended December 31, 2014 RMB	2015 RMB	2016 RMB
Voice	(i)	88,260	78,593	70,120
Internet	(ii)	112,431	126,546	150,405
Information and application services	(iii)	65,358	66,343	66,838
Telecommunications network resource services and lease of network equipment	(iv)	17,332	17,635	17,773
Others	(v)	41,013	42,085	47,149
		324,394	331,202	352,285

Note:

Before June 1, 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, and relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the VAT Reform (Caishui [2014] No.43) jointly issued by the Ministry of Finance and the State Administration of Taxation, from June 1,2014, the pilot program of replacing business tax with VAT is extended to cover the telecommunications industry. VAT is excluded from operating revenues. With effect from June 1, 2014, the Group is no longer required to pay business tax of 3% on telecommunications services.

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

22. NETWORK OPERATIONS AND SUPPORT EXPENSES

	Note	Year ended December 31, 2014 RMB	2015 RMB	2016 RMB
Operating and maintenance		38,159	46,018	48,330
Utility		11,644	12,519	13,146
Property rental and management fee	(i)	9,224	14,117	22,337
Others		9,624	8,586	10,279
		68,651	81,240	94,092

Note:

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

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

23. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	Year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Network operations and support	32,855	33,810	36,254
Selling, general and administrative	17,798	18,731	18,206
	50,653	52,541	54,460

24. OTHER OPERATING EXPENSES

	Note	Year ended December 31,		
		2014	2015	2016
		RMB	RMB	RMB
Interconnection charges	(i)	12,483	12,329	11,790
Cost of goods sold	(ii)	33,836	34,963	38,628
Donations		23	18	19
Others	(iii)	1,176	1,533	1,740
		47,518	48,843	52,177

Note:

(i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.

(ii) Cost of goods sold primarily represents cost of telecommunications equipment sold.

(iii) Others mainly include tax and surcharges other than value-added tax and income tax.

25. NET FINANCE COSTS

	Year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Interest expense incurred	5,958	4,900	4,199
Less: Interest expense capitalized*	(308)	(327)	(498)
Net interest expense	5,650	4,573	3,701
Interest income	(304)	(375)	(353)
Foreign exchange losses	21	154	209
Foreign exchange gains	(76)	(79)	(322)
	5,291	4,273	3,235
* Interest expense was capitalized in construction in progress at the following rates per annum	4.5%-6.0%	3.5%-5.5%	4.1%-5.0%

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

26. INCOME TAX

Income tax in the profit or loss comprises:

	Year ended December 31, 2014 RMB	2015 RMB	2016 RMB
Provision for PRC income tax	5,237	7,127	3,473
Provision for income tax of other tax jurisdictions	58	74	155
Deferred taxation	203	(650)	2,360
	5,498	6,551	5,988

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

	Note	Year ended December 31, 2014 RMB	2015 RMB	2016 RMB
Earnings before income tax		23,257	26,693	24,097
Expected income tax expense at statutory tax rate of 25%	(i)	5,814	6,673	6,024
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(248)	(400)	(275)
Differential tax rate on other subsidiaries' income	(ii)	(31)	(25)	(53)
Non-deductible expenses	(iii)	347	431	485
Non-taxable income	(iv)	(243)	(75)	(105)
Others	(v)	(141)	(53)	(88)
Actual income tax expense		5,498	6,551	5,988

Note:

(i) Except for certain subsidiaries and branches which are mainly taxed at a preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.

(ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 38%.

(iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iv) Amounts represent miscellaneous income which are not subject to income tax.

(v) Amounts primarily represent tax deduction on prior year research and development expenses approved by tax authorities and other tax benefits.

27. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on March 21, 2017, a final dividend of equivalent to HK$0.105 per share totaling approximately RMB7,548 for the year ended December 31, 2016 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, 2016.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 25, 2016, a final dividend of RMB0.080182 (equivalent to HK$0.095) per share totaling RMB6,489 in respect of the year ended December 31, 2015 was declared and paid by July 15, 2016.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 27, 2015, a final dividend of RMB0.076120 (equivalent to HK$0.095) per share totaling RMB6,160 in respect of the year ended December 31, 2014 was declared and paid by July 17, 2015.

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

28. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended December 31, 2014, 2015 and 2016 is based on the profit attributable to equity holders of the Company of RMB17,680, RMB20,054 and RMB18,004, 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.

29. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing.

As of December 31, 2016, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	RMB
2017	15,492
2018	14,351
2019	13,704
2020	13,256
2021	1,112
Thereafter	3,066
Total minimum lease payments	60,981

Total rental expense in respect of operating leases charged to profit or loss for the years ended December 31, 2014, 2015 and 2016 were RMB7,779 ,RMB10,331 and RMB21,250, respectively.

Capital commitments

As of December 31, 2016, the Group had capital commitments as follows:

	RMB
Contracted for but not provided	
- property	933
- telecommunications network plant and equipment	12,807
	13,740

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, 2015 and 2016, 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.

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

29. COMMITMENTS AND CONTINGENCIES (continued)

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.

30. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bank deposits, investments, accounts receivable, prepayments and other receivables. Financial liabilities of the Group include short-term and long-term debt and payable, accounts payable, accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

(a) *Fair Value Measurements*

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

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

The fair values of the Group's financial instruments (other than long-term debt and payable and available-for-sale equity investment securities) approximate their carrying amounts due to the short-term maturity of these instruments.

The Group's available-for-sale equity investment securities are categorized as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities, which amounted to RMB1,597 and RMB1,369 as of December 31, 2015 and 2016 respectively was based on quoted market price on PRC stock exchanges. The Group's long-term investments, other than the available-for-sale equity investment securities, are unlisted equity interests for which no quoted market prices exist in the PRC and because their fair values cannot be measured reliably, so their fair values were not disclosed.

The fair values of long-term debt and payable 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 and payable is categorized as level 2. The interest rates used by the Group in estimating the fair values of long-term debt and payable, having considered the foreign currency denomination of the debt, ranged from 1.0% to 4.9% (2015: 1.0% to 4.9%). As of December 31, 2015 and 2016, the carrying amounts and fair value of the Group's long-term debt and payable was as follows:

	December 31, 2015		December 31, 2016	
	Carrying amount RMB	Fair value RMB	Carrying amount RMB	Fair value RMB
Long-term debt and payable	64,914	65,156	71,646	71,741

During the year, there were no transfers among instruments in level 1, level 2 or level 3.

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

30. FINANCIAL INSTRUMENTS (continued)

(b) *Risks*

The Group's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which comprises of interest rate risk and foreign currency exchange rate risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, credit risk, and market risk. The Board regularly reviews these policies and authorizes changes if necessary based on operating and market conditions and other relevant risks. The following summarizes the qualitative and quantitative disclosures for each of the three main types of risks:

(i) Credit risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunications services. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the quantitative disclosures in respect of the Group's exposure on credit risk for accounts receivable are set out in Note 5.

(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:

	2015					
	Carrying amount RMB	Total contractual undiscounted cash flow RMB	Within 1 year or on demand RMB	More than 1 year but less than 2 years RMB	More than 2 years but less than 5 years RMB	More than 5 years RMB
Short-term debt	51,636	51,967	51,967	—	—	—
Long-term debt and payable	64,914	71,295	2,597	64,345	768	3,585
Accounts payable	118,055	118,055	118,055	—	—	—
Accrued expenses and other payables	82,934	82,934	82,934	—	—	—
Finance lease obligations	119	134	48	43	43	—
	317,658	324,385	255,601	64,388	811	3,585

	2016					
	Carrying amount RMB	Total contractual undiscounted cash flow RMB	Within 1 year or on demand RMB	More than 1 year but less than 2 years RMB	More than 2 years but less than 5 years RMB	More than 5 years RMB
Short-term debt	40,780	41,425	41,425	—	—	—
Long-term debt and payable	71,646	75,126	62,307	1,187	3,601	8,031
Accounts payable	122,444	122,444	122,444	—	—	—
Accrued expenses and other payables	91,087	91,087	91,087	—	—	—
Finance lease obligations	102	112	58	20	31	3
	326,059	330,194	317,321	1,207	3,632	8,034

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

30. FINANCIAL INSTRUMENTS (continued)

(b) *Risks (continued)*

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 15) will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

(iii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term debt and long-term debt and payable. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The following table sets out the interest rate profile of the Group's debt at the end of the reporting period:

	2015		2016	
	Effective interest rate		Effective interest rate	
	%	RMB	%	RMB
Fixed rate debt:				
Short-term debt	3.0	50,806	3.3	39,854
Long-term debt	1.2	3,204	1.2	9,936
		54,010		49,790
Variable rate debt:				
Short-term debt	4.8	830	4.2	926
Deferred consideration due to China Telecommunications Corporation (as defined in Note 15)	4.0	61,710	4.1	61,710
		62,540		62,636
Total debt		116,550		112,426
Fixed rate debt as a percentage of total debt		46.3%		44.3%

As of December 31, 2015 and 2016, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group's net profit for the year and retained earnings by approximately RMB469 and RMB470 respectively.

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2015.

(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 81.8% (2015: 92.6%) of the Group's cash and cash equivalents and 99.4% (2015: 99.4%) of the Group's short-term and long-term debt and payable as of December 31, 2016 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 15.

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

31. 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 payable, and finance lease obligations. As of December 31, 2015 and 2016, the Group's total debt-to-total assets ratio was 18.5% and 17.2% 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.

32. 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.

		Year ended December 31,		
	Note	2014	2015	2016
		RMB	RMB	RMB
Purchases of telecommunications equipment and materials.	(i)	3,729	5,288	5,206
Sales of telecommunications equipment and materials.	(i)	3,089	2,855	2,780
Construction and engineering services.	(ii)	15,478	19,888	18,936
Provision of IT services	(iii)	167	181	312
Receiving IT services	(iii)	1,171	1,365	1,609
Receiving community services	(iv)	2,885	2,860	2,871
Receiving ancillary services.	(v)	11,549	12,718	13,941
Property lease income	(vi)	39	47	37
Property lease expenses	(vi)	695	673	559
Net transaction amount of centralized services	(vii)	246	486	523
Interconnection revenues	(viii)	45	59	61
Interconnection charges	(viii)	391	468	233
Internet applications channel services	(ix)	366	368	332
Interest on amounts due to and loans from China Telecom Group	(x)	4,431	4,048	2,928
Lease of CDMA network facilities	(xi)	193	226	154
Lease of inter-provincial transmission optic fibres	(xii)	22	22	16
Lease of land use rights	(xiii)	15	13	6

Note:

(i) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.

(ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.

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

32. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

Note (continued):

(iii) Represent IT services provided to and received from China Telecom Group.
(iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
(v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
(vi) Represent amounts of property lease fee received and receivable from/paid and payable to China Telecom Group for mutual leasing of properties.
(vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralized services. The amount represents amounts received or receivable for the net amount of centralized services.
(viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
(ix) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.
(x) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 15).
(xi) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region.
(xii) Represent amounts paid and payable to China Telecom Group for lease of certain inter-provincial transmission optic fibres within its service regions.
(xiii) Represent amounts paid and payable to China Telecom Group for leases of land use rights.

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

	December 31,	
	2015	2016
	RMB	RMB
Accounts receivable	492	949
Prepayments and other current assets	732	728
Total amounts due from China Telecom Group	1,224	1,677
Accounts payable	18,702	21,343
Accrued expenses and other payables	1,464	1,813
Short-term debt	12,098	5,271
Long-term debt and payable	61,710	61,710
Total amounts due to China Telecom Group	93,974	90,137

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt and payable, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt and payable due to China Telecom Group are set out in Note 15.

As of December 31, 2015 and 2016, no material allowance for doubtful debts was recognized in respect of amounts due from China Telecom Group.

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

32. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

	Note	2015 RMB	2016 RMB
Tower Assets Disposal		30,131	—
Tower assets usage fee	(i)	2,742	11,657
Provision of IT services	(ii)	—	12

Note:

(i) Represent amounts paid and payable to China Tower for the lease of the telecommunications towers and related assets.

Upon completion of the Tower Assets Disposal, the Company and China Tower were in the process of finalizing the terms of the leases arrangement. To ensure there were no interruptions in the operations of the Company, China Tower had undertaken to allow the Company to use the telecommunications towers and related assets following completion of the Tower Assets Disposal notwithstanding that the terms of the leases had not been finalized. The Company paid service charges for the leases from the completion date of the Tower Assets Disposal.

The Company and China Tower entered into agreement on July 8, 2016 to confirm the pricing and related arrangements in relation to the leases of telecommunications towers and related assets.

(ii) Represent IT services provided to China Tower.

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

	2015 RMB	2016 RMB
Account receivable	—	10
Prepayments and other current assets	1,789	2,278
Total amounts due from China Tower	1,789	2,288
Accounts payable	3,272	3,697
Accrued expenses and other payables	3,097	807
Total amounts due to China Tower	6,369	4,504

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, 2015 and 2016, no material allowance for doubtful debts was recognized in respect of amounts due from China Tower.

(c) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group.

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

	Year ended December 31,		
	2014 RMB thousands	2015 RMB thousands	2016 RMB thousands
Short-term employee benefits .	11,598	9,859	9,886
Post-employment benefits.	1,069	916	801
	12,667	10,775	10,687

32. RELATED PARTY TRANSACTIONS (continued)

(c) Key management personnel compensation (continued)

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 33.

(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 32(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.

33. POST-EMPLOYMENT BENEFITS PLANS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organized by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 21% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the above plans for the years ended December 31, 2014, 2015 and 2016 were RMB6,229 and RMB6,584 and RMB6,650 respectively.

The amount payable for contributions to the above defined contribution retirement plans as of December 31, 2015 and 2016 was RMB791 and RMB596 respectively.

34. STOCK APPRECIATION RIGHTS

The Group implemented a stock appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, stock appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of stock appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise. The Company recognizes compensation expense of the stock appreciation rights over the applicable vesting period.

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had an exercise price of HK$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As of November 2014, 2015 and 2016, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

During the years ended December 31, 2014, 2015 and 2016, no stock appreciation right units were exercised. For the year ended December 31, 2016, compensation expense of RMB152 was reversed by the Group in respect of stock appreciation rights as a result of the expiration of the stock appreciation right units granted by the Company in 2012. For the year ended December 31, 2015, compensation expense of RMB102 was reversed by the Group in respect of stock appreciation rights as a result of decline in share price of the Company. For the year ended December 31, 2014, compensation expense of RMB130 was recognized by the Group in respect of stock appreciation rights.

As of December 31, 2015, the carrying amount of the liability arising from stock appreciation rights was RMB152. As of December 31, 2016, no liability arising from stock appreciation rights was assumed by the Company. As of December 31, 2015, 908 million stock appreciation right units vested but were not exercised, and 8.7 million stock appreciation right units were forfeited. The carrying amount of the corresponding liability was RMB152. As of December 31, 2016, all stock appreciation right units had expired.

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

35. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group as of December 31, 2016 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered /issued capital (in RMB millions unless otherwise stated)	Principal activities
China Telecom System Integration Co., Limited	Limited Company	September 13, 2001	PRC	392	Provision of system integration and consulting services
China Telecom Global Limited	Limited Company	February 25, 2000	Hong Kong Special Administrative Region of the PRC	HK$168 million	Provision of international value-added network services
China Telecom (Americas) Corporation	Limited Company	November 22, 2001	The United States of America	US$43 million	Provision of telecommunications services
China Telecom Best Tone Information Service Co., Limited	Limited Company	August 15, 2007	PRC	350	Provision of Best Tone information services
China Telecom (Macau) Company Limited	Limited Company	October 15, 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunications services
Tianyi Telecom Terminals Company Limited	Limited Company	July 1, 2005	PRC	500	Sales of telecommunications terminals
China Telecom (Singapore) Pte. Limited	Limited Company	October 5, 2006	Singapore	S$1,000,001	Provision of international value-added network services
E-surfing Pay Co., Ltd	Limited Company	March 3, 2011	PRC	300	Provision of e-commerce service
Shenzhen Shekou Telecommunications Company Limited	Limited Company	May 5, 1984	PRC	91	Provision of telecommunications services
China Telecom (Australia) Pty Ltd	Limited Company	January 10, 2011	Australia	AUD1 million	Provision of international value-added network services
China Telecom Korea Co.,Ltd	Limited Company	May 16, 2012	South Korea	KRW500 million	Provision of international value-added network services

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

35. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered /issued capital (in RMB millions unless otherwise stated)	Principal activities
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
Chengdu E-store Technology Co., Ltd	Limited Company	June 17, 2014	PRC	45	Provision of software technology

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company and Zhejiang Yixin Technology Co., Ltd. which is 65% owned by the Company, all of the above subsidiaries are directly or indirectly wholly owned by the Company. No subsidiaries of the Group have material non-controlling interest.

36. 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 judgements 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 2. Management believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 2(n). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at the end of each reporting period. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs of disposal. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate fair value of the Group's long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

For the year ended December 31, 2016, provision for impairment losses of RMB62 was made against the carrying value of long-lived assets. For the year ended December 31, 2015, provision for impairment losses of RMB51 was made against the carrying value of long-lived assets. For the year ended December 31, 2014, no provision for impairment loss was made against the carrying value of property, plant and equipment. In determining the recoverable amount of these equipment, significant judgements were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Depreciation and amortization

Property, plant and equipment and intangible assets are depreciated and amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

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

36. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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. 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 2(m) and based on the following judgements: (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 without major modifications.

37. POSSIBLE IMPACT OF AMENDMENTS , NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2016

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments and new standards and interpretation which are not yet effective and not early adopted for the annual accounting period ended December 31, 2016:

	Effective for accounting period beginning on or after
Amendments to IAS 7, "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12, "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
IFRS 9, "Financial Instruments"	January 1, 2018
IFRS 15, "Revenue from Contracts with Customers" and the related Clarifications	January 1, 2018
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4, "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRIC 22, "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40, "Transfers of Investment Property"	January 1, 2018
Amendments to IFRSs, "Annual Improvements to IFRS Standards 2014-2016 Cycle"	January 1, 2017 or 2018, as appropriate
IFRS 16, "Leases"	January 1, 2019
Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	A date to be determined

The Group is in the process of making an assessment of the impact that will result from adopting the amendments , new standards and interpretation issued by the IASB which are not yet effective for the accounting period ended on December 31, 2016. Except for IFRS 15, "Revenue from Contracts with Customers", and IFRS 16, "Leases", so far the Group believes that the adoption of these amendments , new standards and interpretation is unlikely to have a significant impact on its financial position and the results of operations.

IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, "Revenue", IAS 11, "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract

37. POSSIBLE IMPACT OF AMENDMENTS , NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2016 (continued)

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

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity 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.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the directors of the Company performs a detailed review.

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. Under the IFRS 16, lease payments in relation to lease liability will be presented as financing cash flows or allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, 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.

The directors of the Company are in the process of making an assessment of the impact that will result from adopting IFRS 16. A preliminary assessment indicates that the Group will recognize a right-of-use asset and a corresponding liability in respect of all the operating leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

38. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Group as of December 31, 2016 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.

Exhibit 4.71

CHINA TELECOM CORPORATION LIMITED

and

CHINA TOWER CORPORATION LIMITED

COMMERCIAL PRICING AGREEMENT

This Commercial Pricing Agreement (the "**Agreement**") is entered into by and between the following two parties on 8 July 2016 in Beijing, China:

(1) China Telecom Corporation Limited, a joint stock limited company incorporated under the laws of the People's Republic of China with limited liability ("**Party A**" or "**China Telecom**"), whose registered office is at 31 Jinrong Street, Xicheng District, Beijing, and whose legal representative is Yang Jie;

(2) China Tower Corporation Limited, a joint stock company with limited liability incorporated under the laws of the People's Republic of China ("**Party B**" or "**China Tower**"), whose registered office is at 19/F, 73 Fucheng Road, Haidian District, Beijing, and whose legal representative is Liu Aili;

(together, the "**Parties**" and, individually, a "**Party**").

WHEREAS:

On 14 October 2015, China Mobile Communication Corporation Limited and its 31 subsidiaries, China United Network Communications Corporation Limited and its one subsidiary, China Telecom, China Reform Holdings Corporation Limited and China Tower entered into the Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash, and China Mobile Communications Corporation and its 24 subsidiaries, China United Network Communications Group Company Limited and its seven subsidiaries, China Telecommunications Corporation and its 11 subsidiaries and China Tower entered into the Agreement on Transfer of Existing Telecommunications Towers and Related Assets. Under the aforementioned agreements, Party A and its subsidiaries shall transfer their then-owned telecommunications towers and related assets (the "**Acquired Tower Assets**") to China Tower.

THEREFORE, upon amicable consultations, the Parties hereby agree on the leasing and settlement of the tower products, indoor distribution products, transmission products and service products as follows:

Article 1 The pricing of tower products, indoor distribution products, transmission products and service products is subject to Annex 1 Product Catalogue and Pricing of the Agreement (see Annex 1 to the Agreement for details).

Article 2 The Parties shall require and procure their respective subsidiaries or branches at the provincial level to enter into agreements consistent with the template of the Provincial Service Agreement set forth in Annex 2 to the Agreement, pursuant to which Party B shall provide tower products, indoor distribution products, transmission products and service products to the subsidiaries of Party A.

Article 3 The agreements between the Parties with respect to the product catalogue and pricing of tower products, indoor distribution products, transmission products and service products shall be governed by this Agreement, which shall prevail over any and all prior oral or written consultations, agreements and arrangements between the Parties. Matters not specified in the Agreement shall continue to be governed by other agreements or arrangements between the Parties.

Article 4 The Agreement shall become effective from the date when it is executed by the legal representatives or authorized representatives and stamped with the respective corporate seals of the Parties.

Article 5 The Agreement is written in Chinese and shall be executed simultaneously in six counterparts, each of which shall be deemed to have the same binding legal effects. Each Party shall hold three copies.

(No text below and the signature pages to the Commercial Pricing Agreement between China Telecom Corporation Limited and China Tower Corporation Limited (Ref. No. [   ]) to follow)

Party A: China Telecom Corporation Limited (chop)
Legal representative (or authorized representative)

/s/ KE Ruiwen

Party B: China Tower Corporation Limited (chop)
Legal representative (or authorized representative)

/s/ TONG Jilu

Annex 1: Product Catalogue and Pricing

Annex 2: Provincial Service Agreement (I)

Annex 1

Product Catalogue and Pricing

Notes:

1. Scope of Application

This Annex is applicable to the pricing of all tower products, indoor distribution system products (hereinafter referred to as indoor distribution products), transmission products and services products for which China Tower provides services.

2. Effective Date

This Annex shall come into effect on the same date as the Commercial Pricing Agreement. The agreements between the Parties on the catalogue and pricing with respect to the tower products, indoor distribution products, transmission products and service products shall be subject to this Annex, which shall also prevail over any prior oral or written consultation, agreements and arrangements between the Parties in this regard.

With respect to the products which China Tower had delivered and provided services for prior to the effective date of this Annex, the terms under this Annex shall be applied retrospectively from their commencement dates confirmed by the Parties' subsidiaries or branches at the municipal level ("municipal companies").

3. Other Notes

Financial expenses incurred by China Tower, which shall be borne by China Tower, are not presented in the pricing formula.

I. Tower Products

(i) New Tower Products

1. Product Catalogue and Standard Configuration of the Basic Product Unit

(1) Product Catalogue

The tower products provided by China Tower include ground base towers and building base towers. The ground base towers include regular ground base towers, landscape towers and simplified towers; building base towers include regular building base towers and floor holding poles. These products are further classified by mounting height. Each mounting height can be divided into five combinations in accordance with the different equipment rooms and facilities: (1) tower + self-owned equipment room + facilities; (2) tower + rented equipment room + facilities; (3) tower + integrated cabinet + facilities; (4) tower + RRU remote + facilities; and (5) tower (without equipment room and facility).

Table 1: Tower Catalogue

Category	Type	Definition	Mounting Height (m)[Note]
Ground Base Towers	Regular Ground Base Towers	Various single-pipe towers, angle-steel towers, three-pipe towers, four-pipe towers and other towers that have platforms and at least six antennas can be installed at the same horizontal height	H<30 30≤H<35 35≤H<40 40≤H<45 45≤H≤50
	Landscape Towers	Various landscape towers, transmission poles, ground heightened stents, and various simplified towers with height above 20 meters (excl.), that have no platform and only three antennas can be installed at the same horizontal height	H<20 20≤H<25 25≤H<30 30≤H<35 35≤H≤40
	Simplified Towers	Municipal street lamp posts, cement poles, H posts, supporting posts, guyed supports and other towers, with the height lower than 20 meters (incl.)	H≤20

Building Base Towers	Regular Building Base Towers	Various building base towers such as heightened stents, guyed masts, floor camouflage towers, camouflage covers, that are built on the building floors	–
	Floor Holding Poles	Wall-attached or weight-countered holding poles, etc.	–

Note 1: Antenna mounting height refers to the vertical height from the highest point at which the antenna support pole or platform touches the tower to the ground. The angle-steel towers, single-pipe towers, three-pipe towers and other towers mounted on the buildings (excluding base station equipment rooms) are defined as regular ground base towers according to the similar cost principle, and their antenna mounting height refers to the vertical height from the highest point at which the antenna support or platform touches the tower to the floor.

Note 2: In the event that several telecom companies demand the products of the same mounting height at the same time, the Parties' municipal companies shall negotiate the allocation of products of the same mounting height among multiple station sites on a rotating basis.

Note 3: The definition of the camouflage (covers) provided by China Tower is regular building base towers, and the definition of the camouflage (covers) provided by telecom companies is floor holding poles.

Note 4: Non-standardized products that cannot be categorized into in the above product catalogue according to product definitions shall be matched per similar cost principle.

(2) The Standard Configuration of the Basic Product Unit

A basic product unit for a tower product is the utilization space for three antennas (one system). The standard configuration of the carried equipment within a basic product unit is set forth in the table below:

Table 2: The Standard Configuration of the Basic Unit of Tower Products

Item of Product Configuration	Basic Configuration: Regular Ground Base Towers	Basic Configuration: Landscape Towers	Basic Configuration: Other Products
Number of Radio Frequency Antennas	3	3	3
Number of Systems	1	1	1
Length of a Single Antenna	2 meters	2 meters	2 meters
Number of Holding Poles	3	3	3
Installation Space of RRU	3	3	3 (not in the top of the tower)
Installation Space of Equipment	Tower + equipment room + facilities: One equipment frame (sharable) Tower + integrated cabinet + facilities: Two integrated cabinets (sharable) Tower + RRU remote + facilities: One integrated cabinet (sharable)		
Back-up Power Supply Assurance	To provide three-hour back-up battery assurance for master devices and 10-hour for transmission devices. If extra investment is incurred in relation to 10-hour back-up duration for transmission devices, the Parties' subsidiaries shall negotiate and charge separately according to the pricing formula of tower products.		

Note 1: The tower models and configuration of products provided by China Tower shall be determined upon the actual surroundings by the design institute according to the distribution interfaces in the Customer Services Standard (Trial). For tower + RRU remote + facilities, China Power shall provide RRU back-up batteries and AC/DC modules. In the case of construction using the DC remote supply method, China Tower shall provide DC remote supply devices. The related expenses shall be separately calculated and charged according to the construction costs previously determined by the Parties with reference to the pricing method for electricity input.

Note 2: In principle, a set of base station devices used by telecom companies, including base band, radio frequency, control and other functional modules, if deployed on a successive frequency band adopting corresponding telecommunication technical standards, shall be deemed as a set of "system". In the case that the same set of devices are adopted, if systems are enlarged without enlarging their occupied space, such devices can be deemed as a set of "system".

Note 3: In principle, the total windward area, weight, and single-system power of one antenna and one RRU shall not exceed 0.8 square meter, 47 kilograms and 1.5KW, respectively.

Note 4: China Tower shall provide the space for installing one standard transmission frame according to the type of equipment rooms. In principle, the maximum dimensions of one transmission frame for telecom companies are 600mm×600mm×2.2m. Equipment frames and integrated cabinets shall be provided by China Tower.

Note 5: Entrusted by telecom companies, when providing tower products, China Tower shall concurrently coordinate the construction of, or construct, public manholes in front of entrances and exits within the red line and routers drawing up at stations (except for building base towers, only the routers drawing up at stations) on behalf of telecom companies. The expenses related to such construction and coordination shall be priced either by referencing transmission products or directly settled between the telecom companies and the resource owners with the coordination of China Tower, or determined and settled by the Parties' subsidiaries or branches upon mutual consultation.

Note 6: In the event that the back-up power supply exceeds the standard configuration, fees shall be calculated and charged according to the price of extra battery assurance products (RMB400/hour/system/year). In other circumstances where the standard configurations are exceeded, the Parties' subsidiaries or branches shall negotiate and determine the related charges according to the markup margin method with reference to the pricing formula of tower products wherein the parameters such as depreciable life and markup margin rate shall be consistent with those stated in the pricing formula for tower products.

2. Product Pricing

(1) Pricing Formula

$$\text{Base price} = \left(\Sigma \frac{\text{standard construction cost ①}}{\text{depreciable life ②}} \times (1+ \text{depletion rate ③}) + \text{maintenance cost ④}\right) \times (1+ \text{markup margin rate ⑤})$$

Product price = base price × (1- sharing discount rate 1⑧) + (site cost ⑥ + electricity connection cost ⑦) × (1- sharing discount rate 2⑧)

Notes:

① **Standard construction cost** shall include the expenses for materials, construction, designing, supervision, crop compensation and others in relation to towers (including heighten stents, masts and rooftop holding poles), equipment rooms (including integrated cabinets, necessary bounding or retaining walls and fences if permitted), facilities (including AC/DC distribution boxes, combined switching power supplies, three-hour back-up batteries, air conditioners, the power and environment supervision systems for mobile communication ("PESM"), anti-thunder counterpoises, standard racks, cabling racks, feeder windows, lighting, firefighting, and the like). China Tower shall entrust the designers to determine the standard construction costs of various products subject to the wind pressure of 0.45KN/m^2 and in accordance with the replacement cost method, as shown in the following table:

Table 3: Standard Construction Costs of Tower products

			Standard Construction Cost Note (RMB 10 Thousands)				
Product Category	**Product Type**	**Mounting Height (m)**	**Tower + Self-owned Equipment Room + Facilities**	**Tower + Rented Equipment Room + Facilities**	**Tower + Integrated Cabinet + Facilities**	**Tower + RRU Remote + Facilities**	**Towers without Equipment Room or Facilities**
Ground Base Towers	Regular Ground Base Towers	H<30	27.2064	23.3564	21.3095	19.1371	15.8902
		30≤H<35	29.6595	25.8095	23.7626	21.5902	18.3433
		35≤H<40	32.9920	29.1420	27.0951	24.9226	21.6758
		40≤H<45	36.8090	32.9590	30.9121	28.7396	25.4928
		45≤H≤50	41.2877	37.4377	35.3908	33.2183	29.9715
	Landscape Towers	H<20	18.9308	15.0808	13.4414	12.0341	8.7872
		20≤H<25	21.4657	17.6157	15.9764	14.5691	11.3222
		25≤H<30	23.5495	19.6995	18.0601	16.6528	13.4060
		30≤H<35	28.3960	24.5460	22.9067	21.4994	18.2525
		35≤H≤40	31.0728	27.2228	25.5834	24.1761	20.9292
	Simplified Towers	H≤20	14.0700	10.2200	8.5806	7.1733	3.9264
Building Base Towers	Regular Building Base Towers	—	14.0688	10.3688	8.7294	7.3221	4.0753
	Floor Holding Poles	—	11.2042	7.5042	5.8648	4.4575	1.2107

Note 1: The equipment rooms in the tower + self-owned equipment room + facilities combination includes brick-concrete, color-steel and other kinds of equipment rooms (excluding rented equipment rooms), and their construction cost shall be determined according to the above table.

Note 2: RRU remote refers to the situation where the master devices such as BBUs of the telecom companies are not put in China Tower's equipment rooms.

Note 3: In the event that the telecom companies actually use tower products which do not belong to any of the above standard configured tower products, the price shall be determined subject to the standard construction cost of the actual type of towers, equipment rooms and corresponding facilities (see Schedule 1 and Schedule 2 hereto for details) and the pricing formula for tower products.

Note 4: All of the above standard construction costs exclude taxes (all construction prices and costs provided in this Annex exclude taxes, and similarly hereinafter).

② **Depreciable life** shall be the rounded-up of the average depreciable life of the corresponding assets of the three telecom companies, namely, the depreciable life of towers is 10 years, the depreciable life of a self-owned equipment room in a ground base tower is 20 years, the depreciable life of a self-owned equipment room in a building base tower is 6 years, the depreciable life of a rented equipment room and an integrated cabinet is 6 years, and the depreciable life of facilities is 6 years.

③ **Depletion rate** shall be 2% per year, including relocation, overhaul and damage, etc.

④ **Maintenance cost** shall be RMB3,770 per year tentatively, and shall include the fees for the outsourced maintenance, repair and consumable items. The basic maintenance cost shall be adjusted and re-determined in accordance with the market-oriented bidding and procurement results corresponding to the maintenance particulars and quality indicators jointly confirmed by the respective subsidiaries or branches at the provincial level ("provincial companies") of the three telecom companies and China Tower. The maintenance cost incurred prior to the bidding and procurement process shall be retrospectively adjusted according to the pricing formula. The Parties' subsidiaries or branches can consult upon the timetable of the bidding taking into account their actual conditions, and the standard fee of RMB3,770 per year shall no longer be enforced after such market-oriented bidding and procurement process.

⑤ **Markup margin rate** shall be 15% for the compensation of the management expenses, personnel expenses and other expenses of China Tower.

⑥ **Site Cost** shall be calculated by station site, including site rent, one-off slotting fees and coordination costs, land requisition expenses incurred associated with China Tower's offering products and services to the telecom companies. The respective provincial companies of China Tower and the telecom companies shall negotiate and determine the fees on a lump-sum basis according to the rents provided in the lease agreements under relevant scenarios by the telecom companies in 2014 and by China Tower in 2015.

In the event that the Parties are unable to determine the lump-sum fees, the Parties' provincial companies shall agree upon a transition period, during which the fees shall be charged in accordance with actual expenses incurred on an itemized basis. Particularly, the one-off slotting fees, coordination costs, land requisition expenses and others shall be amortized according to the depreciable life of towers of 10 years.

⑦ **Electricity connection cost** shall be negotiated by the Parties' provincial companies and they shall choose to adopt the lump-sum or itemized basis. Specific costs shall be calculated by the following formula:

$$\text{Electricity connection cost} = \frac{\text{construction cost}}{\text{depreciable life}} \times (1 + \text{markup margin rate})$$

wherein:

Construction cost shall be determined by the Parties' provincial companies: (i) if opting the pricing method on a lump-sum basis, based on the actual construction cost of the electricity connection facilities under the various scenarios incurred by the telecom companies in 2014 and by China Tower in 2015; or (ii) if opting the pricing method on an itemized basis, based on the actual construction costs incurred in the project.

Depreciable life shall be 10 years according to the average depreciable life of the electricity connection assets of the three telecom companies.

Markup margin rate shall be 5%.

The above formulas are applicable to the electricity connection by means of solar energy, wind power or wind-solar hybrid, in the pricing formulas for which the depreciable life shall be determined by the Parties' subsidiaries or branches according to the average depreciable life of similar assets of the three telecom companies.

The maintenance cost of electricity connection facilities shall be included in the tower products' maintenance cost, which the Parties' provincial companies shall take into account in the bidding and procurement process for the maintenance of tower products.

⑧ **Sharing discount rate**: where the same station site is used and the relevant facilities are shared by more than one telecom company, a sharing discount shall be applied. The scope of sharing discount extends to base prices, site cost and electricity connection costs in relation to tower products. The commencement date of a sharing discount shall be the commencement date of the new occupier's service term.

Table 4: Sharing Discount Rate 1 (Sharing Discount Rate for Base Price)

	Sole User	Shared by Two Companies	Shared by Three Companies
First-Occupier Lessee	—	25% discount	35% discount
Other Lessees	—	20% discount	30% discount

Table 5: Sharing Discount Rate 2 (Sharing Discount Rate for Site Cost and Electricity Connection Costs)

	Sole User	Shared by Two Companies	Shared by Three Companies
First-Occupier Lessee	—	45% discount	55% discount
Other Lessees	—	40% discount	50% discount

Note 1: The first-occupier lessee refers to the former owner of the tower, in the case of an Acquired Tower, or the first basic telecom company that exclusively occupies the tower, in the case of a New Tower. For the avoidance of doubt, the first-occupier lessee of a New Tower is the first basic telecom company that exclusively occupies the New Tower, the commencement date of the relevant service term for which is prior to the dates of the Product Confirmation Orders entered into by other telecom companies who later occupy such tower.

Note 2: Because the relevant costs in the base prices will increase along with the increase in the number of sharing parties, the actual discount of the base prices is lower taking into account the increased costs.

In principle, as for the station sites with existing equipment rooms, the telecom companies who later occupy shall not use the construction model of integrated cabinets.

In the event that more than one telecom company uses the same station site without sharing the relevant facilities (including equipment rooms and facilities under the towers constructed by means of RRU remote by certain telecom companies), only the part which is shared shall enjoy the sharing discount. The basic price for the sharing discount to be applied shall be determined according to the standard construction costs set forth in the table below and the pricing formula for tower products. In the pricing formula, the maintenance cost shall be determined by either calculating the percentage of its construction cost in the standard construction cost for corresponding tower products on the basis of the maintenance cost for tower products to be determined by the relevant provincial companies, or upon mutual consultation between the Parties' provincial companies.

Table 6: Standard Construction Costs of Various New Towers in Partial Sharing:

Product Category	Product Type	Mounting Height (m)	Standard Construction Costs of Relevant Configurations in Partial Sharing (RMB 10 Thousands)				
			Towers without Equipment Room or Facilities	Self-Owned Equipment Room + Facilities	Rented Equipment Room + Facilities	Integrated Cabinet + Facilities	RRU Remote + Facilities
Ground Base Towers	Regular Ground Base Towers	H<30	15.8902	11.3162	7.4662	5.4193	3.2469
		30≤H<35	18.3433	11.3162	7.4662	5.4193	3.2469
		35≤H<40	21.6758	11.3162	7.4662	5.4193	3.2469
		40≤H<45	25.4928	11.3162	7.4662	5.4193	3.2469
		45≤H≤50	29.9715	11.3162	7.4662	5.4193	3.2469
	Landscape Towers	H<20	8.7872	10.1435	6.2935	4.6542	3.2469
		20≤H<25	11.3222	10.1435	6.2935	4.6542	3.2469
		25≤H<30	13.4060	10.1435	6.2935	4.6542	3.2469
		30≤H<35	18.2525	10.1435	6.2935	4.6542	3.2469
		35≤H≤40	20.9292	10.1435	6.2935	4.6542	3.2469
	Simplified Towers	H≤20	3.9264	10.1435	6.2935	4.6542	3.2469
Building Base Towers	Regular Building Base Towers	—	4.0753	9.9935	6.2935	4.6542	3.2469
	Floor Holding Poles	—	1.2107	9.9935	6.2935	4.6542	3.2469

Note: In the event that the telecom companies construct by means of the RRU remote and deploy BBU together in China Tower's equipment rooms, the first set of BBU + RRU shall be priced according to the RRU's corresponding towers and BBU's corresponding equipment room + facilities, while the rest of the RRU shall be priced according to its corresponding tower + RRU remote + facilities. If the facility space for BBU expands, it shall be priced 10% of the base price of RRU. Sharing discounts shall apply in accordance with the sharing status in the actual usage.

(2) Adjustment of the Standard Construction Costs

Considering that the construction costs vary in different provinces of China, the 31 provinces are divided into four categories. The following coefficients shall be applied to the adjustment of construction costs based on the national Standard construction costs:

Category 1: Inner Mongolia, Liaoning, Jiangsu, Jilin, Zhejiang, Sichuan, Heilongjiang, Anhui, Henan, Shanxi, Guangxi, Fujian, Hunan, Hubei, Gansu, Guangdong, Hainan and Xinjiang, 18 provinces in total, for which the adjustment coefficient is 1.0;

Category 2: Hebei, Chongqing, Shandong, Shaanxi, Jiangxi, Guizhou and Yunnan, 7 provinces in total, for which the adjustment coefficient is 0.9;

Category 3: Beijing, Tianjin and Ningxia, 3 provinces in total, for which the adjustment coefficient is 1.1;

Category 4: Shanghai, Tibet and Qinghai, 3 provinces in total, for which the adjustment coefficients are 1.86 for Shanghai, 2.38 for Tibet and 1.26 for Qinghai, respectively, consistent with the pricing of Acquired Towers.

Constructions in response to the demands of stations on the mountains or islands, camouflage stations (including camouflage trees) and micro stations shall be carried out in a customized manner. The Parties' municipal companies shall estimate the construction costs in prior consultation, which shall be applied to the pricing formula for tower products. Such constructions may begin only after the prices are determined. The pricing parameters in the pricing formula other than standard construction costs shall be consistent.

In addition to the above-mentioned coefficient, the Parties' municipal companies shall adjust the construction costs of towers (including the tower bases and bodies) built in areas other than those within 0.45KN/m2 wind pressure regions according to the design institute's actual wind pressure design with reference to the 50-year-return-period wind pressure distribution diagram published by the national authorities. See Schedule 1 for the specific adjustments.

(3) Pricing Rules for Additional Antennas or Systems

Three antennas (one system) form a basic product unit of tower products. The pricing shall be calculated as one product unit in the case that there is less than one product unit.

Where there is more than one basic product unit:

(a) For regular ground base towers, the price shall be calculated based on one product unit for six antennas (two systems) or less. In the case of more than six antennas (two systems), every three additional antennas (one system) shall be charged at 30% of a product unit.

(b) For the other tower products, every three additional antennas (one system) shall be charged as 30% of a product unit.

(c) Where there are additional systems but no antennas in addition to the standard configurations, every additional system which expands facility space shall be charged at 10% of a product unit.

(4) Pricing Rules for Others

(a) With regard to the landscape towers, if the basic telecom companies opt not to install the RRU onto the towers, a 2% discount shall be applied to the base prices.

(b) When the telecom companies mount microwaves and WLAN APs, the price of an end microwave shall be charged as 0.3 product unit of the corresponding tower products; three sets of WLAN antennas shall be charged as 0.1 product unit of the corresponding tower products, and sharing discounts shall be applied.

(c) The environmental impact assessment costs for the New Towers are not included in the standard construction costs due to the substantial variations by geographic region. China Tower can be entrusted by the telecom companies and organize its customers to engage in (i) the EMF environmental impact assessment and approval and (ii) the environmental protection review and approval upon the acceptance in relation to the construction projects of mobile telecommunication base stations. The related expenses shall be shared by the subsidiaries of the telecom companies and directly settled with the third-party institutions carrying out the environmental impact assessment, or the Parties' subsidiaries shall determine the settlement upon consultation.

(d) In special cases beyond standardized configurations, the Parties' subsidiaries shall negotiate and determine the relevant pricing standards using the markup margin method and taking into account additional costs actually incurred with reference to the pricing formula for tower products, wherein the parameters, such as depreciable life and markup margin rate, shall be consistent with those parameters in the pricing formula for tower products.

(ii) Acquired Tower Products

The Acquired Towers refer to all tower products constructed by the telecom companies and transferred to China Tower (subject to the Parties' Asset Handover Confirmation List). Other tower products shall hereafter be deemed New Towers.

The pricing for the Acquired Towers shall be applicable to the former owners of the Acquired Towers, the telecom companies which started to share the Acquired Towers prior to October 31, 2015 (hereinafter referred to as the "Existing Sharing Parties") and the basic telecom companies who subsequently started to share the Acquired Towers transformed by China Tower (hereinafter, the "New Sharing Parties").

1. Product Catalogue and Standard Configuration of the Basic Product Unit

The product catalogue and definitions, the definition of product unit, the standard configuration of the basic product unit and other specifications of the Acquired Towers shall be consistent with those applicable to the New Towers, namely, the product catalogue applicable to the New Towers shall be applied to all Acquired Towers. The backup power supply assurance duration is subject to the actual backup duration as at handover of the acquired assets. The specific service standards shall be negotiated by the Parties.

2. Product Pricing

(1) Pricing Formula

$$\text{Base price} = \left(\Sigma\ \frac{\text{standard construction cost of New Towers}}{\text{depreciable life of New Towers}} \times \text{discount rate ①} \times (1+ \text{depletion rate ②}) + \text{maintenance cost ③}\right) \times (1+ \text{markup margin rate ④})$$

Product price = base price × (1- sharing discount rate 1 ⑥) + site cost ⑤ × (1- sharing discount rate 2 ⑥)

Notes:

① The formula for the discount rate is as follows:

$$\text{Discount rate} = \frac{\Sigma\ \text{appraised value / depreciable life of Acquired Towers}}{\Sigma(\Sigma\ \text{standard construction cost of New Towers of the sub-category / depreciable life of New Towers} \times \text{percentage of similar products of Acquired Towers}) \times \text{number of Acquired Towers}}$$

Wherein, in respect of the depreciable life of acquired assets, the depreciable life of batteries and other supporting facilities shall be determined subject to their remaining depreciable life, and the depreciable life of the towers, equipment rooms, air-conditioners, electricity connection and other assets shall be determined subject to the depreciable life of similar New Towers.

See Schedule 3 for the adjustment coefficients applicable to each province. The adjustment coefficients therein are applicable to all Acquired Towers, except that the wind pressure adjustment coefficient and the newly constructed regional coefficient shall not be taken into account.

No separate electricity connection cost will be charged for the Acquired Towers. Before the commencement date when electricity services are charged on a lump-sum basis, if the telecom companies require an alternation in power supply from DC to AC, or from high voltage to low voltage, for the Acquired Towers, the electricity connection cost shall be simultaneously adjusted to the electricity connection prices applicable to the corresponding New Towers and charged separately.

② **Depletion rate** shall be the same as that of the New Towers.

③ **Maintenance cost** includes the expenses for outsourced maintenance, repair and consumable items, and shall be jointly determined by the Parties' provincial companies upon mutual consultations in accordance with existing contracts or the market-oriented bidding and procurement results.

④ **Markup margin rate** shall be the same as that of the New Towers for compensating the management expenses, personnel expenses and other expenses of China Tower.

⑤ **Site cost** shall be calculated by station site, including the remaining pre-amortization cost of the site rent, land requisition expenses and other one-time expenses. The site lease agreements with respect to the Acquired Towers were executed by the telecom companies, the rent of which will be uncertain upon the expiration of such agreements. Therefore, the rent shall be determined on an itemized basis in line with the rent provided in the original site lease agreements prior to expiration of such contracts. The one-time land requisition expenses paid by telecom companies shall be determined on an itemized basis in accordance with the remaining pre-amortization value as of the asset appraisal date.

Upon the expiration of the site lease agreements, or if no such agreements exist, the site cost shall be negotiated and determined by the Parties' provincial companies on an itemized basis according to the renewed agreements and remaining pre-amortization costs, or on a lump-sum basis for certain scenarios.

The site cost for sites where the rent is tentatively uncertain shall be determined by the Parties' provincial companies upon mutual consultation. In case the actual site cost deviates from the consulted cost, the cost shall be retrospectively adjusted.

⑥ **Sharing discount** rates and rules shall be the same as those applicable to the New Towers.

For the New Sharing Parties: They shall be charged based on the "same tower same price" principle. The base price and site cost for the New Sharing Parties shall be based on the prices of the Acquired Towers located at the same station and shall enjoy the sharing discount. No electricity connection fee shall be charged separately. The electricity connection switching expenses which are incurred by any newly added product unit or New Sharing Party shall be calculated according to the electricity connection pricing formula for the New Towers and paid separately by the New Sharing Parties.

For the Existing Sharing Parties: Prior to 2018, they will be charged at 30% of each of the base price and the site cost. The former owner shall be entitled to the first-occupier discount for the base price, with the site cost to be charged at 70% (if there are two lessees) or 40% (if there are three lessees). When the third party starts sharing the Acquired Tower, the prices for the Existing Sharing Parties shall remain unchanged; the former owner shall be entitled to the first-occupier discount (namely, to be charged at 65% of the base price and 45% of the site cost). However, effective from January 1, 2018, the pricing rules applicable to the Existing Sharing Parties shall be the same as those applicable to the New Sharing Parties.

In the event that multiple telecom companies share the same station site of the Acquired Tower without sharing the relevant acquired facilities, only the shared parts shall enjoy the sharing discount, and the price basis for the sharing discount shall be determined according to the pricing formula for the Acquired Towers.

(2) Pricing of Additional Antennas or Systems

Prior to the Completion Date (October 31, 2015), all product units constructed by telecom companies on the Acquired Towers shall be deemed as a whole and priced at the base price of the product unit with the highest antenna mounting height on the relevant Acquired Towers.

The newly added product unit of the Acquired Towers (including the product units constructed and added by China Tower prior to the Completion Date) shall be priced the base price of the corresponding product unit of the Acquired Towers. Every additional three antennas (one system) shall be charged at 30% of the price for a product unit and every one additional system (excluding the antennas) which expands facility space shall be charged at 10% of the price for a newly added product unit.

3. Service Commencement Date of the Acquired Towers

The service commencement date of the Acquired Towers (also for the Existing Sharing Parties) is November 1, 2015. The lease and settlement arrangements with the basic telecom companies that started sharing the Acquired Towers transformed by China Tower prior to November 1, 2015 shall be agreed separately.

II. Indoor Distribution Products

(i) Product Catalogue and Standard Configuration of Basic Product Units

1. Product Catalogue

The indoor distribution products provided by China Tower include building distribution products and tunnel distribution products. The building distribution products include indoor distribution products in commercial buildings and large-scale structures (including airports, railway stations, exhibition centers, gymnasiums, etc.). The tunnel distribution products include indoor distribution products in subway tunnels (including subway platforms) and railway tunnels.

Table 7: Indoor Distribution Product Catalogue

Product Category	Product Scenario	Pricing Unit	No. of Systems
Building distribution products	Commercial buildings	m^2	2 sets
	Large-scale structures (including airports, railway stations, exhibition centers, gymnasiums, etc.)	m^2	2 sets
Tunnel distribution products	Subway tunnels (including subway platforms)	km	2 sets
	Railway tunnels	km	2 sets

2. Standard Configuration of an Indoor Distribution Product Unit

With regard to the indoor distribution products, two sets of systems form a basic product unit. The standard configuration of devices in a basic product unit is set forth in the following table:

Table 8: Standard Configuration of an Indoor Distribution Product Unit

Item of Product Configuration	Basic Configuration	
	Building Distribution Products	Tunnel Distribution Products
Distribution System	POI or combiner + passive antenna feeder distribution system (feeder line + passive device + indoor antenna)	POI or combiner + leakage cable distribution system
Space for Signal Source Installation	1 RRU/system/POI or combiner	1 RRU/system/POI or combiner
Space for Equipment Installation	1 BBU device/system + 1 transmission device	1 BBU device/system + 1 transmission device
Back-up Power Supply	To provide 1-hour back-up battery assurance for BBUs and 10-hour back-up battery assurance for transmission devices according to the actual installation conditions. If extra investment is incurred due to the provision of 10-hour backup battery assurance for transmission devices, the Parties' subsidiaries shall negotiate and charge separately according to the pricing formula of indoor distribution products.	

Note 1: Indoor distribution products shall be constructed by means of double cables using combiners when constructed by one company and POI and high-quality components when jointly constructed by two or more companies.

Note 2: China Tower will, upon request, subject to actual environment and demands, provide the equipment rooms (or cabinets), switching power supply, AC/DC distribution units, PESM, air conditioners, fire equipment and grounding & lightning protection systems, etc.

Note 3: As entrusted by the telecom companies, China Tower will coordinate public manholes in front of entrances and exits within the red line and routes drawing up at stations when providing indoor distribution products. Related expenses shall be directly settled by the telecom companies and the resource owners.

Note 4: If the cascading method is used for the RRU, the space for multiple RRU installations can be provided. In other circumstances beyond the standard configurations, the Parties' subsidiaries or branches shall negotiate and determine the price by means of markup margin method with reference to the pricing mechanism for indoor distribution products, wherein the parameters such as the depreciable life, markup margin rate and others shall be consistent with those in the pricing scheme for indoor distribution products.

(ii) Pricing

1. Pricing Formula for Indoor Distribution Products in Commercial Buildings

$$\text{Base price} = (\Sigma \frac{\text{standard construction cost ①}}{\text{depreciable life ②}} \times (1 + \text{depletion rate ③}) + \text{maintenance cost ④}) \times (1 + \text{markup margin rate ⑤})$$

Product price = (base price × covering construction area + site cost ⑥) × (1 - sharing discount rate)

Notes:

① **Standard Construction Cost:**

The standard construction cost for indoor distribution products in commercial buildings includes the expenses for distribution systems, ancillary facilities, municipal electricity connection and others. China Tower shall entrust a third-party design institute and determine the standard construction cost with respect to the construction using POI, high-quality components and double cable. Such standard construction cost is set forth in the table below.

Table 9: Standard Construction Cost of Indoor Distribution Products in Commercial Buildings

Product Category	Product Scenario	Pricing Unit	No. of Systems	Standard Construction Cost
Building distribution products	Commercial buildings	m^2	2 sets	RMB16.24/m^2

Under the following two circumstances, certain adjustments shall be applied to the standard construction cost of indoor distribution products in commercial buildings:

(a) where the landlord requires the use of galvanized steel pipes and wiring bridges/frames for constructing indoor distribution products:

Construction cost = standard construction cost × special adjustment coefficient

Wherein: the special adjustment coefficient is fixed at 1.3.

(b) where there are significant differences between the actual construction cost and the standard construction cost:

When the actual construction cost deviates from the standard construction cost by ±15% due to certain objective reasons, the Parties' municipal companies shall negotiate and apply the pricing formula for indoor distribution products to the indoor distribution products in commercial buildings based on the actual construction cost. The parameters shall be the same except the standard construction cost. The aforementioned objective reasons include, but are not limited to, using optical fiber distribution systems or some special requirements for equipment and materials from the landlord or other situations.

Under the above cases, the Parties' subsidiaries shall negotiate the estimated construction cost. The construction may begin after the price is determined based on the agreed construction cost and pricing formula for indoor distribution products.

② **The depreciable life** is seven years.
③ **Depletion rate** is fixed at 2%, including overhaul and damages.
④ **Maintenance cost** includes the expenses for outsourced maintenance, repair and consumable items. In accordance with the maintenance particulars and standards, China Tower determines the maintenance cost as RMB0.2/year/m^2, wherein the expenses for outsourced maintenance is RMB0.12/year/m^2 and the expense for repair and consumable items is RMB0.08/year/m^2. The maintenance cost shall be adjusted according to the maintenance particulars and quality indicators jointly confirmed by the provincial companies of the three telecom companies and China Tower as well as the bidding results. The base price shall be recalculated. The maintenance cost incurred prior to the bidding and procurement process shall be retrospectively adjusted according to the pricing formula. In principle, such bidding and procurement process should be completed before March 1, 2016 and the standard of RMB0.2/year/m^2 will no longer be enforced. The Party's subsidiaries shall negotiate the specific bidding date based on actual situations.
⑤ **Markup margin rate** is fixed at 15% and used to compensate the management expenses, personnel and other costs of China Tower.
⑥ **Site cost** includes the expenses for site rent, one-off slotting allowances and coordination expenses incurred when China Tower provides products and services for the telecom companies. The Parties' provincial companies shall negotiate and determine the pricing on a lump-sum or itemized basis.

If pricing is on a lump-sum basis, the Parties' provincial companies shall negotiate and determine the standard site cost according to the price in the leasing contracts entered into by the telecom companies in 2014 and by China Tower in 2015.

If pricing is on an itemized basis, the Parties' municipal companies shall determine the price on an itemized basis in accordance with the actual situations. The one-off slotting allowances and coordination expenses shall be amortized according to the depreciable life of seven years for indoor distribution products.

In order to cut costs and enhance efficiency, the Party's provincial companies can negotiate and decide to price the indoor distribution products in the buildings on a lump-sum basis within the province or municipality.

2. Pricing Formula for Other Indoor Distribution Products

Other indoor distribution products include distribution products in large stadiums and subways (including subway platforms), as well as railway tunnels. Such products shall be priced on an itemized basis.

$$\text{Base price} = \left(\Sigma\ \frac{\text{construction cost ①}}{\text{depreciable life ②}} \times (1 + \text{depletion rate ③}) + \text{maintenance cost ④}\right) \times (1 + \text{markup margin rate ⑤})$$

Product price = (base price + site cost ⑥) × (1- sharing discount rate)

Notes:

① **Construction cost**:

The construction cost of other indoor distribution products shall be determined according to the actual construction cost incurred in the relevant project, including the construction cost for the distribution systems, ancillary facilities, municipal electricity connection and other items.

② **Depreciable life** shall be the average depreciable life of the same assets of the three telecom companies, among which the depreciable life for the distribution system is seven years.

③ **Depletion rate** is fixed at 2%, including overhaul and damages.

④ **Maintenance cost** includes the expenses for outsourced maintenance, repair and consumable items, and shall be determined based on the actual bidding price with the maintenance particulars and quality indicators jointly confirmed by the provincial companies of the three telecom companies and China Tower.

⑤ **Markup margin rate** is fixed at 15% and used to compensate the management expenses, personnel and other costs of China Tower.

⑥ **Site cost**:

The Parties' subsidiaries or branches shall determine the pricing for site cost on an itemized basis due to the significant differences on site cost of indoor distribution products for large stadiums, subways and railway tunnels. Site cost includes the expenses for site rent, one-off slotting allowances and coordination expenses incurred when China Tower provides products and services for the telecom companies. The one-off slotting allowances and coordination expenses shall be amortized according to the depreciable life of seven years for indoor distribution products.

3. Calculation Method for Product Units Numbers

With regard to the indoor distribution products, every two sets of systems are deemed as a basic product unit. Less than one basic product unit shall be charged as one product unit.

Where there is more than one basic unit, every one set of newly added system shall be charged at 10% of the price for one basic product unit.

In principle, the telecom companies should put forward their demands for the number of systems once before the project construction. The reserved systems shall be charged as the accessed systems.

4. Sharing Discount Rate of Indoor Distribution Products

Where the same indoor distribution system is shared by multiple telecom companies, the sharing discount rate shall be applied to base price and site cost of the indoor distribution product. The sharing discount shall be applied from the commencement date of the service term of the party who later start to use the product. No first-occupier discount is applicable.

Table 10: The Sharing Discount Rate of Indoor Distribution Products

	Sole user	Shared by two companies	Shared by three companies
Discount rate	—	40%	50%

(iii) Base Price of Indoor Distribution Products

The base price of indoor distribution products in commercial buildings shall be a nationwide unified price according to the relevant parameters. Given the complexity of large indoor distribution construction projects such as subways, high-speed railways, airports and exhibition centers, their prices shall be determined on an itemized basis according to the actual costs and shall be standardized later when the conditions are satisfied.

Table 11: Base Price of Indoor Distribution Products

Product Category	Product Scenario	Pricing Unit	No. of Systems	Base Price
Building distribution products	Commercial buildings	m^2	2 sets	RMB2.95/m^2/year
	Large-scale structures (including airports, railway stations, exhibition centers, gymnasiums, etc.)	m^2	2 sets	on an itemized basis
Tunnel distribution products	Subway tunnels	km	2 sets	on an itemized basis
	Railway tunnels	km	2 sets	on an itemized basis

III. Transmission Products

(i) Product Catalogue

Transmission products include pipes, pole lines, optical cables, manholes in front of entrances and exits, routers drawing up at stations, etc. In principle, if jointly entrusted by two or more telecom companies, China Tower can provide transmission products by means of outsourced construction or services.

(ii) Product Pricing

1. Pricing Based on Outsourced Construction

In the case of outsourced construction, the pricing for transmission products shall be determined on an itemized basis by the Parties' municipal companies according to the principle of one-off amortization. The pricing formula shall be as follows:

$$\text{Product price} = \frac{\text{actual construction cost ①}}{\text{number of accessed telecom companies}} \times (1 + \text{markup margin rate ②})$$

Wherein:

① **Construction cost** includes, but is not limited to, the expenses for materials, construction, designing, supervision and compensation during the process.

The compensation expenses include, but are not limited to, expenses for coordination, road, bridge/river-crossing, road-crossing, farmland and forest-crossing, etc.

② **Markup margin rate** is fixed at 5%.

In the case of outsourced construction, the municipal companies of the telecom companies shall negotiate and determine the ownership, maintenance work and expenses of the transmission products with reference to the manner dealing with joint construction and sharing of transmission products among these telecom companies prior to the establishment of China Tower.

2. Product Pricing Based on Service Mode

In the case of providing services, the price shall be determined by the Parties' municipal companies on an itemized basis, and the product service fees shall be paid monthly. The pricing formula shall be as follows:

$$\text{Product price} = \left[\left(\Sigma\, \frac{\text{construction cost ①}}{\text{depreciable life ②}} \times (1+ \text{depletion rate ③}) + \text{maintenance cost ④}\right) \times (1+ \text{markup margin rate ⑤})\right] \times (1- \text{sharing discount rate ⑥})$$

Wherein:

① **Construction cost** includes, but is not limited to, the expenses for materials, construction, designing, supervision and compensation during the process.

The compensation expenses include, but are not limited to, expenses for coordination, road, bridge/river-crossing, road-crossing, farmland and forest-crossing, etc.

② **Depreciable life** is 10 years.
③ **Depletion rate** is fixed at 2%, including overhaul and damages.
④ **Maintenance cost** includes the expenses for outsourced maintenance, repair and consumable items, and shall be determined according to the amount actually incurred.
⑤ **Markup margin rate** is fixed at 15% and used to compensate the management expenses, personnel and other costs of China Tower.
⑥ **Sharing discount rate** is the same as that of the tower products' base price but the first-occupier discount (i.e., a 20% discount rate if there are two lessees and 30% if there are three lessees) is not applicable.

In the case of providing services, the ownership of the transmission product assets shall belong to China Tower and the maintenance work and expenses shall be borne by China Tower.

IV. Service products

(i) Service Product Catalogue

China Tower can provide services such as power supply, oil machine power generation and extra battery assurance based on the demands of the telecom companies.

Table 12: Service Product Catalogue

Product Category	Product Definition
Power Supply Services	To provide electricity services for one site on a lump-sum basis
Oil Machine Power Generation Services	To provide oil machine power generation services for one site for certain duration
Extra Battery Assurance Services	To provide extra battery assurance services for one system (less than 1.5KW of equipment power in principle) in addition to standard configuration

Note: The number of times of oil machine power generation services and the number of hours of extra battery assurance services purchased by the telecom companies in the same station site shall be consistent. The expenses for oil machine power generation services in a shared station site shall be shared equally by the telecom companies. The charge commencement date of power supply services and oil machine power generation services shall be the activation day of the telecom companies' equipment. In principle, the pricing and settlement of the acquired service products and new service products shall be consistent.

(ii) Pricing Method

1. Power Supply Service

China Tower shall provide the power supply services on a lump-sum basis. The Parties' provincial companies shall state in the Provincial Service Agreement that the service term shall not exceed three years and neither service mode nor price can be changed during such term.

For those who choose the lump-sum power supply service, China Tower's municipal companies shall determine the total amount of electricity fees according to the lump-sum electricity fees agreed by the Parties' provincial companies and shall pay the electricity fees monthly. If a station site is activated for less than one month, the electricity fees will be calculated according to the actual number of days for which such station site has been activated. The lump-sum expenses of power supply and the monthly service fees of towers shall be charged at the same time and China Tower's municipal companies shall issue value-added taxation ("VAT") invoices and electricity consumption split sheets to the telecom companies' municipal companies.

For those who do not choose the lump-sum power supply services, China Tower's municipal companies shall provide the electricity bill and electricity consumption split sheet to the telecom companies' municipal companies. For the shared station sites, the electricity charges shall be shared by the telecom companies' municipal companies according to the percentage of nominal power or actual electricity consumption (DC metering) of their respective equipment. The telecom companies' municipal companies shall pay the fees to the relevant power supply unit or the landlord for their electricity consumption and shall obtain the receipts. In circumstances where no invoices or receipts can be obtained, the Parties' subsidiaries shall negotiate and resolve the problem.

2. Oil Machine Power Generation Services

The Parties' provincial companies shall negotiate to provide the oil machine power generation service on a lump-sum or frequency basis. The telecom companies' municipal companies shall confirm in the Product Confirmation Order if they will purchase the oil machine power generation services from China Tower:

(a) on a lump-sum basis:

The Parties' provincial companies shall negotiate to determine the lump-sum service price and settlement, which shall be confirmed by the Parties' municipal companies in the Product Confirmation Order.

(b) on a frequency basis:

The Parties' provincial companies shall negotiate to determine the price for single-time power generation service. The formula is as follows:

Single-time service price = single-time power generation cost ① × (1 + markup margin rate ②)

① **Single-time power generation cost**:

The Parties' provincial companies can calculate and determine the single-time power generation cost with reference to the following formula:

Single-time power generation cost = base price for single-time power generation + oil cost for power generation per hour × power generation duration + vehicle usage fee per kilometer × number of kilometers

The Parties' provincial companies shall determine the related parameters with reference to the third-party power generation prices.

② **Markup margin rate** is fixed at 5% of single-time power generation cost.

3. Extra Battery Assurance Service

One standard extra battery assurance product refers to the service of providing one hour battery extra assurance for one system (the total power not exceeding 1.5KW in principle). The pricing formula is as follows:

$$\text{Product price} = \frac{\text{construction cost}}{\text{depreciable life}} \times (1 + \text{depletion rate}) \times (1 + \text{markup margin rate})$$

The related parameter is RMB400/year upon calculation with reference to the parameters in the pricing formula of tower products.

Where the equipment power exceeds 1.5KW, the Parties' subsidiaries shall negotiate to determine the expenses to be increased with reference to the above formula.

The telecom companies' subsidiaries can purchase N pieces of extra battery assurance products (here "N" expresses an integer) subject to their respective demands. However, the hours of extra battery assurance purchased by the telecom companies in the same station site shall be the same.

V. Adjustment Mechanism

To take into account factors such as inflation, the Parties shall adjust the maintenance cost and the site cost for the year with reference to the prior year's CPI (Consumer Price Index) published by the national statistical authority. Such adjustment shall be effective from January 1st of the year and applied retrospectively.

Should there be significant fluctuations in the real estate market or steel prices, the Parties shall negotiate and make adjustments to site cost, product prices and others accordingly.

Upon the expiration of the depreciable life (10 years) of towers, the Parties shall negotiate separately the applicable adjustments based on the actual business operation of China Tower.

If there is any material change in the actual business operation of China Tower, such as the share rate, construction cost and profit differing from the forecast in 2016, the pricing mechanism hereunder shall be adjusted by the end of 2016.

Schedule 1: Adjustment Coefficient Related to Standard Construction Cost

Schedule 2: Standard Construction Cost of Equipment Rooms and Facilities

Schedule 3: Discount Rate of Acquired Towers

Schedule 1: Adjustment Coefficient Related to Standard Construction Cost

Schedule 1.1: Wind-pressure Adjustment Coefficient for Standard Construction Cost of Towers

Range of Wind Pressure	0.3≤n<0.4	0.4≤n<0.5	0.5≤n<0.6	0.6≤n<0.7	0.7≤n<0.8	0.8≤n<0.9	0.9≤n<1.0	1.0≤n<1.1	1.1≤n<1.2	1.2≤n<1.3
Adjustment Coefficient	0.92	1.00	1.08	1.17	1.33	1.46	1.61	1.77	1.95	2.14

Notes:

1. The above adjustment coefficients are only applicable to the adjustment of construction costs of the base and body of the regular ground base towers and landscape towers which are the New Towers.
2. If the wind pressure falls beyond the above ranges, the tower shall be constructed in a customized manner. The Parties' subsidiaries or branches shall negotiate and estimate construction cost, determine the product price and then start the construction;
3. The wind-pressure adjustment coefficients are not applicable to equipment rooms, facilities, simplified towers, regular building base towers and floor holding poles.

Schedule 1.2: Construction Cost of Towers under Different Wind-pressure Conditions (Unit: RMB10,000)

Type of Product		Range of Wind Pressure	0.3≤n<0.4	0.4≤n<0.5	0.5≤n<0.6	0.6≤n<0.7	0.7≤n<0.8	0.8≤n<0.9	0.9≤n<1.0	1.0≤n<l.l	l.l≤n<1.2	1.2≤n<1.3
Ground Base Tower	Regular Ground Base Tower	H<30	14.6190	15.8902	17.1614	18.5915	21.1340	23.1997	25.5832	28.1256	30.9859	34.0050
		30≤H<35	16.8758	18.3433	19.8108	21.4616	24.3966	26.7812	29.5327	32.4676	35.7694	39.2546
		35≤H<40	19.9417	21.6758	23.4098	25.3607	28.8288	31.6466	34.8980	38.3661	42.2678	46.3862
		40≤H<45	23.4533	25.4928	27.5322	29.8265	33.9054	37.2194	41.0433	45.1222	49.7109	54.5545
		45≤H≤50	27.5737	29.9715	32.3692	35.0666	39.8620	43.7583	48.2541	53.0495	58.4444	64.1389
	Landscape Tower	H<20	8.0843	8.7872	9.4902	10.2811	11.6870	12.8294	14.1475	15.5534	17.1351	18.8047
		20≤H<25	10.4164	11.3222	12.2280	13.2470	15.0585	16.5304	18.2288	20.0403	22.0783	24.2295
		25≤H<30	12.3335	13.4060	14.4784	15.6850	17.8299	19.5727	21.5836	23.7285	26.1416	28.6887
		30≤H<35	16.7923	18.2525	19.7127	21.3554	24.2758	26.6487	29.3865	32.3069	35.5924	39.0604
		35≤H≤40	19.2549	20.9292	22.6036	24.4872	27.8359	30.5567	33.6961	37.0448	40.8120	44.7886
	Simplified Tower	H≤20	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264
Building Base Tower	Regular Building Base Tower	—	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753
	Floor Holding Pole	—	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107

Note: The above construction costs of towers only include those of tower foundations and bodies.

Schedule 2: Standard Construction Cost of Equipment Rooms and Facilities

Schedule 2.1: Standard Construction Cost of Equipment Rooms (RMB10,000)

Type of Product	Equipment Rooms (excluding Rented Equipment Rooms)	Rented Equipment Rooms	Integrated Cabinet (base only)	RRU Remote (base only)
Regular Ground Base Towers, Landscape Towers, Simplified Towers	5.4915	1.6415	0.5915	0.4415
Regular Building Base Towers, Floor Holding Poles	5.3415	1.6415	0.5915	0.4415

Schedule 2.2: Standard Construction Cost of Ancillary Facilities (RMB10,000)

Type of Product	Ancillary Facilities for Equipment Rooms	Ancillary Facilities for Integrated Cabinets	Ancillary Facilities for RRU Remote
Regular Ground Base Towers	5.8247	4.8278	2.8054
Landscape Towers, Simplified Towers, Regular Building Base Towers, Floor Holding Poles	4.6520	4.0627	2.8054

Note:

1. Ancillary facilities for equipment rooms include the AC distribution box, the switching power supply, the rectifier module, the monitor module, the battery (3-hour backup), PESM, the air conditioner, the fire device and the equipment rack, etc.
2. Ancillary facilities for the integrated cabinet include the outdoor integrated cabinet (dual-cabinet), the embedded switching power supply, the rectifier module, the monitor module, the battery (3-hour backup) and the PESM, etc.;
3. Ancillary facilities for RRU remote include the outdoor integrated cabinet (sole-cabinet), the embedded switching power supply, the rectifier module, the monitor module, the battery (3-hour backup) and the PESM, etc.

Schedule 3: Discount Rate of Acquired Towers

Number	Province	Discount Rate
1	Beijing	1.03
2	Tianjin	0.98
3	Hebei	0.62
4	Shanxi	0.73
5	Inner Mongolia	0.88
6	Liaoning	0.77
7	Jilin	0.74
8	Heilongjiang	0.68
9	Shanghai	1.86
10	Jiangsu	0.73
11	Zhejiang	0.76
12	Anhui	0.80
13	Fujian	0.73
14	Jiangxi	0.75
15	Shandong	0.71
16	Henan	0.82
17	Hubei	0.79
18	Hunan	0.70
19	Guangdong	0.91
20	Guangxi	0.72
21	Hainan	1.44
22	Chongqing	0.74
23	Sichuan	0.85
24	Guizhou	0.73
25	Yunnan	0.70
26	Tibet	2.38
27	Shaanxi	0.67
28	Gansu	0.79
29	Qinghai	1.26
30	Ningxia	1.01
31	Xinjiang	1.14

Note: If there is any change to the data used to calculate the above discount rate, the Parties shall make retrospective adjustment to such parameter.

Annex 2: Provincial Service Agreement (I)

[XXX Province/Municipality/Autonomous Region]
Provincial Service Agreement (I)
(Template)

Ref. No.:

The Provincial Service Agreement (I) (the "**Agreement**") is made and entered into between the following parties on [Date] in [City], [Province] of China.

Party A: [name of provincial subsidiary of the basic telecom company]

Party B: [name of provincial branch of China Tower]

(together, the "**Parties**" and, individually, a "**Party**")

Whereas,

1. On 14 October 2015, China Mobile Communication Company Limited and its 31 subsidiaries, China United Network Communications Corporation Limited and its one subsidiary, China Telecom Corporation Limited, China Reform Holdings Corporation Limited and China Tower entered into the Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash, and China Mobile Communications Corporation and its 24 subsidiaries, China United Network Communications Group Company Limited and its seven subsidiaries, China Telecommunications Corporation and its 11 subsidiaries and China Tower entered into the Agreement on Transfer of Existing Telecommunications Towers and Related Assets. Under the aforementioned agreements, the sellers shall transfer their then-owned telecommunications towers and related assets (the "**Acquired Tower Assets**") to China Tower and complete relevant handover procedures.
2. Annex I Product Catalogue and Pricing to the Commercial Pricing Agreement entered into between [name of the telecom company] and China Tower has stipulated the pricing of tower products, indoor distribution products, transmission products and service products.

Therefore, upon friendly consultations, pursuant to the Commercial Pricing Agreement, the Parties hereby agree on the leasing and settlement of the tower products, indoor distribution products, transmission products and service products provided by Party B to Party A, as follows:

I. Party B agrees to lease to Party A the Acquired Tower Assets for which the handover has been completed, and charge service fees. The rights and obligations of the Parties shall be subject to the then effective Commercial Pricing Agreement as amended from time to time and other agreements entered into by the Parties, and the Provincial Service Agreement (I) between [name of provincial subsidiary of the telecom company] and [name of provincial branch of China Tower] and any other then effective supplementary agreements entered into by the Parties from time to time.

II. The Parties and their respective subsidiaries or branches shall execute Bulk Lease Forms, the template of which is set out in Schedule 1 hereto, for the Acquired Tower Assets and other products for which the handover has been completed. Upon the execution of a Bulk Lease Form, it shall prevail over any prior oral or written agreement, intention or arrangement reached by the Parties and its subsidiaries or branches in relation to the products specified therein.

III. From the effective date of the Agreement, the Parties and their respective subsidiaries shall execute Product Confirmation Orders, the template of which is set out in Schedule 2 hereto, in relation to the lease of new products.

IV. The Parties shall procure their respective subsidiaries or branches to settle and complete the payments of the service fees specified in the relevant Bulk Lease Form and Product Confirmation Orders as scheduled therein.

V. The service term for each of the tower products, indoor distribution products, transmission products and service products shall be five years. Prior to the expiration of the service term of five years, the Parties or their respective subsidiaries or branches shall negotiate with each other, and to the extent they are able to reach an agreement, they shall enter into new Product Confirmation Orders to specify the terms governing the provision of the relevant products thereafter.

VI. In the event of termination of services caused by Party A prior to the expiration of the service term, Party B shall cooperate with Party A in removing the carried equipment, the expenses of which shall be borne by Party A. Party A shall compensate Party B for the removal expenses in accordance with the rules set forth below:

a) In the event that Party A removes a portion of the products from a certain station site, and after such removal there are products of the same type running at the same station site, Party A shall not be obligated to compensate Party B for the expenses related to the removal, and the service fee shall be calculated based on the number of remaining units of the relevant products;

b) In the event that Party A, being the sole user of the product facility, terminates the services related to all products of the same type prior to the expiration of the service term, Party A shall pay Party B the service fee for the remaining service term (excluding site rent and maintenance cost), penalty fees for early termination of the site rent paid by Party B (if any), and the remaining long-term expenses to be amortized (if any);

c) In the event that Party A shares the product facility with other telecom company(ies), Rule [ ] set forth below shall apply:

Rule 1:

(1) Where Party A terminates the services related to all products of the same type at a certain station site prior to the expiration of the service term, Party A shall pay Party B the service fees for the remaining service term with respect to Party A and penalty fees for early termination of the site rent paid by Party B (if any).

(2) Where a telecom company (the "**Terminating Sharing Party**") sharing a certain station site with Party A terminates the services related to all products of the same type prior to the expiration of the service term, the sharing discounts applicable to service fees for the use of the same type of products by Party A shall remain unchanged in the current service term and terms thereafter (if any) with respect to Party A until the proposed expiration date of the service term of the Terminating Sharing Party, and from such expiration date the sharing discounts applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products.

Rule 2:

(1) Where Party A terminates the services related to all products of the same type at a certain station site prior to the expiration of its service term, and Party A is any of the following: (i) the first-occupier lessee; (ii) an Existing Sharing Party; or (iii) a lessee who started occupying the station site, in the case of a New Tower, at the same time as the other telecom companies, Party A shall pay Party B the service fees (excluding site rent and maintenance cost) for the remaining service term with respect to Party A and penalty fees for early termination of the site rent paid by Party B (if any).

(2) Where Party A terminates all services of the same type of products at a certain station site prior to the expiration of the service term, and Party A is a New Sharing Party who started occupying the station site later than the other lessee(s), the following rules shall apply: (i) if Party A had maintained the service for three years or more, it shall not be obligated to compensate Party B; or (ii) if Party A had maintained the service for less than three years, it shall pay Party B the service fees (excluding site rent and maintenance cost) for the remaining service term applicable to Party A to the extent of three years and penalty fees for early termination of the site rent paid by Party B (if any).

(3) Where a telecom company sharing a certain station site with Party A terminates the services related to all products of the same type prior to the expiration of the service term, and the Terminating Sharing Party is any of the following: (i) the first-occupier lessee; (ii) an Existing Sharing Party; or (iii) a lessee who started occupying the station site, in the case of a New Tower, at the same time as Party A, the sharing discounts applicable to service fees (excluding site cost and maintenance cost) for the use of the same type of products by Party A shall remain unchanged in the current service term and terms thereafter (if any) with respect to Party A until the proposed expiration date of the service term of the Terminating Sharing Party, and from such expiration date the sharing discounts applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products.

(4) Where a telecom company sharing a certain station site with Party A terminates the services related to all products of the same type prior to the expiration of the service term, and the Terminating Sharing Party is a New Sharing Party who started occupying the New Tower later than the other lessees, (i) if the Terminating Sharing Party had maintained the service for three years or more, the sharing discount applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products, or (ii) if the Terminating Sharing Party had maintained the service for less than three years, the sharing discount applicable to service fees (excluding site cost and maintenance cost) for the use of the same type of products by Party A shall remain unchanged in the current service term and terms thereafter (if any) until the third anniversary of the service term of the Terminating Sharing Party had it not terminated, and from then the sharing discounts applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products.

Party B shall provide Party A with the relevant supporting documents to demonstrate the basis and calculation of the aforesaid expenses.

With respect to the arrangement of termination of services prior to the expiration of the service term, provisions in the Agreement shall prevail over any and all prior oral or written arrangements in any form entered into by the Parties, to the extent inconsistent.

VII. With respect to the matters governed by the Agreement, provisions in this Agreement shall prevail over any and all prior oral or written agreement or arrangement in any form entered into by the Parties, to the extent inconsistent. Matters not specified hereunder shall be subject to the Commercial Pricing Agreement and any other agreements or arrangements entered into by the Parties.

VIII. The schedules of this Agreement are inseparable parts of the Agreement and shall be deemed to have the same binding legal effect as the text of this Agreement.

IX. The Agreement shall be executed simultaneously in two counterparts, each of which shall be held by a Party and deemed to have the same binding legal effect. The Agreement shall be effective upon the execution and stamp with the corporate seals by the Parties.

(No text below and the signature and stamp page for [XXX Province/Municipality/Autonomous Region] Provincial Service Agreement (I) (Ref. No. [   ]) to follow)

Party A: [name of the provincial subsidiary of telecom companies] (chop)
Signature:
Date:

Party B: [name of the provincial branch of China Tower] (chop)
Signature:
Date:

Schedule 1.1

Bulk Lease Form for Acquired Towers in [ ] City, [ ] Province
([*Name of telecom company*], former owner)

Party A (Full Name):	Service Commencement Date:		Serial Number						Name of Telecom Company: Date:
		1	Product Confirmation Order Ref. no.						
		2	China Tower's Station Site Serial Number						
		3	Operator's Self-Owned Station Site Name						
		4	Operator's Self-Owned Station Site Serial Number						
		5	Detailed Location						
		6	Longitude						
		7	Latitude						
		8	Product Configuration						
		9	Actual Highest Antenna Mounting Height (m)						
		10	BBU Deployed in China Tower's Equipment Room in Case of RRU Remote?						
		11	Total Number of Existing Sharing Parties on the Towers						
		12	Total Number of Existing Sharing Parties in Equipment Rooms and Facilities						
		13	Number of New Sharing Parties in Existing Towers						
		14	Number of New Sharing Parties in Existing Equipment Rooms and Facilities						
		15	OM Available During 0.00 a.m.- 6.00 a.m.?						
Party B (Full Name):	Service Termination Date:	16	Maintenance Level						Name of China Tower subsidiary company: Date:
		17	Price Mode of Power Supple Assurance Service						
		18	Power Generation Conditions Met?						
		19	Power Generation Service Selected?						
		20	Price Mode of Oil Machine Power Generation Service						
		21	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
		22	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
		23	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
		24	Other Fees (RMB/year, tax inclusive)						
		25	Description of Other Fees						
		26	Base Price of Towers (RMB/year, tax inclusive)						
		27	Base Price of Equipment Rooms & Facilities (RMB/year, tax inclusive)						
		28	Maintenance Cost (RMB/year, tax inclusive)						
		29	Number of Product Units						
		30	Site Cost (RMB/year, tax inclusive)						
		31	Site Cost Discount						
		32	Sharing Discount for Towers						
		33	Sharing Discount for Equipment Rooms and Facilities						
		34	Total Product Service Fees (RMB/year, tax excluded)						
		35	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note: The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.2

Bulk Lease Form for Acquired Towers in [ ] City, [ ] Province
([*Name of telecom company*], Existing Sharing Party)

Party A (Full Name):	Service Commencement Date:		Serial Number						Name of Telecom Company: Date:
		1	Product Confirmation Order Ref. no.						
		2	China Tower's Station Site Serial Number						
		3	Operator's Self-Owned Station Site Name						
		4	Operator's Self-Owned Station Site Serial Number						
		5	Detailed Location						
		6	Longitude						
		7	Latitude						
		8	Product Configuration						
		9	Actual Highest Antenna Mounting Height (m)						
		10	BBU Deployed in China Tower's Equipment Room in Case of RRU Remote?						
		11	Total Number of Existing Sharing Parties on the Towers						
		12	Total Number of Existing Sharing Parties in Equipment Rooms and Facilities						
		13	Number of New Sharing Parties in Existing Towers						
		14	Number of New Sharing Parties in Existing Equipment Rooms and Facilities						
		15	OM Available During 0.00 a.m.- 6.00 a.m.?						
Party B (Full Name):	Service Termination Date:	16	Maintenance Level						Name of China Tower subsidiary company: Date:
		17	Price Mode of Power Supple Assurance Service						
		18	Power Generation Conditions Met?						
		19	Power Generation Service Selected?						
		20	Price Mode of Oil Machine Power Generation Service						
		21	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
		22	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
		23	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
		24	Other Fees (RMB/year, tax inclusive)						
		25	Description of Other Fees						
		26	Base Price of Towers (RMB/year, tax inclusive)						
		27	Base Price of Equipment Room & Facilities (RMB/year, tax inclusive)						
		28	Maintenance Cost (RMB/year, tax inclusive)						
		29	Number of Product Units						
		30	Site Cost (RMB/year, tax inclusive)						
		31	Site Cost Discount						
		32	Sharing Discount for Towers						
		33	Sharing Discount for Equipment Rooms and Facilities						
		34	Total Product Service Fees (RMB/year, tax excluded)						
		35	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

1. The Existing Sharing Parties refer to the telecom companies which shared the Acquired Towers prior to October 31, 2015.

2. The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.3

Bulk Lease Form for Acquired Towers in [ ] City, [ ] Province
([*Name of telecom company*], transformed towers)

Party A (Full Name):		Serial Number						Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Site Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Type of Towers						
	9	Equipment Room Configuration						
	10	Sharing Information						
	11	Height						
	12	Number of Antennas						
	13	Number of Systems						
	14	Is RRU Put in the Towers?						
	15	Total Number of Sharing Parties on the Tower at Present						
	16	Total Number of New Sharing Parties in the Existing Equipment Rooms and Facilities at Present						
	17	OM Available During 0.00 a.m.- 6.00 a.m.?						
	18	Maintenance Level						
	19	Duration of Back-up Battery (hour)						
	20	Price Mode of Power Supple Assurance Service						
Party B (Full Name):	21	Power Generation Conditions Met?						Name of China Tower subsidiary company: Date:
	22	Power Generation Service Selected?						
	23	Price Mode of Oil Machine Power Generation Service						
	24	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	25	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	26	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	27	Fee for Extra Battery Assurance (RMB/year, tax inclusive)						
	28	Other Fees (RMB/year, tax inclusive)					Total:	
	29	Description of Other Fees						
	30	Base Price of Towers (RMB/year, tax inclusive)						
	31	Base Price of Equipment Rooms and Facilities (RMB/year, tax inclusive)						
	32	Maintenance Cost (RMB/year, tax inclusive)						
	33	Number of Product Units						
	34	Electricity Connection Fee (RMB/year, tax inclusive)						
	35	Site Cost (RMB/year, tax inclusive)						
	36	Discount of Site Cost and Electricity Connection Fee						
	37	Sharing Discount for Towers						
	38	Sharing Discount for Equipment Rooms and Facilities						
	39	Service Commencement Date						
	40	Service Termination Date						
	41	Total Product Service Fees (RMB/year, tax excluded)						
	42	Total Product Service fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day each month, and Party A shall pay to the designated bank account of Party B the prior month’s service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

1. Transformed towers refer to the towers previously owned by the telecom companies and/or shared by the Existing Sharing Parties to which China Tower added product units.

2. The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.4

Bulk Lease Form for New Towers in [ ] City, [ ] Province
([*Name of telecom company*])

Party A (Full Name):		Serial Number						Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Site Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Type of Towers						
	9	Equipment Room Configuration						
	10	Sharing Information						
	11	Height						
	12	Number of Antennas						
	13	Number of Systems						
	14	Is RRU put in the Towers?						
	15	Total Number of Sharing Parties on the Tower at Present						
	16	Total Number of New Sharing Parties in the Existing Equipment rooms and Facilities at Present						
	17	OM Available During 0.00 a.m. - 6.00 a.m.?						
	18	Maintenance Level						
	19	Duration of Back-up Battery (hour)						
	20	Price Mode of Power Supple Assurance Service						
Party B (Full Name):	21	Power Generation Conditions Met?						Name of China Tower subsidiary company: Date:
	22	Power Generation Service Selected?						
	23	Price Mode of Oil Machine Power Generation Service						
	24	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	25	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	26	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	27	Fee for Extra Battery Assurance (RMB/year, tax inclusive)						
	28	Other Fees (RMB/year, tax inclusive)					Total:	
	29	Description of Other Fees						
	30	Base Price of Towers (RMB/year, tax inclusive)						
	31	Base Price of Equipment Rooms & Facilities (RMB/year, tax inclusive)						
	32	Maintenance Cost (RMB/year, tax inclusive)						
	33	Number of Product Units						
	34	Electricity Connection Fee (RMB/year, tax inclusive)						
	35	Site Cost (RMB/year, tax inclusive)						
	36	Discount of Site Cost and Electricity Connection Fee						
	37	Sharing Discount for Towers						
	38	Sharing Discount for Equipment Rooms and Facilities						
	39	Service Commencement Date						
	40	Service Termination Date						
	41	Total Product Service Fees (RMB/year, tax excluded)						
	42	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.5

Bulk Lease Form for Transformed Towers Based on Acquired Towers in [ ] City, [ ] Province ([*Name of telecom company*])

Party A (Full Name):		Serial Number						Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Site Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Type of Towers						
	9	Equipment Room Configuration						
	10	Sharing Information						
	11	Height						
	12	Number of Antennas						
	13	Number of systems						
	14	Is RRU Put in the Towers?						
	15	Total Number of Sharing Parties on the Tower at Present						
	16	Total Number of New Sharing Parties in the Existing Equipment rooms and Facilities at Present						
	17	OM Available During 0.00 a.m.- 6.00 a.m.?						
	18	Maintenance Level						
	19	Duration of Back-up Battery (hour)						
	20	Price Mode of Power Supple Assurance Service						
Party B (Full Name):	21	Power Generation Conditions Met?						Name of China Tower subsidiary company: Date:
	22	Power Generation Service Selected?						
	23	Price Mode of Oil Machine Power Generation Service						
	24	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	25	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	26	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	27	Fee for Extra Battery Assurance (RMB/year, tax inclusive)						
	28	Other Fees (RMB/year, tax inclusive)					Total:	
	29	Description of Other Fees						
	30	Base Price of Towers (RMB/year, tax inclusive)						
	31	Base Price of Equipment Rooms & Facilities (RMB/year, tax inclusive)						
	32	Maintenance Cost (RMB/year, tax inclusive)						
	33	Number of Product Units						
	34	Electricity Connection Fee (RMB/year, tax inclusive)						
	35	Site Cost (RMB/year, tax inclusive)						
	36	Discount of Site Cost and Electricity Connection Fee						
	37	Sharing Discount for Towers						
	38	Sharing Discount for Equipment Rooms and Facilities						
	39	Service Commencement Date						
	40	Service Termination Date						
	41	Total Product Service Fees (RMB/year, tax excluded)						
	42	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B last month’s service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

1. Transformed Towers Based on Acquired Towers refer to the towers transformed by China Tower using existing towers in order to satisfy demands of new occupiers.

2. The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.6

Bulk Lease Form for Indoor Distribution Products in [ ] City, [ ] Province
([*Name of telecom company*])

<table>
<tr><td rowspan="15">Party A
(Full Name):</td><td></td><td>Serial Number</td><td></td><td></td><td></td><td></td><td rowspan="25">Total:</td><td rowspan="11">Name of Telecom Company:
Date:</td></tr>
<tr><td>1</td><td>Product Confirmation Order Ref. no.</td><td></td><td></td><td></td><td></td></tr>
<tr><td>2</td><td>Station Location Serial Number</td><td></td><td></td><td></td><td></td></tr>
<tr><td>3</td><td>Demand Confirmation Letter Ref. no</td><td></td><td></td><td></td><td></td></tr>
<tr><td>4</td><td>Name of Station Site</td><td></td><td></td><td></td><td></td></tr>
<tr><td>5</td><td>Name of Location</td><td></td><td></td><td></td><td></td></tr>
<tr><td>6</td><td>Longitude</td><td></td><td></td><td></td><td></td></tr>
<tr><td>7</td><td>Latitude</td><td></td><td></td><td></td><td></td></tr>
<tr><td>8</td><td>Type of Products</td><td></td><td></td><td></td><td></td></tr>
<tr><td>9</td><td>Type of Scenes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>10</td><td>Construction Area/Tunnel Length (M^2/Kilometer)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>11</td><td>Number of Systems</td><td></td><td></td><td></td><td></td><td rowspan="16">Name of China Tower subsidiary company:
Date:</td></tr>
<tr><td>12</td><td>Total Number of Sharing Parties at Present</td><td></td><td></td><td></td><td></td></tr>
<tr><td>13</td><td>Duration of Back-up Battery (Hour)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>14</td><td>Price Mode of Power Supple Assurance Service</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="12">Party B
(Full Name):</td><td>15</td><td>Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>16</td><td>Other Fees (RMB/year, tax inclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>17</td><td>Description of Other Fees</td><td></td><td></td><td></td><td></td></tr>
<tr><td>18</td><td>Base Price (RMB/year, tax inclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>19</td><td>Maintenance Fees</td><td></td><td></td><td></td><td></td></tr>
<tr><td>20</td><td>Number of Product Units</td><td></td><td></td><td></td><td></td></tr>
<tr><td>21</td><td>Site Cost (RMB/year, tax inclusive)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>22</td><td>Sharing Discount</td><td></td><td></td><td></td><td></td></tr>
<tr><td>23</td><td>Service Commencement Date</td><td></td><td></td><td></td><td></td></tr>
<tr><td>24</td><td>Service Termination Date</td><td></td><td></td><td></td><td></td></tr>
<tr><td>25</td><td>Total Product Service Fees
(RMB/year, tax excluded)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>26</td><td>Total Product Service Fees
(RMB/year, tax inclusive)</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 2.1 Product Confirmation Order for Tower Products

Ref. no:

Party A (Full Name):		Party B (Full Name):	
Service Commencement Date:		Service Termination Date:	

Product Service Fees

Serial Number	Items	Base Price (RMB /year) Of Telecommunications Towers	Of Equipment Rooms + Facilities	Number of Product Units (Set)	Discount for RRU On Tower Or Not	Total (RMB /year)	Site Cost (RMB /year)	Electricity Connection Cost (RMB /year)	Sharing Discount (%) Site Cost + Electricity Input	Telecommunications Towers	Equipment rooms +Facilities	Product Service Fees (RMB /year) (Tax excluded)
1.1	Tower Products											
1.2	WLAN											
1.3	Microwave											
2.1	Electricity Assurance Service fee						Lump Sum ☐ Payment Assistance (resale) ☐ Payment Assistance (transmission) ☐ Payment Assistance (withholding) ☐					
2.2	Oil Machine Power Generation Service Fee						Lump Sum ☐ Per Time ☐ Others ☐					
2.3	Fee for Extra Battery Assurance											
2.4	Extra Maintenance Cost of Station Sites Exceeding 10% Premium Service											
2.5	Modification Fee for Electricity and Facilities											
2.5	Other Fees					Description of Other Fees, Manual Entry						
	Total (RMB/year, tax inclusive)											

Item Information

Station Site Name:		Station Site Serial Number:	
Longitude:		Latitude:	
Detailed Location:		Demand Confirmation Letter Ref. no:	
Type of Telecommunications Towers:		Tower Height (m):	
Equipment Room Configuration:	Self-owned ☐ Rented☐ Integrated Cabinet ☐ RRU Remote ☐ No ☐	Wind Pressure Coefficient:	
Sharing Information:	The First Newly-added☐ The Sharing Newly-added ☐ Owner of the Acquired ☐ The Sharing Acquired (existing)☐ The Sharing Acquired (new) ☐	Total Number of Sharing Parties on the Telecommunications Tower at Present	Total Number of Sharing Parties in the Existing Equipment Rooms and Facilities at Present:
OM Available Or Not During 0.00 a.m. – 6.00 a.m.?:	Y☐ N☐	Maintenance Level:	
Notes to Item Information		Operator's Physical Station Site Serial Number:	(filled by the operator)

Product Configuration

	Product Serial Number	Mounting Height (m)	Number of Antennae (set)	Number of Systems (set)	RRU Mounted on Tower Or Not	Put BBU In Equipment Room Of China Tower When RRU Remote?	Number of Product Units (set)
Telecommunications Towers	[Tower Serial Number1]				Yes or no	Yes or no	
	[Tower Serial Number2]						
	[Microwave Serial Number]						
	[WLAN Serial Number]						
	Total						

	Power Configuration	Backup Battery (Hour)	With Generation Conditions?	Select Power Generation Service Or Not	Installation Space: Device Rack (Set)	Installation Space: Transmission Rack Space
Equipment Rooms	____ V ____ KW		Y ☐ N ☐	Y ☐ N ☐		0.6mX0.6mX2m

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.			
1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the current Product Confirmation Order. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Product Confirmation Order. 2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Product Confirmation Order shall be revised accordingly.			
Other Related Descriptions:	This template form is only for reference, and the form actually generated from China Tower's IT system shall prevail.		
Party A		Party B	
Bank Name:		Bank Name:	
A/C No.:		A/C No.:	
Party A (Seal): Clerk (Signature): Date:		Party B (Seal): Clerk (Signature): Date:	

Schedule 2.2 Product Confirmation Order for Indoor Distribution Products Ref. no:

Party A (Full Name):		Party B (Full Name):	
Service Commencement Date:		Service Termination Date:	

Product Service Fees

Serial Number	Service Items	Base Price				Site Cost (RMB /year)	Sharing Discount (%)	Product Service Fee (RMB /year) (Tax excluded)	Product Service Fee (RMB /year) (Tax inclusive)
		Base Price (RMB/year)	Construction Area of Commercial Buildings (M^2)	Number of Product Units (set)	Total (RMB /year)				
1	Indoor Distribution Products								
2	Service Products								
2.1	Lump-sum Service Fee for Electricity Assurance								
	Total:								

Item Information

Station Site Name:		Station Site Serial Number:	
Longitude:		Latitude:	
Detailed Location:		Number of antenna sites	
Number of Existing Sharing Parties		Demand Confirmation Letter Serial Number:	
Other Descriptions:			

Product Configuration

Indoor Distribution	Type of Products	Scene of Products	Construction Area (or Tunnel Length) (M^2/Kilometers)	Number of Systems (set)	Number of Product Units (set)

Equipment Rooms	Power Configuration	Backup Battery (hour)	Facilities Installation Space
	____ V ____ KW		To provide customer source and facilities installation space

Payment method of service fees:
1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the current Product Confirmation Order. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Product Confirmation Order.
2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Product Confirmation Order shall be revised accordingly.

Other Related Descriptions:	This template form is only for reference, and the form at actually generated from China Tower's IT system shall prevail.

Party A		Party B	
Bank Name:		Bank Name:	
A/C No.:		A/C No.:	
Party A (Seal): Clerk (Signature): Date:		Party B (Seal): Clerk (Signature): Date:	

Schedule 2.3 Product Confirmation Order for Transmission Products

Ref. no:

Party A (Full Name):		Party B (Full Name):	
Service Commencement Date:		Service Termination Date:	

Product Service fees

Serial Number	Service Items	Construction cost (RMB)	Product Price (RMB) (Tax excluded)	Product Price (RMB) (Tax inclusive)	Number of Customers Accessed	Product Service Fee (RMB) (Tax inclusive)
1	Transmission Products					
	Total:					

Item Information

Station Site Name:		Station Site Serial Number:	
Longitude:		Latitude:	
Detailed Location:		Demand Confirmation Letter Serial Number:	
Mode of Delivery of Service:	By Outsourcing☐ By Service☐	Owner of Assets Or Not?	Yes☐ No☐
Other Descriptions:			

Product Configuration

Transmission Products	Pipes		Pole Road (Pole kilometers)	Fiber Optic Cables (12 core. kilometers)
	Pipe Jacking (Meters)	Excavation Pipeline (Sub-hole kilometers)		

Payment method of service fees:
1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month. Party A shall pay product and service fees to the designated bank account of Party B prior to the 25th day of the next month of the service term in the case of outsourcing construction; Party A shall pay the prior month's product and service fees to the designated bank account of Party B prior to the 25th day of each month in the case of construction by service mode.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Product Confirmation Order. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Product Confirmation Order.
2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Product Confirmation Order shall be revised accordingly.

Other Descriptions:	This template form is only for reference, and the form actually generated from China Tower's IT system shall prevail.		
Party A		Party B	
Bank Name:		Bank Name:	
A/C No.:		A/C No.:	
Party A (Seal): Clerk (Signature): Date:		Party B (Seal): Clerk (Signature): Date:	

Exhibit 8.1

List of Subsidiaries

Name	Jurisdiction of Incorporation
China Telecom Global Limited (formerly known as China Telecom (Hong Kong) International Limited)	Hong Kong Special Administrative Region
China Telecom (Europe) Limited	London, United Kingdom
China Telecom System Integration Co., Limited	The People’s Republic of China
China Telecom (Americas) Corporation	Delaware, United States of America
China Telecom Best Tone Information Service Co., Limited	The People’s Republic of China
Zhejiang Yixin Technology Co., Ltd.	The People’s Republic of China
China Telecom (Macau) Company Limited (formerly known as China Unicom (Macau) Company Limited)	Macau Special Administrative Region
Tianyi Telecom Terminals Company Limited (formerly known as Unicom Huasheng Telecommunications Technology Company Limited)	The People’s Republic of China
E-surfing Pay Co., Ltd. (formerly known as Bestpay Co., Ltd.)	The People’s Republic of China
Shenzhen Shekou Telecommunications Company Limited	The People’s Republic of China
iMUSIC Culture & Technology Co., Ltd.	The People’s Republic of China
Chengdu E-store Technology Co., Ltd.	The People’s Republic of China

Exhibit 12.1

Certification

I, Yang Jie, certify that:

1. I have reviewed this annual report on Form 20-F of China Telecom Corporation Limited (the "Company");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2017

/s/ Yang Jie

Name: Yang Jie

Title: Chief Executive Officer

Exhibit 12.2

Certification

I, Ke Ruiwen, certify that:

1. I have reviewed this annual report on Form 20-F of China Telecom Corporation Limited (the "Company");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2017

/s/ Ke Ruiwen

Name: Ke Ruiwen
Title: Executive Director and Executive Vice President (performing the functions of the principal financial officer)

Exhibit 13.1

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of China Telecom Corporation Limited (the “Company”), hereby certifies, to his knowledge, that the Company’s Annual Report on Form 20-F for the year ended December 31, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2017

/s/ Yang Jie
Name: Yang Jie
Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 13.2

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of China Telecom Corporation Limited (the "Company"), hereby certifies, to his knowledge, that the Company's Annual Report on Form 20-F for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2017

/s/ Ke Ruiwen

Name: Ke Ruiwen
Title: Executive Director and Executive Vice President (performing the functions of the principal financial officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.