CHINA TELECOM CORP LTD
Form 20-F
April 29, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 20-F

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

**OR**

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

**For the fiscal year ended December 31, 2012**

**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**

**(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)**

**Ms. Yi Chen**

**China Telecom Corporation Limited**

**31 Jinrong Street, Xicheng District**

**Beijing, People s Republic of China 100033**

**Email: chenyi@chinatelecom.com.cn**

**Telephone: (+86-10) 5850 1508**

**Fax: (+86-10) 5850 1504**

**(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, 2012, 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 x 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 x

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 x 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 x

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

U.S. GAAP ¨

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

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 x

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**CHINA TELECOM CORPORATION LIMITED**

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## FORWARD-LOOKING STATEMENTS

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

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

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

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

- any changes in the regulations or policies of the Ministry of Industry and Information Technology, 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;

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

effects of our restructuring and integration following the completion of our acquisition of the Code Division Multiple Access technology, or CDMA, telecommunications business, or the CDMA Business in 2008;

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 third generation mobile telecommunications, or 3G, licenses by the MIIT;

the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business; and

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.

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

**PART I**

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

Not applicable.

**Item 2. Offer Statistics and Expected Timetable.**

Not applicable.

**Item 3. Key Information.**

**A. Selected Financial Data**

The following table presents our selected financial data. The selected consolidated statement of financial position data as of December 31, 2011 and 2012, and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for

the years ended December 31, 2010, 2011 and 2012, 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 statement of financial position data as of December 31, 2008, 2009 and 2010 and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2008 and 2009 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.

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The selected financial data reflect the acquisitions and divestment in 2008 and 2012 described under Item 4. Information on the Company A. History and Development of the Company Our Acquisitions from China Telecom Group and Corporate Organization Restructuring , 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

On October 1, 2008, we acquired from China Unicom (Hong Kong) Limited (formerly known as China Unicom Limited), or China Unicom, and China Unicom Corporation Limited, or CUCL, the entire CDMA Business and related assets and liabilities for a total consideration of RMB43,800 million. The related direct transaction cost for the acquisition was RMB84 million. The final cost of the acquisition was RMB40,413 million as a result of a RMB3,471 million reduction to the total consideration. The reduction represented a net settlement due from China Unicom in connection with our acquisition of certain customer-related assets and assumption of certain customer-related liabilities relating to the CDMA Business pursuant to the acquisition agreement. China Unicom is a company incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange, or NYSE. Our acquisition of the CDMA Business and related assets and liabilities was accounted for using the purchase method.

On April 30, 2012, we sold to Besttone Holding Co., Ltd. (formerly known as China Satcom Guomai Communications Co., Ltd.), or Besttone Holding, which was controlled by China Telecom Group, our 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services. Besttone Holding paid the consideration by issuing to us 21,814,894 of its shares, representing approximately 4.1% of its enlarged share capital.

On April 30, 2012, we acquired the digital trunking business from Besttone Holding for a consideration of RMB48 million. The assets and liabilities of the acquired digital trunking business have been restated to account for the acquisition as if it had occurred before the commencement of the earliest period presented.

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, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 RMB (restated) [1] | 2009 RMB (restated) [1] | 2010 RMB (restated) [1] | 2011 RMB (restated) [1] | 2012 RMB | 2012 US$ |
| | (in millions, except share numbers and per share and per ADS data) | | | | | |
| **Consolidated Statement of Comprehensive Income Data:** | | | | | | |
| Operating revenues | 186,567 | 209,404 | 219,897 | 245,068 | 283,073 | 45,426 |
| Operating expenses [2] | (182,222) | (187,373) | (196,453) | (220,941) | (261,887) | (42,026) |
| Operating income | 4,345 | 22,031 | 23,444 | 24,127 | 21,186 | 3,400 |
| (Losses)/earnings before income tax | (614) | 18,548 | 20,303 | 22,012 | 19,793 | 3,176 |
| Income tax | 983 | (4,382) | (4,846) | (5,416) | (4,753) | (763) |
| Profit attributable to equity holders of the Company | 274 | 13,962 | 15,339 | 16,500 | 14,925 | 2,395 |
| Basic earnings per share[3] | 0.00 | 0.17 | 0.19 | 0.20 | 0.18 | 0.03 |
| Basic earnings per ADS[3] | 0.34 | 17.23 | 18.95 | 20.39 | 18.44 | 2.96 |
| Cash dividends declared per share | 0.08 | 0.08 | 0.07 | 0.07 | 0.07 | 0.01 |

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| | As of or for the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 RMB (restated) [1] | 2009 RMB (restated) [1] | 2010 RMB (restated) [1] | 2011 RMB (restated) [1] | 2012 RMB | 2012 US$ |
| | (in millions, except share numbers and per share and per ADS data) | | | | | |
| **Consolidated Statement of Financial Position Data:** | | | | | | |
| Cash and cash equivalents | 27,866 | 34,804 | 25,824 | 27,372 | 29,982 | 4,811 |
| Accounts receivable, net | 17,291 | 17,438 | 17,328 | 18,471 | 18,768 | 3,012 |
| Total current assets | 55,513 | 60,946 | 55,250 | 59,581 | 65,210 | 10,465 |
| Property, plant and equipment, net | 296,436 | 283,594 | 272,514 | 268,904 | 373,743 | 59,976 |
| Total assets | 454,169 | 440,015 | 420,575 | 419,151 | 545,072 | 87,470 |
| Short-term debt | 83,448 | 51,650 | 20,675 | 9,187 | 6,523 | 1,047 |
| Current portion of long-term debt | 565 | 1,487 | 10,352 | 11,766 | 10,212 | 1,639 |
| Accounts payable | 34,461 | 34,323 | 40,041 | 44,359 | 68,844 | 11,048 |
| Total current liabilities | 176,801 | 143,492 | 126,932 | 127,262 | 193,461 | 31,046 |
| Long-term debt | 39,226 | 52,768 | 42,549 | 31,150 | 83,070 | 13,331 |
| Deferred revenues (including current portion) | 11,444 | 8,462 | 6,203 | 4,805 | 3,445 | 553 |
| Total liabilities | 224,571 | 202,815 | 174,414 | 162,241 | 279,042 | 44,779 |
| Equity attributable to equity holders of the Company | 228,119 | 236,352 | 245,665 | 256,122 | 265,069 | 42,537 |
| **Consolidated Cash Flow Data:** | | | | | | |
| Net cash generated from operating activities | 76,759 | 74,991 | 75,574 | 73,009 | 70,667 | 11,340 |
| Net cash used in investing activities[4] | (75,819) | (43,255) | (45,734) | (43,637) | (48,252) | (7,743) |
| Capital expenditures[4] | (46,652) | (40,311) | (41,597) | (48,495) | (50,028) | (8,028) |
| Net cash generated from / (used in) financing activities | 5,582 | (24,796) | (38,774) | (27,723) | (19,802) | (3,178) |

(1) Certain comparative financial data prior to January 1, 2012 presented herein have been restated as a result of the acquisition of digital trunking business from Besttone Holding. See Note 1 to our audited financial statements.

(2) Includes an impairment loss in 2008 on property, plant and equipment of RMB24,167 million, which primarily represented an impairment loss on our Personal Handyphone System, or PHS, specific equipment of RMB23,954 million, an impairment loss in 2009 on property, plant and equipment of RMB753 million, which mainly represented impairment made in respect of our Digital Data Network, or DDN, specific equipment, an impairment loss in 2010 on property, plant and equipment of RMB139 million, which mainly represented impairment made in respect of certain of our obsolete telecommunications equipment.

(3) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2008, 2009, 2010 ,2011 and 2012 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.

(4) 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 30, 2012, a final dividend of RMB5,625 million (RMB0.069506 equivalent to HK$0.085 per share) for the year ended December 31, 2011 was declared, all of which has been fully paid.

Pursuant to a resolution passed at the Directors meeting on March 20, 2013, a final dividend of approximately RMB5,522 million (RMB0.068230 equivalent to HK$0.085 per share) for the year ended December 31, 2012 was proposed for shareholders approval at the forthcoming annual general meeting.

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***Exchange Rate Information***

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For any date and period, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 28, 2012 (RMB6.2315 to US$1.00 and HK$7.7518 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 Risk Factors Risks Relating to the People s Republic of China Fluctuation of the Renminbi could materially affect our financial condition and results of operations. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. 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 19, 2013, the daily exchange rates reported by the Federal Reserve Board was RMB6.1772 to US$1.00 and HK$7.7637 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 2012 | 6.2877 | 6.2372 | October 2012 | 7.7549 | 7.7494 |
| November 2012 | 6.2454 | 6.2221 | November 2012 | 7.7518 | 7.7493 |
| December 2012 | 6.2502 | 6.2251 | December 2012 | 7.7518 | 7.7493 |
| January 2013 | 6.2303 | 6.2134 | January 2013 | 7.7585 | 7.7503 |
| February 2013 | 6.2438 | 6.2213 | February 2013 | 7.7580 | 7.7531 |
| March 2013 | 6.2246 | 6.2105 | March 2013 | 7.7640 | 7.7551 |
| April 2013 (through April 19, 2013) | 6.2078 | 6.1720 | April 2013 (through April 19, 2013) | 7.7652 | 7.7615 |

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 2008, 2009, 2010, 2011 and 2012 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 |
|---|---|---|
| 2008 | 6.9193 | 7.7814 |
| 2009 | 6.8295 | 7.7513 |
| 2010 | 6.7603 | 7.7692 |
| 2011 | 6.4475 | 7.7793 |
| 2012 | 6.2990 | 7.7556 |

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

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**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 and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile Limited, or China Mobile, continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services.

In particular, in January 2009, each of China Mobile Communications Corporation, or China Mobile Group, China Telecom Group and China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation prior to its merger with China Network Communications Group Corporation), or Unicom Group, received a license from the MIIT to operate 3G businesses nationwide. The licenses permit China Mobile Group, China Telecom Group and Unicom Group to provide 3G services based on TD-SCDMA, CDMA2000 and WCDMA technologies, respectively. We have been authorized by China Telecom Group to operate 3G business nationwide based on CDMA2000 technology. China Mobile, China Unicom and our Company have all launched 3G services. However, we cannot assure you that: (i) our 3G services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned 3G services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for 3G services for us to deliver these services profitably; (iv) our competitors 3G, or newer technology based, services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in implementing the CDMA2000 technology. 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 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 services providers), are competing with us in voice or data services.

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 Business Overview Three-Network Convergence Policy. In May 2010, the PRC State Council issued Certain Opinion on Encouraging and Guiding the Sound Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. In January 2013, the MIIT published for comments the draft of the Trial Plan of Resale of Mobile Telecommunications Services. Pursuant to the draft plan, MIIT would grant qualified companies mobile virtual network operator licenses which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators and resell such services to customers. 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 to the extent permitted under relevant laws and regulations, reducing or reversing the growth of our customer base and reducing usage of our services. Any of these developments could materially adversely affect our revenues and profitability. We cannot assure you that the increasingly competitive environment and any change in the competitive landscape of the telecommunications industry in the PRC would not have a material adverse effect on our business, financial condition or results of operations.

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***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 VoIP. Tariffs for mobile services have continued decreasing in recent years, which further accelerated substitution of the wireline voice services by the mobile services. The number of our fixed-line subscribers decreased by 3.1% at the end of 2011 compared to that at the end of 2010 and further decreased by 3.9% at the end of 2012. Revenues from our wireline voice services decreased by 20.4% in 2011 compared to 2010 and further decreased by 12.9% in 2012. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 28.4% in 2010 to 20.3% in 2011 and 15.3% in 2012.

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

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

China Telecom Group, a wholly state-owned enterprise, owned approximately 70.89% of our outstanding shares as of April 24, 2013. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

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

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

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

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

use of international gateway facilities;

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

use of certain inter-provincial optic fibers; and

lease of properties and assets, including lease of certain CDMA network facilities.

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

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

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

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

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

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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 the three-network convergence, cloud computing and Internet of Things, may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and changes in industry standards, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. For example, we continue to make significant investment to improve our broadband network, including the upgrade of optic fiber coverage capacity. However, we may not be able to recover our investment as expected.

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

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

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

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We cannot assure you that the security measures we have implemented will not be circumvented or otherwise fail to protect the integrity of our network. Unauthorized access could jeopardize the security of confidential information stored in our customers computer systems. 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.

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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 are subject to an anti-monopoly investigation by the PRC National Development and Reform Commission over our pricing practices for Internet dedicated leased line access services to Internet service providers.***

In 2011, the PRC National Development and Reform Commission, or the NDRC, initiated an anti-monopoly investigation over our pricing practices with respect to our Internet dedicated leased line access services to Internet service providers. In response to this investigation, we have conducted a self-evaluation of the relevant pricing practices and submitted in November, 2011 to the NDRC a proposal for enhancement initiatives as well as an application for suspension of investigation, setting out our plan to carry out capacity expansion and reduce the price for direct interconnection with other backbone network operators, further standardize our tariff arrangement of Internet dedicated leased line access services, continue to upgrade our broadband access capacity and reduce the bandwidth unit price of Internet access for public customers. In the event of any adverse determination by the NDRC investigation, we may be required to carry out additional remedial measures and/or subject to penalties being imposed on us.

***Future implementation of a value-added tax to replace the business tax in the PRC may decrease our revenues and profitability.***

Our business operations in China are subject to PRC business tax, which is assessed against substantially all of our revenues at a rate of 3%. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation introduced a pilot tax program under which the PRC business tax will be replaced with a value-added tax, or VAT, in certain pilot regions for selected industries, including transportation services industry and certain modern services industries, such as research and development, technical services and information technology services. The pilot VAT program started on January 1, 2012 in the transportation services industry and certain modern services industries in Shanghai and had expanded to such industries in other eight provinces by the end of 2012. On April 10, 2013, the State Council announced that the pilot VAT program would apply nationwide in the PRC, staring from August 1, 2013 and that the pilot program may expand to other modern service industries, such as the railway transportation industry and the post and telecommunications industry.

The timetable for applying the pilot VAT program to the telecommunications industry and the applicable tax rate remain unknown. Depending on the specifications of the VAT program as applicable to the telecommunication industry, our revenues and profitability may decrease as a result of the telecommunications industry being subject to the VAT program.

***Risks Relating to the Telecommunications Industry in the PRC***

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

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

industry policies and regulations;

licensing;

tariffs;

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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.

In addition, these 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 reduce our tariff or to provide universal services with specified obligations, and we may not be compensated adequately for reducing our tariff or providing such services.***

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to government regulations on tariffs, especially those relating to our basic telecommunications services. See Item 4. Information on the Company B. Business Overview Regulatory and Related Matters Tariff Setting. We derive a substantial portion of our revenues from services that are subject to tariff regulations of the PRC government. Our revenues have been adversely affected by adjustments in tariffs and other changes in the past, and we may be adversely affected by any future tariff regulations mandated by the PRC government. We cannot predict the likelihood, timing or magnitude of tariff adjustments by the government or their potential impact on our business.

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In addition, under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government. The MIIT has the authority to delineate the scope of universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other governmental authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate the expenses incurred in the Village to Village projects before the establishment of a universal service fund. In December 2006, the Ministry of Finance issued the Provisional Rules on Usage and Administration of Telecommunications Universal Service Fund, effective December 21, 2006, which provide a compensation scheme for certain expenses incurred by the telecommunications services providers in undertaking the Village to Village projects. However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the Village to Village 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 the government substantially lowers the tariffs for our services, or if we are required to provide universal services with specified obligations without proper compensation by the government, our business and profitability may be materially adversely affected.

***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.

***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.

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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 and results of operations.***

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 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 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.

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

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

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

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

***Holders of H shares may be subject to PRC taxation.***

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

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

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

Several natural disasters and health hazards have struck mainland China in recent years. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment and other assets in the affected areas sustained some damage in the earthquakes, leading to service stoppage and other disruptions in our operations in those areas. In March 2011, a major earthquake registering 9.0 on the Richter scale struck Japan, which affected our international communications services. 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.

***Our investors may be deprived of the benefits of PCAOB s oversight of our independent registered public accounting firm through inspections***.

Under the Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board, or PCAOB, has the authority and is required to conduct continuing inspections of registered public accounting firms that provide audit services to public companies subject to the reporting requirements of the SEC. Our external auditor is registered with the PCAOB and is subject to inspections by the PCAOB. However, the PCAOB is currently unable to inspect registered public accounting firm s audit work relating to a company s operations in the PRC where the documentation of such audit work is located in the PRC, such as our registered public accounting firm s audit work relating to our operations in the PRC. As a result, our investors may be deprived of the benefits of PCAOB s oversight of our independent registered public accounting firm through such inspections.

## 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 (and prior to March 2008, the Ministry of Information Industry, or the MII), 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 (and prior to March 2008, the MII) in connection with our business for our benefits. The government currently does not charge license fees for the telecommunications licenses held by China Telecom Group.

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

***Our Acquisitions from China Telecom Group and Corporate Organization Restructuring***

We carried out a series of acquisitions between 2003 and 2012, through which we acquired from China Telecom Group telecommunications operations conducted by its subsidiaries. As a result, we significantly expanded the geographical coverage and services of our operations in Mainland China.

In June 2007, we acquired from China Telecom Group and its wholly owned subsidiary China Huaxin Post and Telecommunications Development Center 100.0% equity interest in each of China Telecom Global Limited (formerly known as China Telecom (Hong Kong) International Limited), China Telecom System Integration Co., Limited and China Telecom (Americas) Corporation (formerly known as China Telecom (USA) Corporation).

In 2008, for the purpose of improving our organization structure by managing our businesses through branches instead of subsidiaries, we merged with certain of our wholly owned subsidiaries, with these subsidiaries dissolved and all of their assets, businesses, liabilities, rights and obligations being assumed by us. Our provincial branches have taken over the responsibilities of managing and operating the business in these provinces formerly operated by these subsidiaries.

On August 1, 2011 and December 1, 2011, E-surfing Pay Co., Ltd. and E-surfing Media Co., Ltd., two of our subsidiaries, acquired the e-commerce business and video media business from China Telecom Group.

On April 30, 2012, we acquired the digital trunking business from Besttone Holding, which was controlled by China Telecom Group.

***Industry Restructuring and Our Acquisition of the CDMA Business in 2008***

***Industry Restructuring in 2008***

On May 24, 2008, the MIIT, the National Development and Reform Commission and the Ministry of Finance issued a joint announcement relating to the further reform of the telecommunications industry in the PRC. According to the joint announcement, the principal objectives of the reform include, among others: (i) supporting the formation of three telecommunications service providers, each with nationwide network resources, comparable scale and standing, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications service providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom Group of the CDMA network (including both assets and subscriber base) 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. The joint announcement required that detailed implementation plans relating to these restructuring transactions be formulated by the relevant parties involved, subject to, in each case, agreement on terms among the relevant parties and approvals by applicable PRC government authorities, and carried out, as applicable, in accordance with customary practices in the domestic and international capital markets.

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***Our Acquisition of the CDMA Business***

On June 2, 2008, we, China Unicom and CUCL entered into a framework agreement, or the CDMA Business Framework Agreement, which sets forth certain key terms in respect of our acquisition from CUCL of the CDMA Business then owned and operated by CUCL and related assets and liabilities. On July 27, 2008, we, China Unicom and CUCL entered into an acquisition agreement, or the CDMA Acquisition Agreement, which sets forth the terms and conditions in respect of our acquisition of 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. The CDMA Acquisition Agreement superseded the CDMA Business Framework Agreement. The total consideration for our acquisition of the CDMA Business was RMB43,800 million. The related direct transaction cost for the acquisition was RMB84 million. The final cost of the acquisition was RMB40,413 million as a result of a RMB3,471 million reduction to the total consideration. The reduction represents a net settlement due from China Unicom in connection with our acquisition of certain customer-related assets and assumption of certain customer-related liabilities relating to the CDMA Business pursuant to the acquisition agreement. The cost of the acquisition had been fully paid by us by February, 2010.

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***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. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group CDMA Network Capacity Lease Agreement for details of this agreement.

***Transfer of Certain Basic Telecommunications Business from China Satellite to China Telecom Group***

Following the approval by the State-Owned Assets Supervision and Administration Commission of the State Council, or the SASAC, and the MIIT, the transfer of basic telecommunications business of China Satellite to China Telecom Group, our controlling shareholder, without consideration was fully completed in January 2009. The business transferred from China Satellite to China Telecom Group included voice over internet protocol, or VoIP, services, satellite international private line services, very small aperture terminal, or VSAT, services, digital tracking communications services and other services related to basic telecommunications services in 21 service regions. These service regions consist of Beijing Municipality, Anhui Province, Chongqing Municipality, Fujian Province, Gansu Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Hainan Province, Hubei Province, Hunan Province, Jiangsu Province, Jiangxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Shaanxi Province, Shanghai Municipality, Sichuan Province, Xinjiang Uygur Autonomous Region, Yunnan Province and Zhejiang Province.

In connection with our restructuring and acquisitions set forth above, we entered into various arrangements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. These arrangements include agreements for trademark licensing, centralized services, interconnection arrangements, optic fiber leasing, property leasing, IT services, CDMA network capacity lease and other services. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a more detailed description of these arrangements.

***Our Sale of Besttone E-Commerce Co., Ltd.***

On April 28, 2011, we entered into an acquisition agreement with Besttone Holding, under which, we agreed to sell to Besttone Holding our 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services. Besttone Holding agreed to pay the consideration by issuing to us 21,814,894 of its shares, representing around 4.1% of its enlarged share capital. The transaction was completed on April 30, 2012.

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

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

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Pursuant to the CDMA Network Acquisition Agreement, (i) RMB25,500 million of the Final Consideration was paid in January 2013 and (ii) the balance of the Final Consideration, or the Deferred Payment, will be payable at any time on or before the fifth anniversary of the Completion Date. Payment of the Final Consideration was and will be funded from our internal resources and relevant debt financing sources. The Company may, from time to time, prepay all or part of the Deferred Payment at any time after the Completion Date without any penalty until the fifth anniversary of the Completion Date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecom Group at half-yearly intervals and the interest will accrue from the day following the Completion Date. The interest rate will be set at a five basis points premium to the yield of the five-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the Completion Date and will be adjusted once a year in accordance with the last yield of the five-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rate for the first year after the Completion Date is 4.83%. 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.

Following the completion of this transaction, in order to lease certain CDMA network facilities, properties and land use rights which were not acquired by us in the Mobile Network Acquisition from China Telecom Group to maintain continuity in the business operation and the provision of CDMA services by the Company, the Company entered into the following agreements with China Telecom Group on August 22, 2012: (i) the CDMA Network Facilities Leasing Framework Agreement, pursuant to which the Company leases certain CDMA network facilities located in Xizang Autonomous Region from China Telecom Group and/or its associates and (ii) the Land Use Right Leasing Framework Agreement, pursuant to which the Company and China Telecom Group and/or its associates mutually lease certain land use rights from each other in connection with their respective operations.

***Our Proposed Sale of E-surfing Media Co,. Ltd.***

On April 26, 2013, the Company entered into a disposal agreement with China Telecommunications Corporation, pursuant to which the Company has agreed to sell to China Telecommunications Corporation an 80% equity interest in E-surfing Media Co., Ltd., or E-surfing Media, a subsidiary of the Company primarily engaging in providing platform operating services for mobile Internet video and Internet video and offering video services for subscribers through cooperation with content providers. The initial consideration is RMB1,195 million in cash, subject to adjustment. This transaction will be completed after the satisfaction of the closing conditions.

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***Organizational Structure***

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 29, 2013:

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(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.
(5) We have agreed to sell our 80% equity interest in this company to China Telecommunications Corporation. See Item 4-Information on the Company A. History and Development of the Company Our Proposed Sale of E-surfing Media Co., Ltd.

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

***General Information***

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

**B. Business Overview**

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

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

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

***Our Operation Strategy***

In 2012, facing increasing market competition, we continued to pursue our leading position in innovation and quality services to achieve the scale development of our full services operation. Leveraging on the rapid development of mobile Internet, we have focused on the sales of 3G smartphones and the promotion of integrated packages of and stand-alone products of telecommunications services in order to maintain the high growth rate of our mobile subscriber base and services consumption. With the expansion of our mobile subscriber base and steady increase of our mobile Internet data traffic, our mobile Internet services, products and applications continue to maintain rapid growth and have significantly contributed to the growth in our operating revenues. We have also actively promoted industry applications for the government and enterprise customers and fostered innovations in the content services business. While continuing to optimize our business structure, we have maintained the rapid growth of our mobile services, further solidified the competitive advantage of our broadband services and effectively managed the risks related to our declining wireline voice services.

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***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, | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| **Wireline Voice Services:** | | | |
| Local wireline access lines in service (in millions) | 175.1 | 169.6 | 163.0 |
| Residential | 110.2 | 108.0 | 103.5 |
| Government and enterprises | 34.0 | 36.8 | 38.7 |
| Public telephones | 14.5 | 13.9 | 13.3 |
| Wireless local access | 16.4 | 10.9 | 7.5 |
| | | | |
| Wireline local voice usage (in billion pulses)[(1)] | 251.4 | 206.4 | 172.2 |
| Domestic long distance wireline usage (in billion minutes) [(2)] | 68.5 | 52.9 | 41.2 |
| International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes)[(3)] | 1.2 | 1.1 | 1.0 |
| **Mobile Voice Services:** | | | |
| Mobile subscribers (in millions) | 90.5 | 126.5 | 160.6 |
| Mobile voice usage (in billion minutes) | 295.9 | 407.8 | 509.2 |
| **Internet Access Services:** | | | |
| Wireline broadband subscribers (in millions) | 63.5 | 76.8 | 90.1 |
| **Value-added Services** | | | |
| Mobile SMS Usage (in billion messages) | 33.1 | 49.9 | 55.8 |
| Mobile Color Ring Tone subscribers (in millions) | 54.2 | 75.4 | 92.2 |
| Wireline caller ID service subscribers (in millions) | 119.0 | 115.6 | 109.9 |
| Wireline Color Ring Tone subscribers (in millions) | 73.9 | 73.8 | 68.1 |

(1) Pulses are the billing units for calculating local telephone usage fees.
(2) Includes calls originated by mobile subscribers that are carried over our long distance networks.
(3) Includes calls originated by subscribers of other operators that are carried through the international gateways of China Telecom Group.

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***Our Products and Services***

***Wireline Voice Services***

The total number of wireline telephone subscribers decreased to 163.0 million as of December 31, 2012 from 169.6 million as of December 31, 2011. As of December 31, 2012, we had 7.5 million PHS subscribers which contributed to 0.3% of our operating revenues in 2012.

Our wireline voice services include local wireline services, domestic long distance wireline services and international, Hong Kong, Macau and Taiwan long distance wireline services. The total local wireline usage decreased by approximately 16.6% from 206.4 billion pulses in 2011 to 172.2 billion pulses in 2012. Total domestic long distance wireline usage was 41,234 million minutes in 2012, representing a decrease of approximately 22.1% from 52,937 million minutes in 2011. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2012 was 965 million minutes, representing a decrease of approximately 14.6% from 1,130 million minutes in 2011.

The decrease in the number of wireline telephone subscribers and our wireline voice service usage was primarily attributable to the continuing decline in tariffs for mobile services and the increasing penetration of mobile voice and other alternative communications means, such as VoIP. The rate of decrease has slowed down in 2012 compared to 2011 primarily as a result of our in-depth integration of wireline voice services with mobile, broadband, value-added and integrated information services, as well as marketing initiatives to promote usage.

***Mobile Voice Services***

Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2012, we continued to experience rapid growth in our mobile services. In 2012, the number of subscribers of our mobile services increased from 126.5 million as of December 31, 2011 to 160.6 million as of December 31, 2012. The number of subscribers of our 3G services increased from 36.3 million as of December 31, 2011 to 69.1 million as of December 31, 2012, representing 43.0% of our mobile subscribers. The mobile voice usage increased to 509.2 billion minutes in 2012 from 407.8 billion minutes in 2011.

In 2012, we continued to focus on further developing our 3G services. We seek to further expand our mobile subscriber base through marketing efforts in open channel sales of mobile handsets, in particular 3G smartphone models.

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

***Internet Access Services***

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

In 2012, we continued the project of Broadband China Fiber Cities to accelerate the optic fiber upgrade of our network and to increase the broadband connection speed. As of December 31, 2012, the 20Mbps access bandwidth coverage was 82% in the southern cities, up by 11 percentage points over the previous year. The number of our wireline broadband subscribers increased by 17.3% to 90.1 million as of December 31, 2012 from 76.8 million as of December 31, 2011. 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. In 2012, we have established 0.28 million new Wi-Fi access points in the PRC, where our customers can have Internet access.

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***Value-Added Services***

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

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

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

The number of subscribers to our wireline caller ID services was 109.9 million as of December 31, 2012, a decrease from 115.6 million as of December 31, 2011. The usage volume of our mobile SMS increased by 11.7% from 49.9 billion messages in 2011 to 55.8 billion messages in 2012. The number of subscribers to our mobile Color Ring Tone services increased to 92.2 million as of December 31, 2012 from 75.4 million as of December 31, 2011.

***Integrated Information Application Services***

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

In 2012, our integrated information application services continued to expand. To further enhance these services, we seek to develop services incorporating new technologies such as cloud computing and Internet of Things.

***Managed Data and Leased Line Services***

Our managed data 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 managed data 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 2012, 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, trouble-shooting, billing and collection, and technical support services by contacting any designated account manager in our Company.

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***Other Services***

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

***Our Customers and Brand Management***

In 2012, we continued to promote our full-service brand names under our enterprise brand China Telecom, improved our brand management system, and further enhanced eSurfing as our leading brand name through, among others, providing contents for our eSurfing 3G smartphones. We also launched the sub-brands of eSurfing such as eSurfing Young, e-Surfing Home and e-Surfing Navigator. 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 eSurfing.

***Tariffs***

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities. The MIIT has gradually liberalized the tariff level by allowing telecommunications service providers to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the plan. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

***Wireline Voice Services***

For our local wireline telephone services, we charge a fixed monthly fee and usage fees based on call usage in terms of pulses. The tariffs are regulated by the PRC government. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item. In addition, we also charge installation fees for installing a telephone for our subscribers. We charge the installation fee based on the actual cost of the installation.

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***

The tariffs for our CDMA mobile voice services are generally regulated by the PRC government. Generally we charge subscribers of our CDMA mobile voice services the following categories of tariffs: basic monthly fees, local usage charges, roaming charges and long-distance call charges.

With respect to international roaming of our mobile voice services, we settle roaming revenues with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators.

To accelerate the growth in our CDMA subscriber base, we offer CDMA handset promotion plans, providing discounts towards our customers CDMA handset purchase prices on the basis of their committed minimum amount of service fees. Our promotion plans are offered in a wide price range, to target users in different market groups.

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

Internet access services, value-added services and integrated information application services are classified as market-based for purpose of tariff determination by relevant regulatory authorities.

We determine tariffs for these services according to market conditions. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

***Managed Data and Leased Line Services***

**Managed Data Services.** We determine most of the tariffs for our managed data services within a price range set by the PRC government. We generally charge a fee for installation and testing for our managed data 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 managed data services in recent years.

**Leased Line Services.** The leased line tariff rates are set by the PRC government based on bandwidth and whether the leased line is local or long distance. Leased line providers are permitted to charge monthly fees for leased lines on a discount basis and leased line tariffs have generally decreased in recent years. We provide different discounts to our customers on a case by case basis. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

***Interconnection and Roaming Arrangements***

***Interconnection***

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

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

***International Roaming***

We provide both CDMA and Global System for Mobile Communications, or GSM, 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 GSM roaming sponsor have roaming arrangements.

As of December 31, 2012, subscribers of our CDMA 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 network operators. A CDMA 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 with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

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

***Marketing Sales and Distribution***

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

In order to achieve the scale development of our business, we tailored products and marketing strategies to target different customer groups. For the government and enterprise market, we focused on the development of key industry-specific applications for government agencies, corporations and financial institutions, to drive the scale development of mid-to-high-end mobile subscriber base. For the student market, we emphasize the marketing of smartphones, broadband and eSurfing products and services. We promoted customer-selected service packages to our residential customers and have increased the synergy between our mobile services and wireline broadband services. We seek to further expand our business in the rural areas through establishing distribution channels, bundled promotional plans and organized marketing activities. For the overseas market, we continue to focus on overseas carriers, overseas Chinese companies and multinational corporations. Our overseas network coverage continues to expand, while we are improving our overseas distribution channels.

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 large enterprises, communities and rural areas; (ii) electronic-based service channel such as customer service hotlines and online service centers; (iii) business outlet channel, including self-owned and third-party business outlets; and (iv) mobile handset chain stores, electronics chain stores, supermarkets and large-scale telecommunications equipment distribution stores, collectively, the open channel. As part of our strategy to provide integrated services, we continue to enhance information sharing with respect to information relating to sales and distribution across the integrated sales and distribution channel network. In 2012, sales in our self-owned business outlets increased primarily due to enhancement of the sales function at our self-owned business outlets. Open channel sales continue to grow through cooperation with well-known electronics chain stores, top retail stores and their affiliated stores. In 2012, we gained approximately 64% of our new mobile subscribers through open channel sales.

In 2012, we continued to leverage on the growing mobile subscriber base to invigorate the handset value chain, and further stimulated the handset supply and sales through subsidies and direct supply to sales outlets. The portfolio of handsets offered was further enriched with price performance factors further enhanced. As of December 31, 2012, approximately 860 3G terminal models were available to our customers, including certain star 3G handsets priced around RMB1,000 per unit.

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

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***Customer Service***

We provide customer services through all channels on our integrated sales and distribution channel network. Our customer services typically include service inquiries, service applications, customers complaints, product and service promotions, service initiation and termination, payment reminder services and emergency services. Through establishing and implementing our customer full-service standard, we have significantly improved our basic customer services, such as service processing time, request responding time and providing service related and other information to customers through text messages.

***Information Technology System***

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

***Network System***

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

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

***Network Architecture***

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

Access networks: Access networks include wireline access network and CDMA wireless access network, which are directly connected to customers to provide broadband, 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.

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Support networks: Support networks include signaling networks, digital synchronous networks and various network management systems, in order to support the reliable and effective operation of our networks and services at all levels.

***Equipment procurement***

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

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 38.2% of our total amount of annual purchases in 2012. Purchases from our largest supplier of telecommunications equipment accounted for approximately 13.4% of our total amount of annual purchases in 2012.

***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. China Mobile directly competes with us in mobile telecommunications services and indirectly competes with us in wireline and other telecommunications services.

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%. 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 services providers), among others, are competing with us in voice or data services.

In recent years, the PRC Government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry. In May 2010, the PRC State Council issued Certain Opinion on Encouraging and Guiding the Sound Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

***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, 2015, which is automatically renewable for three more years at our option. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group Trademark License Agreements.

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***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 National Development and Reform Commission, formulating tariff standards and 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 National Development and Reform Commission, which, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. The actual tariffs charged by providers of telecommunications services are determined by provincial communications administrations, together with the price bureaus of the provinces, autonomous regions or centrally administered municipalities where those providers operate. See Tariff Setting below. It also approves investment and finance projects exceeding certain capital expenditure amounts as well as foreign investment projects exceeding certain investment amounts.

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

***Telecommunications Regulations***

The PRC s State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000. 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.

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

***Licensing***

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

Providers of any basic telecommunications services as well as providers of value-added services in two or more provinces, autonomous regions and centrally administered municipalities in the PRC must apply for licenses from the MIIT. In accordance with the approval of the MIIT, we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, which holds the licenses required for operating our telecommunications business. In January 2009, China Telecom Group received a license from the MIIT to operate 3G services nationwide, which permits China Telecom Group to provide 3G services based on CDMA2000 technology. We have been authorized by China Telecom Group to operate 3G services nationwide based on CDMA2000 technology.

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

For mobile voice and data services:

there is no longer any geographic restriction and the foreign ownership shall be no more than 49.0%.

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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.

***Tariff Setting***

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities, including the MIIT, the National Development and Reform Commission, and, at the local level, the relevant provincial communications administrations and price bureaus. 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 National Development and Reform Commission.

The PRC government retains the ultimate authority to adopt changes to tariffs. However, the Telecommunications Regulations require the government to hold public hearings before setting or changing fixed or guidance tariff rates, which should be attended by, among others, telecommunications operators and consumers. See Item 3. Key Information D. Risk Factors Risks Relating to the Telecommunications Industry in the PRC Our revenues may be adversely affected by reductions in tariffs and other changes in tariff regulations mandated by the PRC government.

Under the Telecommunications Regulations, cost is the primary basis for tariff setting. In addition, the tariff level should also take into account social and economic development, the development of the telecommunications industry and consumers ability to afford the services.

The MIIT has gradually liberalized the tariff level by allowing telecommunications providers to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the tariff plans. Effective October 1, 2005, the MIIT and the National Development and Reform Commission set the tariff ceiling for local services, domestic long distance services, and international, Hong Kong, Macau and Taiwan long distance services. With respect to the tariffs for domestic and international long distance services, telecommunications service providers are required to file the tariffs with the MIIT and the National Development and Reform Commission for record purposes, and, at the local level, the relevant provincial communications administrations and price bureaus. With respect to the tariffs for local services, filings of the tariffs with the relevant provincial communications administrations and price bureaus for record purposes are required. With respect to service discounts plans, filings with the MIIT or, if service discounts plans are provided by the provincial subsidiaries of the telecommunications operator, with the relevant provincial communications administrations, are required.

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***Interconnection***

Under the Telecommunications Regulations and the Administrative Rules on Interconnection between the Public Telecommunications Networks promulgated by the MII in May 2001, 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 filed with the MIIT. Interconnection agreements may not be terminated unilaterally without prior approval by the MIIT.

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.

The MIIT (or the MII prior to March 2008) issued several Notices on Adjustment to Settlement Standards for Interconnection Fees of Wireline Local Telephone Networks, in October 2005, January 2007 and April 2009, respectively, which provide for interconnection settlement arrangement standards for local inter-district calls between wireline local telephone operators. In October 2009, the MIIT issued a Notice on Adjustment to Settlement Standards for Interconnection Fees of Telecommunications Network, which provides for settlement arrangement standards for certain network interconnections between telecommunications operators. The following table sets forth selected interconnection revenues sharing and settlement arrangements for local calls:

| Network from Which Calls Originated | Network at Which Calls Terminated | Current Main Settlement Arrangement |
|---|---|---|
| Mobile operator | 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. Starting January 1, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to wireline operator for calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users). |
| Wireline local operator | Mobile 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 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 operator B | (1) Mobile operator A collects the cellular usage charge from its subscribers |
| | | (2) Mobile operator A pays RMB0.06 per minute to mobile operator B. Starting January 1, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B for calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users). |

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

| Network from Which Calls Originated | Network at Which Calls Terminated | Current Main Settlement Arrangement |
|---|---|---|
| Wireline local or mobile operator A | Wireline local or mobile operator B, through the long distance network of operator C | (1) Operator C collects the tariff from its subscribers |
| | | (2) Operator C pays RMB0.06 per minute to operator A, RMB0.06 per minute to operator B, and gets the rest of the long distance tariff |

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 IP long distance calls:

| Network from Which Calls Originated | Network at Which Calls Terminated | Current Main Settlement Arrangement |
|---|---|---|
| Wireline or mobile network A | Wireline local or mobile operator B<br><br>through the IP long distance network of operator C | (1) Operator C collects the IP long distance charges from its subscribers |
| | | (2) Operator C pays RMB0.06 per minute to operator B on the terminating end |

(3) No settlement between operator C and operator A on the originating end

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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<br><br>(2) operator A pays RMB0.03 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 |
|---|---|---|
| Wireline or mobile operator A | Wireline or mobile operator B | (1) operator A collects the tariff from its subscribers<br><br>(2) operator A pays RMB0.10 per MMS to Operator B |

***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 2012, we paid approximately RMB103 million of usage fees for the telecommunications network numbers and approximately RMB47 million of frequency usage fees, respectively.

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***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. The Telecommunications Services Standards aim to protect the rights of the customers of telecommunications services and sets forth minimum quality requirements for telecommunications services provided by telecommunications operators.

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

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

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

***Universal Services***

Under the Telecommunications Regulations, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the MIIT has been given authority by the PRC government to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other regulatory authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate the expenses incurred in the Village to Village projects before the establishment of a universal service fund. In December 2006, the Ministry of Finance issued the Provisional Rules on Usage and Administration of Telecommunications Universal Service Fund, effective December 21, 2006, which provide a compensation scheme for certain expenses incurred in the Village to Village projects undertaken by telecommunications service providers. Under the compensation scheme, telecommunications operators may receive compensation from the PRC government for the Village to Village projects. These rules provide for the application for the compensation, the method to calculate the amount, the approval process and the distribution of the compensation. 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 projects.

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, but the formal timetable for the establishment of the systems to implement universal services has not been set up. Once the universal service regulatory framework is finalized, we expect to perform our duties thereunder accordingly. Currently, the PRC government implements the Village to Village projects which require telecommunications operators to provide telephone services in a number of remote villages in the PRC as transitional measures prior to the official implementation of a universal service obligation framework. Under the Village to Village projects, China Telecom Group and our Company had invested in the construction of network facilities in certain remote villages of 20 provinces and autonomous regions by the end of 2012.The Company has operated and maintained such network facilities from 2006. We believe the expenses for such operation and maintenance will not have a material effect on our financial condition.

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***State-Owned Assets Supervision***

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

***Three-Network Convergence Policy***

In January 2010, the PRC government announced its decision to accelerate the advancement of convergence of television broadcast, telecommunications 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, which was expected to complete by the end of 2012. In September 2012, we received the Information Network Communicated Audio-Video Program License from the State Administration of Radio, Film and Television. The PRC government is formulating the plan for the full implementation of the three-network convergence policy.

**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 and August 25, 2010, respectively. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group Centralized Services Agreements.

***Properties***

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

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**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.

In 2012, we acquired the digital trunking business from Besttone Holding at a purchase price of RMB48 million. This acquisition was completed on April 30, 2012. Because we and Besttone Holding were under the common control of China Telecom Group, this acquisition of the digital trunking business has been accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the acquired digital trunking business have been accounted for at historical amounts and our financial statements for periods prior to the acquisition have been restated to include the financial position and results of operations of the digital trunking business on a combined basis. Unless otherwise indicated in this section, our financial data for periods prior to the acquisitions are presented based on those restated amounts. See Note 1 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

On August 22, 2012, the Company and China Telecom Group entered into the CDMA Network Acquisition Agreement, pursuant to which we have 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 a final consideration of RMB87,210.35 million. This acquisition was completed on December 31, 2012 . 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 Note 2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

***Overview***

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

We are the leading provider of wireline telecommunications services in our service regions in the PRC, consisting of 21 provinces, municipalities and autonomous regions.

Following our acquisition of China Telecom System Integration Co., Limited, China Telecom Global Limited (formerly known as China Telecom (Hong Kong) International Limited) and China Telecom (Americas) Corporation pursuant to an Equity Purchase Agreement we entered into with China Telecom Group on June 15, 2007, we began to offer leased line and related services in certain countries in the Asia Pacific region and North and South America.

Following our acquisition of the CDMA Business in October 2008, we began to offer CDMA mobile services in 31 provinces, municipalities and autonomous regions in mainland China and Macau, which were previously operated by China Unicom. We launched our 3G services in March 2009.

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***Financial Overview***

Our operating revenues increased by 15.5%, from RMB245,068 million in 2011 to RMB283,073 million in 2012. The increase was mainly attributable to revenues growth from mobile voice services, Internet access services and other services. Our total operating expenses increased by 18.5%, from RMB220,941 million in 2011 to RMB261,887 million in 2012. The increase in operating expenses was primarily due to increases in network operation and support expenses, selling, general and administrative expenses and other operating expenses to support the full services operation so as to ensure our sustainable and healthy development. Our operating income decreased by 12.2%, from RMB24,127 million in 2011 to RMB21,186 million in 2012. The profit attributable to equity holders of the Company decreased from RMB16,500 million in 2011 to RMB14,925 million in 2012.

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, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | |
| | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues |
| | (RMB in millions, except percentage data) | | | | | |
| **Operating Revenues:** | | | | | | |
| Wireline voice services[(1)] | 62,498 | 28.4% | 49,764 | 20.3% | 43,335 | 15.3% |
| Mobile voice services[(2)] | 28,906 | 13.1% | 38,628 | 15.8% | 49,166 | 17.4% |
| Internet access services[(3)] | 63,985 | 29.1% | 74,992 | 30.6% | 87,660 | 31.0% |
| Value-added services[(4)] | 22,599 | 10.3% | 25,554 | 10.4% | 31,104 | 11.0% |
| Integrated information application services[(5)] | 15,519 | 7.1% | 20,473 | 8.4% | 23,174 | 8.2% |
| Managed data and leased line services[(6)] | 12,389 | 5.6% | 14,273 | 5.8% | 15,710 | 5.5% |
| Other services[(7)] | 13,504 | 6.2% | 21,286 | 8.7% | 32,924 | 11.6% |
| Upfront connection fees[(8)] | 497 | 0.2% | 98 | | | |
| Total operating revenues | 219,897 | 100.0% | 245,068 | 100.0% | 283,073 | 100.0% |

(1) Represents the aggregate revenues from monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections and upfront installation fees charged to customers for the provision of wireline telephony services.
(2) Represents the aggregate revenues from monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.
(3) Represents revenues from Internet access services.
(4) Represents revenues from wireline value-added services, mobile value-added services and Internet value-added services, including caller ID services, SMS, ring tone services, Internet data center and IP-VPN services.
(5) Represents revenues from integrated information application services, including voice-based hotline, IPTV, video monitoring and system integration and consulting services.
(6) Represents revenues from managed data transmission services and lease income from other domestic telecommunications operators and business customers for the usage of our wireline telecommunications networks and equipment.
(7) Represents revenues from sale, rental and repairs and maintenance of equipment.
(8) Represents the amortized amount of the upfront fees received for initial activation of wireline services.

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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, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | |
| | 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 | 52,224 | 23.7% | 51,233 | 20.9% | 49,655 | 17.5% |
| Network operations and support expenses[(1)(2)] | 47,445 | 21.6% | 52,925 | 21.6% | 66,003 | 23.3% |
| Selling, general and administrative expenses[(1)] | 42,136 | 19.2% | 48,746 | 19.9% | 63,076 | 22.3% |
| Personnel expenses | 35,537 | 16.1% | 39,167 | 16.0% | 42,812 | 15.1% |
| Other operating expenses | 19,111 | 8.7% | 28,870 | 11.8% | 40,341 | 14.3% |
| Total operating expenses | 196,453 | 89.3% | 220,941 | 90.2% | 261,887 | 92.5% |

(1) Excluding related personnel expenses.
(2) Including impairment loss on property, plant and equipment.

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, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | |
| | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues |
| | (RMB in millions, except percentage data) | | | | | |
| Operating revenues | 219,897 | 100.0% | 245,068 | 100.0% | 283,073 | 100.0% |
| Operating expenses | 196,453 | 89.3% | 220,941 | 90.2% | 261,887 | 92.5% |
| Operating income | 23,444 | 10.7% | 24,127 | 9.8% | 21,186 | 7.5% |
| Profit attributable to equity holders of the Company | 15,339 | 7.0% | 16,500 | 6.7% | 14,925 | 5.3% |
| Net cash from operating activities | 75,574 | | 73,009 | | 70,667 | |

***Critical Accounting Policies***

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

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

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***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.

*Customer relationships*. The customer relationships, as part of the CDMA Business we acquired from China Unicom and CUCL in 2008, were recorded at their fair value on the date of acquisition and are amortized on a straight-line basis over the estimated useful life of five years.

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

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

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

For the year ended December 31, 2010, an impairment on property, plant and equipment of RMB139 million was recognized on certain of our obsolete telecommunication equipment. For the years ended December 31, 2011 and 2012, no provision for impairment loss was made against the carrying value of property, plant and equipment.

***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.

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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, 2012:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (RMB in millions) | | |
| At beginning of year | 2,073 | 2,024 | 1,942 |
| Allowance for doubtful debts | 1,567 | 1,383 | 1,624 |
| Accounts receivable written off | (1,616) | (1,465) | (1,542) |
| At end of year | 2,024 | 1,942 | 2,024 |

***Recently Issued International Financial Reporting Standards***

Up to the date of issue of our 2012 financial statements, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended December 31, 2012:

| | Effective for accounting period beginning on or after |
|---|---|
| Amendments to IAS 1, Presentation of Financial Statements Presentation of Items of Other Comprehensive Income | July 1, 2012 |
| IFRS 10, Consolidated Financial Statements | January 1, 2013 |
| IFRS 11, Joint Arrangements | January 1, 2013 |
| IFRS 12, Disclosure of Interests in Other Entities | January 1, 2013 |
| IFRS 13, Fair Value Measurement | January 1, 2013 |
| IAS 27, Separate Financial Statements (2011) | January 1, 2013 |
| IAS 28, Investments in Associates and Joint Ventures (2011) | January 1, 2013 |
| Revised IAS 19, Employee Benefits | January 1, 2013 |
| IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine | January 1, 2013 |
| Amendments to IFRS 7, Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities | January 1, 2013 |
| Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards Government Loans | January 1, 2013 |
| Annual Improvements to IFRSs 2009-2011 Cycle | January 1, 2013 |
| Amendments to IFRS 10, Consolidated Financial Statements , IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities Transition Guidance | January 1, 2013 |
| Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities | January 1, 2014 |
| Amendments to IAS 32, Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities | January 1, 2014 |
| IFRS 9, Financial Instruments (2009) | January 1, 2015 |
| IFRS 9, Financial Instruments (2010) | January 1, 2015 |
| Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures Mandatory Effective Date and Transition Disclosures | January 1, 2015 |

We have not adopted the amendments, new standards and interpretations listed above. We are in the process of making an assessment of the impact that will result from adopting the amendments, new standards and interpretations issued by the IASB which are not yet effective for the accounting period ended on December 31, 2012. So far we believe that the adoption of these amendments, new standards and interpretations may result in new or amended disclosures, but it is unlikely to have a significant impact on our financial position and the results of operations.

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**A. Operating Results**

***Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***

***Operating Revenues***

Our operating revenues increased by RMB38,005 million, or 15.5%, from RMB245,068 million in 2011 to RMB283,073 million in 2012. This increase was primarily driven by the revenues growth from mobile voice services and non-voice services, including Internet access services, value-added services, integrated information application services, managed data and leased line services and other services, which was partially offset by a decrease in revenues from wireline voice services.

*Wireline Voice Services.* Revenues from our wireline voice services decreased by 12.9%, from RMB49,764 million in 2011 to RMB43,335 million in 2012. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communications, which continued to divert revenues from wireline voice services. Revenues from our wireline voice services accounted for 15.3% of our operating revenues in 2012, compared to 20.3% in 2011.

*Mobile Voice Services.* Revenues from our mobile voice services increased by 27.3%, from RMB38,628 million in 2011 to RMB49,166 million in 2012, representing 17.4% of our operating revenues in 2012, compared to 15.8% in 2011. This increase was primarily due to the rapid expansion of our mobile services subscriber base. The number of our mobile services subscribers increased to 160.6 million as of December 31, 2012, representing an increase of 27.0% from 126.5 million as of December 31, 2011.

*Internet Access Services.* Revenues from our Internet access services increased by 16.9% from RMB74,992 million in 2011 to RMB87,660 million in 2012, representing 31.0% of our operating revenues. This increase was primarily due to the significant increase of data traffic on our wireless broadband and the continuing expansion of our wireline broadband subscriber base. The number of our wireline broadband subscribers increased to 90.1 million as of December 31, 2012, representing an increase of 13.3 million, or 17.3%, from 76.8 million as of December 31, 2011. The revenues attributable to mobile Internet access services in 2012 was RMB19,880 million, representing an increase of 49.5% from RMB13,301 million in 2011 .

*Value-Added Services*. Revenues from our value-added services increased by 21.7% from RMB25,554 million in 2011 to RMB31,104 million in 2012, representing 11.0% of our operating revenues in 2012. This increase was primarily due to the rapid growth of revenues from our mobile value-added services as a result of the rapid growth in the number of our mobile subscribers and, to a lesser extent, the increase in revenues from wirelie value-added services, such as Internet Data Center and iTV content and applications services. The revenues attributable to mobile value-added services in 2012 was RMB16,848 million, compared to RMB12,067 million in 2011

*Integrated Information Application Services.* Revenues from our integrated information application services increased by 13.2% from RMB20,473 million in 2011 to RMB23,174 million in 2012, representing 8.2% of our operating revenues in 2012. This increase was primarily due to the rapid development of our IT applications and services and Best Tone services. The revenues attributable to mobile integrated information application services in 2012 was RMB6,749 million, representing an increase of 61.8% from RMB4,172 million in 2011.

*Managed Data and Leased Line Services.* Revenues from our managed data and leased line services increased by 10.1%, from RMB14,273 million in 2011 to RMB15,710 million in 2012, representing 5.5% of our operating revenues in 2012. This increase was primarily due to the increasing revenues from domestic circuits leasing services, the IP-VPN services, and optic fiber leasing, driven by the increasing demand from government and enterprise customers for informatization. Revenue from mobile managed data and leased line services was RMB160 million in 2012.

*Other Services.* Revenues from other services increased by 54.7%, from RMB21,286 million in 2011 to RMB32,924 million in 2012. The increase in revenues from other services was primarily due to the increase in sales of mobile terminal equipment. The revenues from sales of mobile terminal equipment increased by 77.7% to RMB24,757 million in 2012 from RMB13,935 million in 2011, corresponding to the significant increase in the volume of mobile terminal equipment sold in 2012.

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***Operating Expenses***

Total operating expenses increased by 18.5%, from RMB220,941 million in 2011 to RMB261,887 million in 2012. The increase in operating expenses was primarily due to increased network operations and support expenses, selling, general and administrative expenses as well as other operating expenses.

*Depreciation and Amortization.* Our depreciation and amortization expenses decreased by 3.1%, from RMB51,233 million in 2011 to RMB49,655 million in 2012, mainly due to our continuous stringent control of capital expenditure. The depreciation and amortization expenses as a percentage of our operating revenues decreased from 20.9% in 2011 to 17.5% in 2012.

*Network Operations and Support Expenses.* Our network operations and support expenses increased by 24.7%, from RMB52,925 million in 2011 to RMB66,003 million in 2012, which was primarily attributable to the increased CDMA network capacity lease fees and the increased operating and maintenance expenses, corresponding to our business development efforts . Our CDMA network capacity lease fee increased by 34.4% from RMB19,011 million in 2011 to RMB25,546 million in 2012, corresponding to the increase in our mobile services revenues during this period.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 29.4% from RMB48,746 million in 2011 to RMB63,076 million in 2012. The increase was primarily due to the increased marketing expenditure for promotional and marketing initiatives relating to the iPhone. Advertising and promotional expenses were RMB34,901 million, an increase of 26.9% from 2011. Commission and service expenses for third parties were RMB19,537 million, an increase of 36.0% from 2011. In 2012, in light of the intensified competition in mobile services, we increased the number of mobile terminal equipment offered to customers for free or at a nominal price. The cost of mobile terminal equipment offered to customers for free or at a nominal price are recorded in advertising and promotional expenses and was RMB21,754 million in 2012, an increase of 39.1% from 2011.

*Personnel Expenses.* Personnel expenses increased by 9.3%, from RMB39,167 million in 2011 to RMB42,812 million in 2012. This increase was primarily attributable to our performance based incentive schemes to motivate talents and our frontline employees.

*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 RMB40,341 million in 2012, which increased by 39.7% from RMB28,870 million in 2011, largely corresponding to an increase in sales of mobile terminal equipment.

***Net Finance Costs***

In 2012, our net finance costs decreased by 30.6% from RMB2,254 million in 2011 to RMB1,564 million in 2012. Our interest expense decreased by 20.5%, or RMB556 million, from RMB2,710 million in 2011 to RMB2,154 million in 2012, mainly due to the decreased amount of our interest bearing debts in 2012 compared to 2011.

The net exchange loss was RMB1 million in 2012, compared to a net exchange gain of RMB51 million in 2011, which was mainly due to the depreciation of RMB against the Euro in 2012. According to the exchange rates published by the People s Bank of China on December 31, 2012, the exchange rate of Renminbi depreciated by 1.9% against the Euro from December 31, 2011.

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***Income Tax***

In 2012, our income tax expense was RMB4,753 million with an effective tax rate of 24.0%. Our expected income tax expense at our statutory tax rate of 25.0% in 2012 would be RMB4,948 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the preferential income tax rate applicable to some of our subsidiaries and our branches with operations in the western regions of China. See Note 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%.

According to the EIT Law and its implementing regulations, the corporate income tax rate for entities other than certain high-tech enterprises and small enterprises earning a small profit, as defined in the EIT Law, has been revised to 25.0%. Prior to the end of 2012, entities that are taxed at preferential rates were subject to a five-year transition period from January 1, 2008 during which the tax rates were gradually increased to the unified rate of 25.0%. Based on a tax notice issued by the State Council on December 26, 2007, the applicable tax rates for entities operating in special economic zones, such as some branches of ours, which were previously taxed at the preferential rate of 15.0%, are 18.0%, 20.0%, 22.0%, 24.0% and 25.0% in 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

***Profit Attributable to Equity Holders of the Company***

As a result of foregoing, the profit attributable to equity holders of the Company was RMB14,925 million in 2012, with a net margin of 5.3%, compared to a profit attributable to equity holders of the Company of RMB16,500 million with a net margin of 6.7% in 2011.

***Foreign Currency Fluctuation Impact***

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

***Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

***Operating Revenues***

Our operating revenues increased by RMB25,171 million, or 11.4%, from RMB219,897 million in 2010 to RMB245,068 million in 2011. This increase was primarily driven by the revenues growth from mobile voice services and non-voice services, including Internet access services, value-added services, integrated information application services, managed data and leased line services and other services, which was partially offset by a decrease in revenues from wireline voice services.

*Wireline Voice Services.* Revenues from our wireline voice services decreased by 20.4%, from RMB62,498 million in 2010 to RMB49,764 million in 2011. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communication, which continued to divert revenues from wireline voice services. Revenues from our wireline voice services accounted for 20.3% of our operating revenues in 2011, compared to 28.4% in 2010.

*Mobile Voice Services.* Revenues from our mobile voice services increased by 33.6%, from RMB28,906 million in 2010 to RMB38,628 million in 2011, representing 15.8% of our operating revenues in 2011, compare to 13.1% in 2010. This increase was primarily due to the rapid expansion of our mobile services subscriber base. The number of our mobile services subscribers increased to 126.5 million as of December 31, 2011, representing an increase of 39.7% from 90.5 million as of December 31, 2010.

*Internet Access Services.* Revenues from our Internet access services increased by 17.2% from RMB63,985 million in 2010 to RMB74,992 million in 2011, representing 30.6% of our operating revenues. This increase was primarily due to the continuing expansion of our wireline broadband subscriber base. The number of our wireline broadband subscribers increased to 76.8 million as of December 31, 2011, representing an increase of 13.3 million or, 21.0%, from 63.5 million as of December 31, 2010. The revenues attributable to mobile Internet access services in 2011 was RMB13,301 million, representing an increase of 47.5% from RMB9,020 million in 2010.

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*Value-Added Services*. Revenues from our value-added services increased by 13.1% from RMB22,599 million in 2010 to RMB25,554 million in 2011, representing 10.4% of our operating revenues in 2011. This increase was primarily due to increased revenues from our mobile value-added services, partially offset by a decrease in revenues from wireline value-added services mainly as a result of our declining PHS services. The revenues attributable to mobile value-added services in 2011 was RMB12,067 million, compared to RMB7,858 million in 2010.

*Integrated Information Application Services.* Revenues from our integrated information application services increased by 31.9% from RMB15,519 million in 2010 to RMB20,473 million in 2011, representing 8.4% of our operating revenues in 2011. This increase was primarily due to the rapid development of our IT applications and services and Best Tone services. The revenues attributable to mobile integrated information application services in 2011 was RMB4,172 million, representing an increase of 117.3% from RMB1,920 million in 2010.

*Managed Data and Leased Line Services.* Revenues from our managed data and leased line services increased by 15.2%, from RMB12,389 million in 2010 to RMB14,273 million in 2011, representing 5.8% of our operating revenues in 2011. This increase was primarily due to the increasing revenues from domestic circuits leasing services, the IP-VPN services, and optic fiber leasing, driven by the increasing demand from customers for network resources and informatization.

*Other Services.* Revenues from other services increased by 57.6%, from RMB13,504 million in 2010 to RMB21,286 million in 2011. The increase in revenues from other services was primarily due to the increase in sales of mobile terminal equipment. The revenues attributable to other mobile services in 2011 was RMB14,455 million, representing an increase of 131.8% from RMB6,236 million in 2010.

*Upfront Connection Fees.* Upfront connection fees represent the amortized amount of the upfront fees received from the initial activation of our wireline services. These upfront fees are deferred and amortized as revenues over a 10-year period. Due to a regulation change effective as of July 1, 2001 that abolished all surcharges in relation to telecommunications services, we ceased charging upfront connection fees to new subscribers. In June 2011, we fully amortized the remaining upfront connection fee of RMB98 million, representing a decrease of 80.3% from RMB497 million in 2010.

***Operating Expenses***

Total operating expenses increased by 12.5%, from RMB196,453 million in 2010 to RMB220,941 million in 2011. The increase in operating expenses was primarily due to increased network operations and support expenses, selling, general and administrative expenses as well as other operating expenses.

*Depreciation and Amortization.* Our depreciation and amortization expenses decreased by 1.9%, from RMB52,224 million in 2010 to RMB51,233 million in 2011, mainly due to our continuous stringent control of capital expenditure in 2011. The depreciation and amortization expenses as a percentage of our operating revenues decreased from 23.7% in 2010 to 20.9% in 2011.

*Network Operations and Support Expenses.* Our network operations and support expenses increased by 11.6%, from RMB47,445 million in 2010 to RMB52,925 million in 2011, which was primarily attributable to the increased CDMA network capacity lease fees. Our CDMA network capacity lease fee increased by 42.7% from RMB13,320 million in 2010 to RMB19,011 million in 2011, corresponding to the increase in our mobile services revenues during such period.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 15.7% from RMB42,136 million in 2010 to RMB48,746 million in 2011. The increase was primarily due to the increased marketing expenditure for our mobile services and broadband services. Advertising and promotional expenses were RMB27,498 million, an increase of 17.7% from 2010. Commission and service expenses for third parties were RMB14,367 million, an increase of 21.5% from 2010. In 2011, the cost of mobile terminal equipment offered to customers for free or at a nominal price was RMB15,641 million in 2011, an increase of 29.1% from 2010.

*Personnel Expenses.* Personnel expenses increased by 10.2%, from RMB35,537 million in 2010 to RMB39,167 million in 2011. This increase was primarily attributable to our performance based incentive schemes to motivate talents and our frontline employees.

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*Other Operating Expenses.* Our other operating expenses primarily consisted of interconnection charges, cost of goods sold, donations and other expenses. Our other operating expenses were RMB28,870 million in 2011, increased by 51.1% from RMB19,111 million in 2010, largely corresponding to an increase in sales of mobile terminal equipments.

***Net Finance Costs***

In 2011, our net finance costs decreased by 37.4% from RMB3,600 million in 2010 to RMB2,254 million in 2011. Our interest expense decreased by 28.6%, or RMB1,085 million, from RMB3,795 million in 2010 to RMB2,710 million in 2011, mainly due to the decreased amount of our interest bearing debts in 2011 compared to 2010.

The net exchange gain was RMB51 million in 2011, compared to a net exchange loss of RMB92 million in 2010, which was mainly due to the appreciation of RMB against the Japanese Yen in 2011. According to the exchange rates published by the People s Bank of China on December 31, 2011, the exchange rate of Renminbi appreciated by 0.2% against the Japanese Yen from December 31, 2010.

***Income Tax***

In 2011, our income tax expense was RMB5,416 million with an effective tax rate of 24.6%. Our expected income tax expense at our statutory tax rate of 25.0% in 2011 would be RMB5,503 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the preferential income tax rate applicable to our branches located in special economic zones of China and certain 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%.

According to the EIT Law and its implementing regulations, the corporate income tax rate for entities other than certain high-tech enterprises and small enterprises earning a small profit, as defined in the EIT Law, has been revised to 25.0%. In addition, entities that are taxed at preferential rates are subject to a five-year transition period from January 1, 2008 during which the tax rates will gradually be increased to the unified rate of 25.0%. Based on a tax notice issued by the State Council on December 26, 2007, the applicable tax rates for entities operating in special economic zones, such as some branches of ours, which were previously taxed at the preferential rate of 15.0%, are 18.0%, 20.0%, 22.0%, 24.0% and 25.0% in 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

***Profit Attributable to Equity Holders of the Company***

As a result of foregoing, the profit attributable to equity holders of the Company was RMB16,500 million in 2011, with a net margin of 6.7%, compared to profit attributable to equity holders of the Company of RMB15,339 million with a net margin of 7.0% in 2010.

***Foreign Currency Fluctuation Impact***

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

**B. Liquidity and Capital Resources**

***Cash Flows and Working Capital***

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (RMB in millions) | | |
| Net cash generated from operating activities | 75,574 | 73,009 | 70,667 |
| Net cash used in investing activities | (45,734) | (43,637) | (48,252) |
| Net cash used in financing activities | (38,774) | (27,723) | (19,802) |

| | | | |
|---|---|---|---|
| (Decrease)/increase in cash and cash equivalents | (8,934) | 1,649 | 2,613 |

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Cash and cash equivalents increased by 9.5%, from RMB27,372 million as of December 31, 2011, of which 94.4% was denominated in RMB, to RMB29,982 million as of December 31, 2012, of which 97.6% was denominated in RMB. Our net cash inflow was RMB2,613 million in 2012, as compared with a net cash inflow of RMB1,649 million in 2011.

Our principal source of liquidity is cash generated from operating activities, which was RMB70,667 million in 2012, a decrease of RMB2,342 million from RMB73,009 million in 2011.

Net cash used in investing activities increased by RMB4,615 million from RMB43,637 million in 2011 to RMB48,252 million in 2012 primarily as a result of an increase of our capital expenditure.

Net cash used in financing activities was RMB19,802 million in 2012 compared to RMB27,723 million net cash used in financing activities in 2011. This decrease in cash outflow was primarily due to our decreased repayment of bank loans and other loans in 2012.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB128,251 million as of December 31, 2012, compared to a deficit of RMB67,681 million as of December 31, 2011.

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 2013. 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, 2012, we had available credit facilities of RMB163,130 million with major domestic commercial banks, from which we can draw upon. We intend to fund the Mobile Network Acquisition by internal resources and relevant debt financings.

***Indebtedness***

Our indebtedness as of the dates indicated was as follows:

| | As of December 31, | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | **(RMB in millions)** | | |
| Short-term debt | 20,675 | 9,187 | 6,523 |
| Current portion of long-term debt | 10,352 | 11,766 | 10,212 |
| Finance lease obligations | | | 3 |
| Long-term debt and payable, excluding current portion | 42,549 | 31,150 | 83,070 |
| Total debt | 73,576 | 52,103 | 99,808 |

Our short-term debt constituted 6.5% of our total debt as of December 31, 2012. The weighted average interest rate of our short-term debt was 5.5% as of December 31, 2012, representing an decrease of 0.4 percentage points from that as of December 31, 2011.

Our total debt increased by RMB47,705 million from RMB52,103 million as of December 31, 2011 to RMB99,808 million as of December 31, 2012, primarily due to the deferred consideration of the Mobile Network Acquisition. Our debt-to-asset ratio (total debt divided by total assets) increased from 12.4% in 2011 to 18.3% in 2012. We believe that our Company has maintained a solid capital structure.

Our long-term debt (including current portion) increased from RMB42,916 million as of December 31, 2011 to RMB93,282 million as of December 31, 2012. In addition, our short-term debt decreased from RMB9,187 million as of December 31, 2011 to RMB6,523 million as of December 31, 2012.

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Of our total debt as of December 31, 2012, 98.9%, 0%, 0.6% and 0.5% were denominated in Renminbi, Japanese Yen, 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, 2012 may differ from the amounts indicated below.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 (Planned) |
| | (RMB in millions) | | |
| Total capital expenditure | 49,551 | 53,731 | 75,000 |

In 2012, we continued to increase investment in upgrading our broadband network to improve the coverage of our optic fiber network as well as the connection speed. Focusing on investment return, we continued to improve our capital expenditure structure and control capital expenditure in connection with traditional wireline voice services and telecommunications infrastructure. In 2012, our capital expenditure was RMB53,731 million, an increase of 8.4% from RMB49,551 million in 2011.

Our capital expenditure for 2013 is projected to be approximately RMB75,000 million, a portion of which will be invested in the project Broadband China Fiber Cities , through which we seek to upgrade bandwidth access capacity of our broadband network across cities nationwide, and a portion of which will be invested in the CDMA network assets we acquired in December 2012.

***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 fiber optic transmission technology, mobile communications technology, next generation networks, broadband access, data communications, 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, 2012, we did not have any off-balance sheet arrangements or guarantees.

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**F. Contractual Obligations and Commercial Commitments**

The following table sets forth our contractual obligations as of December 31, 2012:

| | | Payable in | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2013 | 2014 | 2015 | 2016 | 2017 | After 2017 |
| | | | (RMB in millions) | | | | |
| **Contractual Obligations[1]:** | | | | | | | |
| Short-term debt | 6,523 | 6,523 | | | | | |
| Long-term debt and payable | 93,282 | 10,212 | 20,059 | 86 | 86 | 62,177 | 662 |
| Interest payable | 17,552 | 4,488 | 3,938 | 2,989 | 2,988 | 3,115 | 34 |
| Finance lease obligations | 3 | | 2 | 1 | | | |
| Operating lease commitments | 6,919 | 2,119 | 1,195 | 877 | 686 | 553 | 1,489 |
| Capital commitments | 7,103 | 7,103 | | | | | |
| Total contractual obligations | 131,382 | 30,445 | 25,194 | 3,953 | 3,760 | 65,845 | 2,185 |

(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. As of December 31, 2012, our board of directors, or the Board, comprised 13 Directors with seven Executive Directors, one Non-Executive Director and five Independent Non-Executive Directors. The term of office for the fourth session of the Board is three years, starting from May 2011 until the date of the Company s annual general meeting in 2014, upon which the fifth session of the Board will be elected.

On 20 March 2012, Mr. Zhang Chenshuang retired from his positions as an Executive Director and Executive Vice President. On March 20, 2012, the Board appointed Mr. Ke Ruiwen as an Executive Vice President of our Company. On May 30, 2012, Mr. Ke Ruiwen was approved to be appointed as an Executive Director of the Company at the 2011 annual general meeting. On August 22, 2012, Mr. Li Jinming retired from his position as a Non-Executive Director of our Company. The Board proposed to appoint Mr. Chen Liangxian as a Non-Executive Director of our Company, and such appointment was approved at the extraordinary general meeting held on October 16, 2012. On March 20, 2013, Mr. Chen Liangxian resigned from his position as a Non-Executive Director of our Company. On March 20, 2013, the Board proposed that Mr. Xie Liang be appointed as a Non-Executive Director of our Company, subject to approval at the annual general meeting scheduled to be held on May 29, 2013. Our Board currently consists of 12 directors with seven Executive Directors and five Independent Non-Executive Directors.

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 |
|---|---|---|
| Wang Xiaochu | 55 | Chairman of the Board of Directors and Chief Executive Officer |
| Yang Jie | 51 | Executive Director, President and Chief Operating Officer |
| Wu Andi | 58 | Executive Director, Executive Vice President and Chief Financial Officer |
| Zhang Jiping | 57 | Executive Director and Executive Vice President |

| | | |
|---|---|---|
| Li Ping | 59 | Executive Vice President |
| Yang Xiaowei | 49 | Executive Director and Executive Vice President |
| Sun Kangmin | 56 | Executive Director and Executive Vice President |
| Ke Ruiwen | 50 | Executive Director and Executive Vice President |
| Wu Jichuan | 75 | Independent Non-Executive Director |
| Qin Xiao | 65 | Independent Non-Executive Director |

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| Name | Age | Position |
|---|---|---|
| Tse Hau Yin, Aloysius | 65 | Independent Non-Executive Director |
| Cha May Lung, Laura | 63 | Independent Non-Executive Director |
| Xu Erming | 63 | Independent Non-Executive Director |
| Yung Shun Loy, Jacky | 50 | Assistant Chief Financial Officer, Qualified Accountant and Company Secretary |
| Gao Jinxing | 50 | Financial Controller |

*Wang Xiaochu*, age 55, is the Chairman of the Board of Directors and Chief Executive Officer of our Company. Mr. Wang graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang Province, Director General of the Tianjin Posts and Telecommunications Administration, Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited, Vice President of China Mobile Communication Corporation, President of China Telecommunications Corporation, and Chairman of the board of directors and a Non-Executive Director of China Communications Services Corporation Limited. He is also the Chairman of China Telecommunications Corporation and Honorary Chairman of China Communications Services Corporation Limited. He was responsible for the development of China Telecom s telephone network management systems and various other information technology projects and as a result, received the Third-Class Award from the State Scientific and Technological Progress Award and the First-Class Award from the former Ministry of Posts and Telecommunications, or the MPT, Scientific and Technological Progress Award. Mr. Wang has over 30 years of management experience in the telecommunications industry.

*Yang Jie*, age 51, is an Executive Director, President and Chief Operating Officer of our 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, or 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 and General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation. He is also the President of China Telecommunications Corporation. Mr. Yang has 29 years of operational and managerial experience in the PRC telecommunications industry.

*Wu Andi*, age 58, is an Executive Director, Executive Vice President and the Chief Financial Officer of our Company. She is responsible for the financial management of our Company. Madam Wu is a senior accountant. She graduated from the Beijing Institute of Economics with a bachelor s degree in finance and trading in 1983, and studied in a postgraduate program in business economics management at the Chinese Academy of Social Sciences from 1996 to 1998. Madam Wu studied in the master of business administration program at the Guanghua School of Management at Peking University from 2002 to 2003 and received an executive master s degree of business administration. Prior to joining China Telecommunications Corporation in May 2000, she served as Director General of the Department of Economic Adjustment and Communication Settlement of the MII, and Director General, Deputy Director General and Director of the Department of Finance of the MPT. She is also a Vice President of China Telecommunications Corporation. Madam Wu has 31 years of economic and financial management experience in the telecommunications industry in the PRC.

*Zhang Jiping*, age 57, is an Executive Director and Executive Vice President of our Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor s degree in radio telecommunications engineering in 1982, studied in a postgraduate program in applied computer engineering at Northeastern Industrial University from 1986 to 1988, and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2004. Prior to joining China Telecommunications Corporation in May 2000, he served as Deputy Director General of Directorate General of Telecommunications, or the DGT, of the MPT, a Deputy Director General and Director of the Telecommunication Technology Center of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has 31 years of experience in network operation and management in the telecommunications industry in the PRC.

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*Li Ping*, age 59, is an Executive Vice President of our Company. Mr. Li graduated from the Beijing University of Posts and Telecommunications with a major in radio telecommunications in 1976 and received a MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. He served as Executive Director of our Company, Chairman and President of China Telecom (Hong Kong) International Limited, Vice Chairman and Executive Vice President of China Mobile (Hong Kong) Limited, Deputy Director General of the DGT of the MPT. He is also a Vice President of China Telecommunications Corporation, and Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited. Mr. Li has extensive experience in managing public companies and 37 years of operational and managerial experience in the telecommunications industry in the PRC.

*Yang Xiaowei*, age 49, is an Executive Director and Executive Vice President of our Company. Mr. Yang is a senior engineer. He received a bachelor s degree from the Computer Application Department of Chongqing University in 1998 and a master s degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director General and Deputy Director General of Chongqing Telecommunications Bureau, a Deputy Director General of the Chongqing Telecommunications Administration Bureau and the 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 CUCL and Chairman of Unicom Huasheng. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

*Sun Kangmin*, age 56, is an Executive Director and Executive Vice President of our Company. Mr. Sun is a senior engineer. He holds a bachelor s degree. Mr. Sun served as Deputy Director General and Chief Engineer of Chengdu Telecommunications Bureau, Deputy Director General of Sichuan Posts and Telecommunications Administration, Head of the Information Industry Department of Sichuan Province, Director General of Communications Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation. Mr. Sun has 29 years of operational and managerial experience in the telecommunications industry in the PRC.

*Ke Ruiwen*, age 50, is an Executive Director and Executive Vice President of our 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. Mr. Ke has 27 years of operational and managerial experience in the telecommunications industry in China.

*Wu Jichuan*, age 75, is an Independent Non-Executive Director of our Company. Mr. Wu is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Expert Committee for Telecommunication Economy of MIIT, Honorary Director General of the Chinese Institute of Electronics, and Honorary Director General of the Chinese Institute of Communications. Mr. Wu graduated from Beijing Institute of Posts and Telecommunications with a major in wired telecommunications engineering in 1959. Mr. Wu served as Vice Minister and Minister of the MPT, Deputy Director of the Committee of the Radio Management, Vice Leader of the Informatization Leading Group of the State Council, Minister of the MII, a member of the Eighth & the Tenth National People s Congress, a member of the Standing Committee of the Tenth National People s Congress and Vice Chairman of the Education, Science, Culture and Public Health Committee of the Tenth National People s Congress.

*Qin Xiao*, age 65, is an Independent Non-Executive Director of our Company. Dr. Qin obtained his Ph.D. in economics from University of Cambridge. He is an Independent Non-Executive Director of HKR International Limited, AIA Group Limited and China World Trade Center Company Limited and the Non-Executive Chairman of the board of directors of Amex Resources Limited. He is a part-time professor at the School of Economics and Management of Tsinghua University and the Graduate School of the People s Bank of China and a non-official member of the Financial Services Development Council of Hong Kong. He served as the Chairman of China Merchants Bank Co., Ltd. and China Merchants Group Limited, President and Vice Chairman of China International Trust and Investment Corporation, or CITIC, and Chairman of CITIC Industrial Bank. He was a deputy to the Ninth National People s Congress, a member of the Tenth and the Eleventh Chinese People s Political Consultative Conference, an advisor on the Foreign Currency Policy of the State Administration of Foreign Exchange, and a member of Toyota International Advisory Board. He also served as Chairman of APEC Business Advisory Council for the Year 2001. His papers and books in economics, management and social transformation have been published in China and abroad.

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*Tse Hau Yin, Aloysius*, age 65, is an Independent Non-Executive Director of our Company. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Wing Hang Bank Limited, Linmark Group Limited, Sinofert Holdings Limited, SJM Holdings Limited and CCB International (Holdings) Limited. Mr. Tse was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010. 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, or HKICPA. Mr. Tse is a former 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 the PRC 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 63, is an Independent Non-Executive Director of our Company. Mrs. Cha is currently a Hong Kong Delegate to the Twelfth National People s Congress of the PRC, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission, or CSRC, a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region, or the HKSAR, and Chairman of the Financial Services Development Council of the Government of the HKSAR. 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 a Non-Executive Director. She is a member of the Yale School of Management Board of Advisors. Mrs. Cha served as a Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director 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 in the United States in 1982.

*Xu Erming*, age 63, is an Independent Non-Executive Director of our Company. Professor Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, a member of the Third Session of the University Affairs Committee of the Renmin University of China, Associate Convener of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council and Vice Chairman of the Chinese Enterprise Management Research Association. He is also entitled to the State Council s special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited (formerly known as Harbin Power Equipment Company Limited). Over the years, Professor Xu has conducted research in areas related to strategic management, organizational theories, international management and education management and has been responsible for research on many subjects put forward by the PRC National Natural Science Foundation, the PRC National Social Science Foundation, and other authorities at provincial and ministerial level in the PRC. 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 previously lectured at the State University of New York at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and the Hong Kong Polytechnic University.

*Yung Shun Loy, Jacky*, age 50, is the Assistant Chief Financial Officer, Qualified Accountant and the Company Secretary of our Company. Mr. Yung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of United Kingdom, and a Certified Practising Accountant in Australia. He has a bachelor s degree in laws and a bachelor s degree in social sciences. Mr. Yung has over 20 years of experience in auditing, company secretary and senior financial management of listed companies.

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*Gao Jinxing*, age 50, is the Financial Controller of our Company. Mr. Gao is a senior economist and has a master s degree. Mr. Gao served as the Deputy Chief Economist and Head of Financial Planning and Supply Department of Fuzhou Telecommunications Bureau, Deputy Director General and Chief Accountant of Sanming Posts and Telecommunications Bureau, Deputy Director and Director of Finance Department of the Posts and Telecommunications Administration of Fujian province, Deputy General Manager, the Financial Controller and the Chairman of the Labour Union of China Telecom Fujian branch.

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 six 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.

Effective as of August 22, 2012, Mr. Miao Jianhua retired from his position as Chairman of the Supervisory Committee of our Company. On the same day, Mr. Xu Cailiao and Ms. Han Fang resigned from their positions as Supervisors of our Company. Mr. Shao Chunbao and Mr. Hu Jing were proposed to be appointed as the Supervisors of our Company. The appointment of Mr. Shao Chunbao and Mr. Hu Jing as the Supervisors of the Company was approved at the extraordinary general meeting held on October 16, 2012, while Mr. Zhang Jianbin has been elected by the employees of the Company democratically as a Supervisor of our Company representing the employees. Their terms of office commenced from October 16, 2012 until the annual general meeting of the Company for the year 2013 to be held in the year 2014.

The following table sets forth certain information concerning our Supervisors:

| Name | Age | Position |
|---|---|---|
| Shao Chunbao | 55 | Chairman of the Supervisory Committee |
| Zhu Lihao | 72 | Independent Supervisor |
| Mao Shejun | 59 | Supervisor (Employee Representative) |
| Zhang Jianbin | 47 | Supervisor (Employee Representative) |
| Hu Jing | 37 | Supervisor |
| Du Zuguo | 50 | Supervisor |

*Shao Chunbao*, aged 55, is the Chairman of the Supervisory Committee of our Company. Mr. Shao is currently the head of the Discipline Inspection Division of China Telecommunications Corporation. Mr. Shao received a doctorate degree from the Huazhong University of Science and Technology. He served as Deputy Office Director and Deputy Director of the Scientific Research Division of the Shanxi Taiyuan Municipal Party School, Director-grade Secretary in the General Office of CPC Committee of Shanxi Province, Director-grade investigator of the Organization Department of the Central Committee of CPC, Director General-grade Deputy Director General of the Central Direct-Owned Institutions Management Office, Deputy Secretary of the Municipal Party Committee of Jiujiang of Jiangxi Province, Deputy Secretary of the Discipline Commission and Director General of the Inspection Bureau of the SASAC. Mr. Shao has extensive government work experience and management experience.

*Zhu Lihao*, age 72, is an Independent Supervisor of the Supervisory Committee of our Company. Ms. Zhu is a senior auditor and a qualified accountant in the PRC. She graduated from Beijing Graduate School of Mining and Technology with a major in engineering economics in 1963. Ms. Zhu served as a Deputy Director General, Director General, Deputy Director and Director of the Department of Industry and Communications of the National Audit Bureau of the PRC, and the Director General of the Department of Foreign Affairs and Foreign-related Auditing of the Audit Bureau. Ms. Zhu has over 40 years of experience in management and auditing.

*Mao Shejun*, age 59, is an Employee Representative Supervisor of the Supervisory Committee of our Company. Mr. Mao is currently a senior consultant of the Labour Union of China Telecom Group. Mr. Mao holds a master s degree in management from the Australian National University and has served as Human Resources Officer of the former Hubei Posts and Telecommunications Administration and Managing Director of the Human Resources Department of our Company. Mr. Mao is a senior economist and has over 30 years of experience in operation and management in the telecommunications industry.

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*Zhang Jianbin*, aged 47, is an Employee Representative Supervisor of the Supervisory Committee of our Company. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department of our company). Mr. Zhang graduated from the Law School of Peking University in 1989 and received LLB and LLM degrees. He also had an executive master s degree of business administration from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the MPT and the Directorate General of Telecommunications, or 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 over 20 years of experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.

*Hu Jing*, aged 37, is a Supervisor of the Supervisory Committee of our Company. Mr. Hu is currently the director in the Audit Department of the Company. Mr. Hu received a bachelor s degree in accounting from the Xi an University of Finance and Economics in 1997 and a master s 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 a senior accountant with 15 years of experience in finance and auditing.

*Du Zuguo*, age 50, is a Supervisor of the Supervisory Committee of our Company. Mr. Du is a senior economist. He is the General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of our Company) and the Chairman and General Manager of Zhejiang Provincial Financial Holdings Company Limited. Mr. Du served as Director, Deputy Director General, Deputy Secretary to the CCP Committee, Director General and Secretary to the CCP Committee of Zhoushan Finance and Local Tax Bureau in Zhejiang province and now is a CCP Committee member of Zhejiang Provincial Department of Finance. Mr. Du has extensive experience in government s work and large-scale state-owned enterprise management.

**B. Compensation**

***Compensation of Directors and Supervisors***

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, 2012 was approximately RMB9.1 million. The following table sets forth the compensation received or receivable by our Company s directors and supervisors:

| | Directors / supervisors fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Share-based payments | Retirement scheme contributions | Total |
|---|---|---|---|---|---|---|
| | | | RMB thousands | | | |
| **2012** | | | | | | |
| *Executive Directors* | | | | | | |
| Wang Xiaochu | | 337 | 377 | | 62 | 776 |
| Yang Jie | | 337 | 386 | | 59 | 782 |
| Wu Andi | | 293 | 344 | | 59 | 696 |
| Zhang Jiping | | 293 | 344 | | 59 | 696 |
| Zhang Chenshuang[(1)] | | 122 | 337 | | 24 | 483 |
| Yang Xiaowei | | 293 | 340 | | 59 | 692 |
| Sun Kangmin | | 293 | 340 | | 59 | 692 |
| Ke Ruiwen[(2)] | | 171 | 171 | | 36 | 378 |
| *Non-Executive Directors* | | | | | | |
| Li Jinming[(3)] | | | | | | |
| Chen Liangxian[(4)] | | | | | | |

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| | Directors / supervisors fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Share-based payments | Retirement scheme contributions | Total |
|---|---|---|---|---|---|---|
| *Independent Non-Executive Directors* | | | | | | |
| Wu Jichuan | 200 | | | | | 200 |
| Qin Xiao | 203 | | | | | 203 |
| Tse Hau Yin | 405 | | | | | 405 |
| Cha May Lung | 203 | | | | | 203 |
| Xu Erming | 200 | | | | | 200 |
| *Supervisors* | | | | | | |
| Shao Chunbao[6] | | 49 | 49 | | 10 | 108 |
| Miao Jianhua[5] | | 245 | 289 | | 48 | 582 |
| Mao Shejun | | 173 | 450 | | 59 | 682 |
| Zhang Jianbin[6] | | 45 | 62 | | 19 | 126 |
| Xu Cailiao[5] | | 83 | 303 | | 42 | 428 |
| Han Fang[5] | | 225 | 316 | | 42 | 583 |
| Hu Jing[6] | | 10 | 22 | | 8 | 40 |
| Du Zuguo | | | | | | |
| *Independent Supervisor* | | | | | | |
| Zhu Lihao | 100 | | | | | 100 |
| Total | 1,311 | 2,969 | 4,130 | | 645 | 9,055 |

(1) Mr. Zhang Chenshuang retired as an Executive Director of the Company, effective March 20, 2012.
(2) Mr. Ke Ruiwen was appointed as an Executive Director of the Company, effective May 30, 2012.
(3) Mr. Li Jinming retired as a Non-Executive Director of the Company, effective August 22, 2012.
(4) Mr. Chen Liangxian was appointed as the Non-executive Director of our Company, and such appointment was approved at the extraordinary general meeting held on October 16, 2012. On March 20, 2013, Mr. Chen Liangxian resigned from his position as a Non-Executive Director of our Company.
(5) Mr. Miao Jianhua retired as Chairman of the supervisory committee of the Company, effective August 22, 2012. Mr. Xu Cailiao and Ms. Han Fang resigned from their positions as Supervisors of our Company, effective as of August 22, 2012.
(6) Mr. Shao Chunbao and Mr. Hu Jing were proposed to be appointed as the Supervisors of our Company. The appointment of Mr. Shao Chunbao and Mr. Hu Jing as the Supervisors of the Company was approved at the extraordinary general meeting held on October 16, 2012, while Mr. Zhang Jianbin has been elected by the employees of the Company democratically as a Supervisor of our Company representing the employees. Their terms of office commenced from October 16, 2012 until the annual general meeting of the Company for the year 2013 to be held in the year 2014.
(7) The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year.

***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.

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***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 senior 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 2005, we approved the granting of 560.0 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$2.78 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25.0%, 50.0%, 75.0% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

In 2006, we approved the granting of 837.3 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from the date of grant and an exercise price of HK$2.85 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25.0%, 50.0%, 75.0% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

In 2012, we approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of five years from the date of grant and an exercise price of HK$4.76 per unit. A recipient of these stock appreciation rights may exercise the rights in stages commencing November 2013. As of each of the third, fourth and fifth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.0%, 66.0% and 100.0%, respectively, of the total stock appreciation rights granted to such persons.

During the years ended December 31, 2010 and 2011, 483 million and 412 million stock appreciation right units were exercised, respectively. During the year ended December 31, 2012, no stock appreciation right units were exercised.

We recognize compensation expense of the stock appreciation rights over the applicable vesting period. Changes in our payment obligation under the stock appreciation rights plan resulting from changes in fair value of our H shares for the period subsequent to the vesting period through the date of the exercise are also reflected in our earnings. For the year ended December 31, 2010, compensation expense recognized in respect of stock appreciation rights was RMB592 million. For the year ended December 31, 2011, compensation expense recognized in respect of stock appreciation rights was RMB328 million. For the year ended December 31, 2012, compensation expense recognized in respect of stock appreciation rights was RMB163 million.

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**C. Board Practices**

***General***

Pursuant to our Articles of Association, our directors must be elected by our shareholders at a general meeting. Our directors are generally elected for a term of three years and may serve consecutive terms if re-elected. On May 20, 2011, election of members of the Board were conducted and this election generated the fourth session of the Board consisting of 14 directors with eight Executive Directors, one Non-Executive Director, and five Independent Non-executive Directors, each having a term of office of three years. The term of the fourth session of the Board ends on the day of our annual general meeting in 2014, upon which the fifth session of the Board will be elected. None of the service contracts with our directors provide benefits to them upon termination.

On 20 March 2012, Mr. Zhang Chenshuang retired from his positions as Executive Director and Executive Vice President. On March 20, 2012, the Board appointed Mr. Ke Ruiwen as an Executive Vice President of our Company. On May 30, 2012, Mr. Ke Ruiwen was approved to be appointed as an Executive Director of the Company at the 2011 annual general meeting. On August 22, 2012, Mr. Li Jinming retired from his position as a Non-executive Director of our Company. The Board has proposed to appoint Mr. Chen Liangxian as an Non-Executive Director of our Company, and such appointment was approved at the extraordinary general meeting held on October 16, 2012. On March 20, 2013, Mr. Chen Liangxian resigned from his position as a Non-Executive Director of our Company. On March 20, 2013, the Board proposed that Mr. Xie Liang be appointed as a Non-Executive Director of our Company, subject to approval at the annual general meeting scheduled to be held on May 29, 2013. Our Board currently consists of 12 directors with seven Executive Directors and five Independent Non-Executive Directors.

***Audit Committee***

The Audit Committee was established in 2002, and currently consists of four members, Mr. Tse Hau Yin, Aloysius, Mr. Wu Jichuan, Dr. Qin Xiao and Professor Xu Erming. They are all 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 and in December 2011, 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 consideration of the qualification, independence, selection and appointment of independent auditors, and approval of services provided by the independent auditors. In addition, the Audit Committee is responsible for ensuring that the management performs its duty to establish and maintain an effective internal control system including the adequacy of resources and qualifications and experience of staff fulfilling the accounting 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 financial control and audit matters.

In 2012, the Audit Committee held four meetings, at which it considered matters within its responsibilities, including our Company s financial statements, assessment of the qualifications, independence and performance of independent auditors and appointment of independent auditors, effectiveness of internal control, internal audit and related party transactions. The Audit Committee received quarterly reports in relation to the internal audit and related party transactions and provided guidance to the internal audit department. In addition, the Audit Committee reviewed the internal control assessment report and attestation report, followed up with the recommendations proposed by our independent auditors, reviewed the annual report, and communicated independently with the auditors twice a year.

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***Remuneration Committee***

The Remuneration Committee was established in 2003, and currently consists of four members, Professor Xu Erming, Mr. Wu Jichuan, Dr. Qin Xiao and Mr. Tse Hau Yin, Aloysius, 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, making recommendations to the Board on our overall remuneration policies and structure relating to compensation of directors and senior management, reviewing and approving the management s remuneration proposals, determining the remuneration packages of all Executive Directors and senior management, making recommendations to the Board of Directors on the remuneration of Non-Executive Directors and reviewing and approving severance compensation of directors and senior management.

The Remuneration Committee held no meeting in 2012.

***Nomination Committee***

The Nomination Committee was established in 2005. It currently consists of four members, Mr. Wu Jichuan, Mr. Tse Hau Yin, Aloysius, Ms. Cha May Lung, Laura 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, pursuant to which the Nomination Committee s principal responsibilities include reviewing the structure, size and composition (including the skills, knowledge and experience) 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; and making recommendations to the board on the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee held no meeting and passed two written resolutions in 2012.

***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 held one meeting in 2012.

**D. Employees**

***General***

As of December 31, 2012, we had 305,676 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2010, 2011 and 2012:

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | |
| | Number of Employees | Percentage of Total | Number of Employees | Percentage of Total | Number of Employees | Percentage of Total |
| Management, finance and administrative | 49,124 | 15.7% | 49,455 | 16.0% | 49,566 | 16.2% |
| Sales and marketing | 161,569 | 51.8 | 159,374 | 51.4 | 156,260 | 51.1 |
| Operations and maintenance | 99,704 | 31.9 | 98,801 | 31.9 | 97,658 | 32.0 |
| Others | 1,925 | 0.6 | 2,169 | 0.7 | 2,192 | 0.7 |
| Total | 312,322 | 100.0% | 309,799 | 100.0% | 305,676 | 100.0% |

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We have implemented a short-term and long-term combined incentive remuneration scheme. The primary components of an employee s remuneration include basic salary, a performance based bonus, compensation based on seniority and stock appreciation rights (stock appreciation rights are exclusively for managerial staff and key employees). 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 strikes or other 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, 2012, our Assistant Chief Financial Officer, Qualified Accountant and Company Secretary, Mr. Yung Shun Loy, Jacky, held 156,000 H shares, representing 0.00112% of the total number of H shares and 0.00019% of the total number of all outstanding shares in our Company.

Apart from those disclosed herein, as of December 31, 2012, 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, 2013 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 | Percentage of the Respective Type of Shares | Percentage of Total Shares |
|---|---|---|---|---|
| Domestic shares | China Telecom Group | 57,377,053,317 | 85.57% | 70.89% |
| Domestic shares | Guangdong Rising Assets Management Co., Ltd. | 5,614,082,653 | 8.37% | 6.94% |
| H shares | JPMorgan Chase & Co. | 2,404,838,435[(1)] | 17.33% | 2.97% |
| H shares | Commonwealth Bank of Australia | 1,806,696,795 | 13.02% | 2.23% |
| H shares | BlackRock, Inc. | 1,656,533,373[(2)] | 11.94% | 2.05% |

(1) Includes (i) 1,244,931,117 shares held by JPMorgan Chase & Co. in long position, or Long Position, as defined under the Securities and Futures Ordinance of Hong Kong, or the SFO, representing 8.97% of the total number of H shares and 1.54% of the total number of all outstanding shares; (ii) 44,839,953 shares held by JPMorgan Chase & Co. in short position, or Short Position, as defined under the SFO, representing 0.32% of the total number of H shares and 0.06% of the total number of all outstanding shares; and (iii)1,115,067,365 shares held by JPMorgan Chase & Co. as a lending agent on behalf of its clients in a lending pool as defined under the SFO, representing 8.04% of the total number of H shares and 1.38% of the total number of all outstanding shares.

(2) Includes (i) 1,521,245,776 shares held by BlackRock, Inc. in Long Position, representing 10.96% of the total number of H Shares and 1.88% of the total number of all outstanding shares, and (ii) 135,287,597 shares held by BlackRocks, Inc. in Short Position, representing 0.97% of the total number of H Shares and 0.17% of the total number of all outstanding shares.

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 Kai Xuan Hua Mei Da Hotel, 15/F, No. 9, 1 Ming Yue Yi Road, Dongshan 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 10017, U.S.A. Commonwealth Bank of Australia is located at Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW, Australia. BlackRock, Inc. is located at 40 East 52nd Street, New York 10022, U.S.A.

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Based solely on information contained in an Amendment No.5 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the U.S. Securities Exchange Commission, or SEC, on February 1, 2013 by Franklin Resources, Inc., or FRI, Charles B. Johnson and Rupert H. Johnson, Jr., 1,184,233,759 shares of our Company, or the FRI Shares, representing approximately 8.5% of the total number of our H shares outstanding as of December 31, 2012, were beneficially owned either by investment companies that were direct or indirect subsidiaries of FRI or by other managed accounts that were investment management clients of investment managers that were direct or indirect subsidiaries of FRI. These subsidiaries of FRI were generally granted all investment and/or voting power over the FRI Shares owned and, as a result, may be deemed to be the beneficial owners of the FRI Shares for the purposes of Rule 13d-3 of the Exchange Act. Each of Charles B. Johnson and Rupert H. Johnson, Jr. owned in excess of 10% of the outstanding common stock of FRI and was a principal shareholder of FRI. Each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. could be deemed a beneficial owner of securities held by persons and entities for whom or for which the subsidiaries of FRI provided investment management services. However, each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. disclaims beneficial ownership of any of the FRI Shares. The principal place of business of each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr., is One Franklin Parkway, San Mateo, CA 94403-1906, U.S.A. The above disclosure is based solely on the information contained in the FRI Schedule 13G/A. For the numbers of our H shares that each of the subsidiaries of FRI has sole power to vote or to direct the voting of, or sole power to dispose or to direct the disposition of, or shared power to dispose or to direct the disposition of, and other details of the FRI Schedule 13G/A, please see the Schedule 13G/A jointly filed with the SEC by FRI, Charles B. Johnson and Rupert H. Johnson, Jr. on February 1, 2013.

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, 2013, 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, and the Mobile Network Acquisition in 2012, we have entered into various agreements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. Such agreements include those for trademark licensing, centralized services, interconnection arrangements, optic fiber leasing, property leasing, land use right leasing, CDMA network capacity leasing, CDMA facilities leasing and other services.

Our Independent Non-Executive Directors have confirmed that all connected transactions for the year ended December 31, 2012 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

where there was no available comparison to determine whether they are on normal commercial terms or on terms no less favorable than those available to or from independent third parties, as applicable; and

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had been entered into on terms that are fair and reasonable so far as the overall interest of the independent shareholders of our Company are concerned.

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

***Ongoing Related Party Transactions between Us and China Telecom Group***

The following table sets out the amounts of ongoing related party transactions between us and China Telecom Group for the year ended December 31, 2012:

| Transactions | Transaction Amounts (RMB millions) |
|---|---|
| Net transaction amount of centralized services | 570 |
| Net expenses for interconnection settlement | 366 |
| Lease of property from China Telecom Group | 380 |
| Lease of property to China Telecom Group | 40 |
| Provision of IT services by China Telecom Group | 764 |
| Provision of IT services to China Telecom Group | 370 |
| Provision of supplies procurement services by China Telecom Group | 3,029 |
| Provision of supplies procurement services to China Telecom Group | 2,685 |
| Provision of engineering services by China Telecom Group | 10,203 |
| Provision of community services by China Telecom Group | 2,652 |
| Provision of ancillary telecommunications services by China Telecom Group | 9,541 |
| Lease of CDMA network capacity from China Telecom Group[(1)] | 23,027 |
| Lease of optic fibers from China Telecom Group | 26 |

(1) Net off the capacity maintenance related costs of CDMA network payable to the Company by China Telecommunications Corporation amounted to RMB2,519 million.

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***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 Centralised Services Agreement ), centralized services include centralized business management and operational services provided by the Company to China Telecommunications Corporation in relation to key corporate customers, its network management center and business support center. Centralized services also include the provision of certain premises by China Telecommunications Corporation to the Company and the common use of international telecommunications facilities by both parties. In accordance with the Centralized Services Agreement, the aggregate costs incurred by the Company and China Telecommunications Corporation for the provision of management and operation services will be apportioned between the Company and China Telecommunications Corporation on a pro rata basis according to the revenues generated by each party. Where the Company uses the premises provided by China Telecommunications Corporation, the Company will pay premises usage fees to China Telecommunications Corporation on a pro rata basis according to the apportioned actual area allocated to the Company. The premises usage fees shall be determined through negotiation between the two parties based on comparable market rates. When both parties use international telecommunications facilities provided by third parties and accept services by such third parties, such as restoration maintenance costs, the annual utilization fee and related service costs, and when both parties use the international telecommunications facilities of China Telecommunications Corporation, the associated costs shall be shared on a pro rata basis according to volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from each party divided by the proportion of the aggregate volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from both parties. When the two parties use international telecommunications facilities provided by a third party and accept restoration maintenance costs, such fees shall be determined according to the actual utilization fee each year. The utilization fee associated with the shared use of the international telecommunications facilities provided by China Telecommunications Corporation shall be determined through negotiation between the two parties based on market rates.

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

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

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***Property Leasing Framework Agreement***

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

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

***IT Services Framework Agreement***

Pursuant to the IT services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the IT Services Framework Agreement ), the Company and China Telecommunications Corporation and/or its associates can provide the other party with information technology services, including office automation and software testing. Each of the Company and China Telecommunications Corporation and/or its associates is entitled to participate in bidding for the right to provide information technology services to the other party in accordance with the IT Services Framework Agreement. The charges payable for such services shall be determined by reference to the market rates or rates obtained through a tender process. If the terms offered by the Company or China Telecommunications Corporation and/or its associates are no less favorable than those offered by an independent third-party provider, the Company or China Telecommunications Corporation and/or its associates may award the tender to the other party.

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

***Community Services Framework Agreement***

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

(1) the government-prescribed prices (if any);

(2) where there are no government-prescribed prices, the government-guided prices (if any);

(3) where there are neither government-prescribed prices nor government-guided prices, the market prices (if any), which are the prices at which the same type of services are provided by independent third parties in the ordinary course of business; or

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(4) where none of the above is applicable, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus reasonable profit margin (for this purpose, reasonable costs means such costs as confirmed by both parties after negotiations).

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

***Supplies Procurement Services Framework Agreement***

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

Where the procurement services are provided on an agency basis, the maximum commission for such procurement services shall be calculated at: (1) not more than 1.0% of the contract value for procurement of imported telecommunications supplies; or (2) not more than 3.0% of the contract value for the procurement of domestic telecommunications supplies and other domestic non-telecommunication materials. The pricing basis for the services for the provision of supplies procurement other than on an agency basis under the Supplies Procurement Services Framework Agreement is the same as those set out in the Community Services Framework Agreement.

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

***Engineering Framework Agreement***

Pursuant to the engineering framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Engineering Framework Agreement ), China Telecommunications Corporation and/or its associates through bids provide to the Company services such as construction, design, equipment installation and testing and/or engineering project supervision services. The charges payable for such engineering services shall be determined by reference to market rates. The charges payable for the design or supervision of engineering projects with a value of over RMB500,000 or construction of engineering projects with a value of over RMB2 million shall be determined by referring to the tender award price.

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

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

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***Ancillary Telecommunications Services Framework Agreement***

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

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

***CDMA Network Capacity Lease Agreement***

Pursuant to the CDMA network capacity lease agreement signed between the Company and China Telecommunications Corporation on July 27, 2008 and the related supplemental agreement subsequently entered into between the two parties, collectively, the CDMA Network Capacity Lease Agreement, China Telecommunications Corporation agreed to lease the capacity of its CDMA network, or the CDMA Network, to the Company and the Company should have the exclusive right to use and operate the CDMA Network to provide CDMA services in its service areas. The leasing fee was 28.0% of the Company s CDMA service revenues per year (which is calculated by the total revenues from the CDMA services operations minus any upfront non-refundable revenues arising out of the CDMA operations and any revenues from sale of telecommunications products in connection with the CDMA operations, as derived from the Company s financial statements). Regardless of the revenues of the CDMA operations, the minimum annual leasing fee should be 90.0% of the total amount of the leasing fee paid by the Company to China Telecommunications Corporation in the previous year. As the Company started to pay the leasing fee from October 1, 2008, there was no minimal annual leasing fee for 2008 and 2009. The cost of network construction should be borne by China Telecommunications Corporation, while the maintenance-related costs shall be shared as agreed between the two parties.

Pursuant to the CDMA Network Capacity Lease Agreement, China Telecommunications Corporation has granted the Company an option to purchase the CDMA Network. The option may be exercised, at the discretion of the Company, at any time during the term of the lease or within one year after the expiry of the lease. No premium has been paid or will be payable by the Company for the grant of the option.

The CDMA Network Capacity Lease Agreement expired on December 31, 2012.

***Strategic Agreement between Our Company and China Communications Services Corporation Limited***

Pursuant to the strategic agreement signed between the Company and China Communications Services Corporation Limited, or China Communications Services, on August 30, 2006 and the related supplemental agreements (collectively, the Strategic Agreement ), the Company agreed that, in the period between January 1, 2007 and December 31, 2009, if the service terms relating to the design, implementation and supervision of the communications engineering projects provided by China Communications Services are basically the same as those of other service providers, the provincial branches of the Company in the service area of China Communications Services shall receive such services from the relevant wholly-owned subsidiaries of China Communications Services annually with a total annual value of no less than 10.6% of the total annual capital expenditure of the relevant provincial branches of the Company in that year. China Communications Services will offer at least 5.0% price discount to the Company based on the applicable standard prices for the services in connection with the design, implementation and supervision of communications engineering projects. Meanwhile, the Company agreed that, in the period between January 1, 2007 and December 31, 2009, if the terms relating to certain maintenance management services provided by China Communications Services are basically the same as those of other service providers, the provincial branches of the Company in the service area of China Communication Services shall receive such services from the relevant wholly-owned subsidiaries of China Communications Services with a total value of no less than RMB1,780 million annually.

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The business areas of the strategic alliance between the two parties governed by the terms and conditions in the Strategic Agreement include: design, implementation and supervision of the communications engineering projects, maintenance management service, contents application service, sales channel service, usage of telecommunications and other new businesses arising from time to time which are appropriate for the collaboration between the two parties. China Communications Services pledges its support to the strategic transformation of the Company from a traditional basic telecommunications operator to an integrated information service provider, its active support to the Company s business development, and its active use of the Company s products and services in its own business. Such services shall comply with the related PRC standards or the standards agreed by both parties, and shall be on terms no less favorable than those available to any third parties to which the same or similar services are provided by either party. Without breaching the requirements under PRC laws, where the terms and conditions of services provided by either party to the Strategic Agreement are as favorable as those provided by an independent third party in respect of the same services, the party under the Strategic Agreement shall have the priority to be appointed as the service provider by the other party.

The Company and China Communications Services entered into a supplemental agreement on October 29, 2009 to renew the Strategic Agreement for a further term expiring on December 31, 2012.

The Strategic Agreement did not set out any annual caps for the transactions thereunder as China Telecommunications Corporation, the holding company of China Communications Services, has signed certain framework agreements with the Company (including the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement and the Community Services Framework Agreement), which cover the transactions contemplated under the Strategic Agreement. These framework agreements are subject to annual caps, and the proposed annual caps for the transactions under the Strategic Agreement were subsumed under the annual caps of these framework agreements

The Strategic Agreement expired on December 31, 2012.

***Trademark License Agreement***

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

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

***Optic Fiber Leasing Agreement***

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

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

***Our Sale of Besttone E-Commerce Co., Ltd..***

See Item 4. Information on the Company A. History and Development of the Company Our Sale of Besttone E-Commerce Co., Ltd.

***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.

We from time to time borrow short term unsecured loans from China Telecom Group to supplement our working capital needs. As of December 31, 2012, the aggregate outstanding principal amount of such loans was RMB820 million, which bear interest at fixed rates ranging from 4.5% to 4.7% per annum and are repayable within one year. See Note 15 to our audited financial statements included elsewhere in this report for details of interest paid and payable to China Telecom Group with respect to such loans.

***Our Proposed Sale of E-surfing Media Co,. Ltd.***

See Item 4-Information on the Company A. History and Development of the Company Our Proposed Sale of E-surfing Media Co., Ltd.

**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 or results of operations.

In 2011, the NDRC initiated an anti-monopoly investigation over our pricing practices with respect to our Internet dedicated leased line access services to Internet service providers. In response to this investigation, we have conducted a self-evaluation of the relevant pricing practices and submitted to the NDRC in November 2011 a proposal for enhancement initiatives as well as an application for suspension of investigation.

***Policy on Dividend Distributions***

Pursuant to the shareholders approval at the annual general meeting held on May 30, 2012, a final dividend of RMB5,625 million (RMB0.069506 equivalent to HK$0.085 per share) for the year ended December 31, 2011 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors meeting on March 20, 2013, a final dividend of approximately RMB5,522 million (RMB0.068230 equivalent to HK$0.085 per share) for the year ended December 31, 2012 was proposed for shareholders approval at the annual general meeting.

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The declaration and payment of dividends for years following 2012 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, 2013 and April 24, 2013, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2013 and April 24, 2013, there were, respectively, 46 and 44 registered holders of American depositary receipts evidencing 5,791,737 and 6,357,242 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** | | | | |
| 2008 | 7.00 | 2.00 | 90.85 | 26.17 |
| 2009 | 4.35 | 2.58 | 55.53 | 32.11 |
| 2010 | 4.36 | 3.20 | 56.09 | 40.72 |
| 2011 | 5.23 | 4.08 | 67.13 | 52.68 |
| 2012 | 4.91 | 3.29 | 63.48 | 42.05 |
| **Quarterly** | | | | |
| First Quarter, 2011 | 4.75 | 4.08 | 61.00 | 52.68 |
| Second Quarter, 2011 | 5.19 | 4.33 | 65.66 | 55.86 |
| Third Quarter, 2011 | 5.23 | 4.39 | 67.13 | 56.12 |
| Fourth Quarter, 2011 | 5.07 | 4.34 | 66.51 | 55.96 |
| First Quarter, 2012 | 4.74 | 4.00 | 60.87 | 52.00 |
| Second Quarter, 2012 | 4.26 | 3.29 | 55.12 | 42.05 |
| Third Quarter, 2012 | 4.91 | 3.37 | 63.48 | 43.40 |
| Fourth Quarter, 2012 | 4.88 | 3.99 | 62.97 | 52.04 |
| First Quarter, 2013 | 4.40 | 3.90 | 57.97 | 50.33 |
| **Monthly** | | | | |
| October 2012 | 4.88 | 4.52 | 62.97 | 58.10 |
| November 2012 | 4.59 | 3.99 | 59.59 | 52.04 |
| December 2012 | 4.34 | 4.12 | 56.85 | 53.22 |
| January 2013 | 4.40 | 4.18 | 57.97 | 53.95 |
| February 2013 | 4.25 | 3.95 | 55.30 | 50.58 |
| March 2013 | 4.13 | 3.90 | 53.34 | 50.33 |
| April 2013 (through April 24) | 3.90 | 3.57 | 50.39 | 45.73 |

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**Item 10. Additional Information.**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

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

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

***Objects and Purposes***

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

***Directors***

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

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

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

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

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

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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 corporation 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.

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

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

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

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

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

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

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

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

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***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 Repurchases.

***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;

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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 Repurchases.

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

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***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.

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**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.

*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 income 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;

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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 Ministry of Finance 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.

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***Additional PRC Tax Considerations***

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

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

***Hong Kong***

***Tax on Dividends***

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

***Profits***

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

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

***Stamp Duty***

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

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

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.

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***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 bank;

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 Revenues 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.

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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.

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.

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***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, unless you are a U.S. holder that elects to be taxed annually on a mark-to-market basis with respect to the H shares or ADSs, gain realized on the sale or other disposition of your H shares or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. holder, 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 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 preferential tax rates applicable to qualified dividend income if we 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. On the same day, the value of the Renminbi appreciated by approximately 2.0% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. 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 and results of operations.

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The following tables provide information regarding our financial instruments that are sensitive to foreign exchange rates as of December 31, 2012 and 2011, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

As of December 31, 2012:

| | Expected Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | Total | Fair Value |
| | (RMB equivalent in millions, except interest rates) | | | | | | | |
| **Assets:** | | | | | | | | |
| Cash and cash equivalents | | | | | | | | |
| United States dollars | 558 | | | | | | 558 | 558 |
| Japanese yen | 11 | | | | | | 11 | 11 |
| Euro | 2 | | | | | | 2 | 2 |
| Hong Kong dollars | 91 | | | | | | 91 | 91 |
| Other currencies | 64 | | | | | | 64 | 64 |
| Time deposits | | | | | | | | |
| United States dollars | 600 | | | | | | 600 | 600 |
| Japanese yen | | | | | | | | |
| **Liabilities:** | | | | | | | | |
| Debts in Japanese yen | | | | | | | | |
| Fixed rate | | | | | | | | |
| *Average interest rate* | | | | | | | | |
| Debts in United States dollars | | | | | | | | |
| Fixed rate | 50 | 50 | 50 | 50 | 51 | 347 | 598 | 568 |
| *Average interest rate* | 1.3% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | | | | | | | | |
| *Average interest rate*[(1)] | | | | | | | | |
| Debts in Euro | | | | | | | | |
| Fixed rate | 29 | 31 | 31 | 31 | 30 | 304 | 456 | 419 |
| *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 | 5 | 6 | | 26 | 22 |
| *Average interest rate*[(1)] | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | | | |

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2012.

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As of December 31, 2011:

| | Expected Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total | Fair Value |
| | (RMB equivalent in millions, except interest rates) | | | | | | | |
| **Assets:** | | | | | | | | |
| Cash and cash equivalents | | | | | | | | |
| United States dollars | 1,410 | | | | | | 1,410 | 1,410 |
| Japanese yen | 21 | | | | | | 21 | 21 |
| Euro | 2 | | | | | | 2 | 2 |
| Hong Kong dollars | 69 | | | | | | 69 | 69 |
| Other currencies | 39 | | | | | | 39 | 39 |
| Time deposits | | | | | | | | |
| United States dollars | | | | | | | | |
| Japanese yen | | | | | | | | |
| **Liabilities:** | | | | | | | | |
| Debts in Japanese yen | | | | | | | | |
| Fixed rate | 1,603 | | | | | | 1,603 | 1,603 |
| *Average interest rate* | 2.7% | | | | | | | |
| Debts in United States dollars | | | | | | | | |
| Fixed rate | 42 | 42 | 42 | 43 | 43 | 363 | 575 | 546 |
| *Average interest rate* | 2.2% | 1.3% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | 8 | 8 | 8 | 8 | 8 | 33 | 73 | 69 |
| *Average interest rate*[(1)] | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | | |
| Debts in Euro | | | | | | | | |
| Fixed rate | 28 | 22 | 26 | 27 | 27 | 267 | 397 | 365 |
| *Average interest rate* | 1.8% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | | |
| Variable rate | 6 | 6 | 6 | 6 | 6 | 58 | 88 | 81 |
| *Average interest rate*[(1)] | 2.0% | 2.0% | 1.0% | 1.0% | 1.0% | 1.0% | | |
| Debts in other currencies | | | | | | | | |
| Variable rate | 5 | 5 | 5 | 5 | 5 | 4 | 29 | 24 |
| *Average interest rate*[(1)] | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | | |

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2011.

***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, 2011 and 2012, our debt consisted of fixed and variable rate debt obligations with maturities from 2012 to 2060 and from 2013 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, 2011 and 2012, respectively.

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As of December 31, 2012

| | Expected Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | Total | Fair Value |
| | (RMB equivalent in millions, except interest rates) | | | | | | | |
| **Liabilities:** | | | | | | | | |
| Debts in Renminbi | | | | | | | | |
| Fixed rate | 16,005 | 19,973 | | | 380 | 11 | 36,369 | 36,292 |
| *Average interest rate* | 4.7% | 4.6% | | | 6.0% | 5.9% | | |
| Variable rate | 646 | | | | 61,710 | | 62,356 | 62,153 |
| *Average interest rate*[(1)] | 5.5% | | | | 4.8% | | | |
| Debts in Japanese yen | | | | | | | | |
| Fixed rate | | | | | | | | |
| *Average interest rate* | | | | | | | | |
| Debts in United States dollars | | | | | | | | |
| Fixed rate | 50 | 50 | 50 | 50 | 51 | 347 | 598 | 568 |
| *Average interest rate* | 1.3% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | | | | | | | | |
| *Average interest rate*[(1)] | | | | | | | | |
| Debts in Euro | | | | | | | | |
| Fixed rate | 29 | 31 | 31 | 31 | 30 | 304 | 456 | 419 |
| *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 | 5 | 6 | | 26 | 22 |
| *Average interest rate*[(1)] | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | | | |

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2012

As of December 31, 2011:

| | Expected Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total | Fair Value |
| | (RMB equivalent in millions, except interest rates) | | | | | | | |
| **Liabilities:** | | | | | | | | |
| Debts in Renminbi | | | | | | | | |
| Fixed rate | 17,531 | 10,105 | 19,962 | | | 10 | 47,608 | 46,467 |
| *Average interest rate* | 3.7% | 4.2% | 4.6% | | | 5.9% | | |
| Variable rate | 1,730 | | | | | | 1,730 | 1,730 |
| *Average interest rate*[(1)] | 6.1% | | | | | | | |
| Debts in Japanese yen | | | | | | | | |
| Fixed rate | 1,603 | | | | | | 1,603 | 1,603 |
| *Average interest rate* | 2.7% | | | | | | | |
| Debts in United States dollars | | | | | | | | |
| Fixed rate | 42 | 42 | 42 | 43 | 43 | 363 | 575 | 546 |
| *Average interest rate* | 2.2% | 1.3% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | 8 | 8 | 8 | 8 | 8 | 33 | 73 | 69 |
| *Average interest rate*[(1)] | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | | |
| Debts in Euro | | | | | | | | |
| Fixed rate | 28 | 22 | 26 | 27 | 27 | 267 | 397 | 365 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Average interest rate* | 1.8% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | | |
| Variable rate | 6 | 6 | 6 | 6 | 6 | 58 | 88 | 81 |
| *Average interest rate*[(1)] | 2.0% | 2.0% | 1.0% | 1.0% | 1.0% | 1.0% | | |
| Debts in other currencies | | | | | | | | |
| Variable rate | 5 | 5 | 5 | 5 | 5 | 4 | 29 | 24 |
| *Average interest rate*[(1)] | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | | |

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2011

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**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 | 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 Hong Kong dollars to U.S. dollars |
| | Cable, telex and facsimile transmission expenses |
| | Servicing of the shares or deposited securities |
| 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 |

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 30, 2012 to April 29,2013, 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$195,651 reimbursement, net of withholding tax.The Bank of New York Mellon also waived certain costs of US$131,841 in connection with the administration of the ADR program and other services provided to our registered shareholders for the year 2012.

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

***Management s Report on Internal Control Over Financial Reporting.***

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

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

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

As of December 31, 2012, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in Internal Control Integrated Framework 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, 2012.

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The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by KPMG, 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, 2012, based on criteria established in Internal Control Integrated Framework 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 the 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. Our audit also included 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 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

In our opinion, China Telecom Corporation Limited and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of China Telecom Corporation Limited and subsidiaries as of January 1, 2011, December 31, 2011 and 2012, 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, 2012, and our report dated March 20, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Hong Kong, China

March 20, 2013

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***Changes in Internal Control Over Financial Reporting***

During the fiscal year ended December 31, 2012, there was no change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert.**

Our Audit Committee currently consists of four members, Mr. Tse Hau Yin, Aloysius, Mr. Wu Jichuan, Dr. Qin Xiao and Professor Xu Erming. 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 2011 and 2012:

| | Audit Fees | Audit-Related Fees | Tax Fees | Other Fees |
|---|---|---|---|---|
| 2011 | RMB68.0 million | RMB2.15 million | RMB0.14 million | RMB1.62 million |
| 2012 | RMB89.97 million[(1)] | RMB1.85 million[(2)] | RMB2.21 million[(3)] | RMB1.95 million[(4)] |

(1) Including the audit fees paid for the audit services related to the Mobile Network Acquisition.
(2) Audit-related fees in the amount of RMB1.85 million were paid for the advisory services provided to us regarding our internal control
(3) Tax fees in the amount of RMB2.21 million were paid for profit tax filing assistance service and provision of recommendations to provincial branches on the pilot VAT program.
(4) Other fees in the amount of RMB1.95 million were paid for other advisory services

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

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

Not applicable.

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

None.

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

On March 20, 2013, the Board resolved, as recommended by our Audit Committee, not to re-appoint our principal accountants, KPMG, after their completion of the audit of our consolidated financial statements for the year ended December 31, 2012 and the effectiveness of our internal control over financial reporting as of December 31, 2012. On the same date, the Board resolved, as recommended by our Audit Committee, to appoint Deloitte Touche Tohmatsu, or Deloitte, as our new principal accountants, subject to the approval by our shareholders at the annual general meeting of the Company scheduled to be held on May 29, 2013. Such change in our principal accountants is due to the relevant regulations issued by the PRC Ministry of Finance and the SASAC, under which there are restrictions on the number of years of audit services that an accounting firm can continuously provide to a State-owned enterprise and its subsidiaries. The Company is a subsidiary of China Telecommunications Corporation, which is a State-owned enterprise under the supervision of the SASAC. As a result, our Company will not re-appoint KPMG at the annual general meeting scheduled to be held on May 29, 2013.

During the fiscal years ended December 31, 2011 and 2012, and the subsequent interim period through April 29, 2013, there were no: (1) disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement (as defined in Item 16F(a)(1)(iv) of Form 20-F and related instructions to that item), or (2) reportable events (as defined in Item 16F(a)(1)(v) of Form 20-F).

The audit reports of KPMG on the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2012 and 2011 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. The audit reports of KPMG on the effectiveness of our internal control over financial reporting as of December 31, 2012 and 2011 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

We have provided KPMG with a copy of the foregoing disclosure and have requested that KPMG furnish to us a letter addressed to the SEC stating whether or not KPMG agrees with such disclosure. A copy of the letter is filed as Exhibit 15.1 to this annual report on Form 20-F.

During the two fiscal years ended December 31, 2011 and 2012 and through April 29, 2013, neither we nor any person on our behalf consulted with Deloitte regarding either (i) the application of accounting principles to a specific completed or proposed transaction or regarding the type of audit opinion that might be rendered on our consolidated financial statements and no written or oral advice was provided that Deloitte concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issues, or (ii) any matter being the subject of disagreement (as defined in Item 16F(a)(1)(iv) of Form 20-F and related instructions to that item) or reportable event (as defined in Item 16F(a)(1)(v) of Form 20-F).

**Item 16G. Corporate Governance.**

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

Pursuant to the requirements of the Listed Company Manual of the NYSE, the Board of Directors of all U.S. domestic companies listed on the NYSE must have a majority of independent directors. Under currently applicable PRC and Hong Kong laws and regulations, our Board of Directors is not required to have a majority of independent directors. Under the Listing Rules, at least one third of the Board of Directors of a listed company shall be independent directors. Our Board of Directors currently consists of 12 directors, of which five are independent directors, representing over one third of the total number of directors on our Board of Directors. These independent directors satisfy the requirements on independence under the Listing Rules, which, however differ from the requirements of Section 303A.02 of the Listed Company Manual of the NYSE.

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Pursuant to the requirements of the Listed Company Manual of the NYSE, U.S. domestic companies whose securities are listed on the NYSE shall formulate corporate governance rules. Pursuant to the currently applicable PRC and Hong Kong laws and regulations, we are not required to formulate any rules for corporate governance. Therefore, our Company has not formulated any separate corporate governance rules. However, our Company had implemented the Code on Corporate Governance Practices (effective until March 31, 2012) and the Corporate Governance Code (effective as of April 1, 2012) of the Hong Kong Stock Exchange for the year ended December 31, 2012.

**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.

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**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) |
| 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] |

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| Exhibits | Description |
|---|---|
| 4.16 | Strategic Agreement, dated August 30, 2006, between the Registrant and China Communications Services Corporation Limited (English summary). (10) |
| 4.17 | Supplemental Agreement to the Strategic Agreement, dated June 15, 2007, between the Registrant and the China Communications Services Corporation Limited (English Summary). (10) |
| 4.18 | Supplemental Agreement to the Strategic Agreement, dated October 29, 2009, between the Registrant and the China Communications Services Corporation Limited (English Summary). (13) |
| 4.19 | Master Agreement for sales and purchase of equity interests in China Telecom (Hong Kong) International Limited, China Telecom System Group Integration Co., Ltd. and China Telecom (USA) Corporation, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. (10) |
| 4.21 | 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) |
| 4.22 | 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) |
| 4.23 | 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) |
| 4.24 | 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) |
| 4.25 | Form Merger Agreement, dated January 10, 2008, between the Registrant and each of certain subsidiaries wholly owned by the Registrant (English Translation). (11) |
| 4.26 | Supplemental Agreement to the Centralized Services Agreement, dated December 26, 2007, between the Registrant and China Telecommunications Corporation (English Summary). (11) |
| 4.27 | Supplemental Agreement to the Centralized Services Agreement, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Summary). (11) |
| 4.28 | 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) |
| 4.29 | Supplemental Agreement to the Interconnection Settlement Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |
| 4.30 | Supplemental Agreement to the IT Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |
| 4.31 | Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |
| 4.32 | Supplemental Agreement to the Engineering Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |
| 4.33 | Supplemental Agreement to the Community Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |

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| Exhibits | Description |
|---|---|
| 4.34 | Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |
| 4.35 | CDMA Network Capacity Lease Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English translation). (12) |
| 4.36 | Agreement for Transfer of CDMA Business, dated July 27, 2008, between the Registrant, China Unicom Limited and China Unicom Corporation Limited (English summary). (12) |
| 4.37 | Merger Agreement, dated November 14, 2008, between the Registrant and China Telecommunications Corporation Beijing Corporation (English translation). (12) |
| 4.38 | Supplemental Agreement to the Optic Fiber Leasing Agreement, dated July 10, 2008, between the Registrant and China Telecommunications Corporation (English summary). (12) |
| 4.39 | Underwriting Agreement regarding Medium Term Notes of China Telecom Corporation Limited in 2008, dated April 15, 2008, among the Registrant, Industrial and Commercial Bank of China Limited and CITIC Securities Company Limited (English summary), and its Supplemental Agreement, dated December 15, 2008 (English summary). (12) |
| 4.40 | 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) |
| 4.41 | 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) |
| 4.42 | 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) |
| 4.43 | 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) |
| 4.44 | Supplemental Agreement to the Centralized Services Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.45 | Supplemental Agreement to the Interconnection Settlement Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.46 | Supplemental Agreement to the Property Leasing Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.47 | Supplemental Agreement to the IT services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.48 | Supplemental Agreement to the Community Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.49 | Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.50 | Supplemental Agreement to the Engineering Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |

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| Exhibits | Description |
|---|---|
| 4.51 | Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.52 | Supplemental Agreement to the CDMA Network Capacity Lease Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.53 | Supplemental Agreement to the Trademark License Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.54 | Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) (14) |
| 4.55 | Agreement on the Acquisition of CDMA Network Assets and Associated Liabilities, dated August 20, 2012, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.56 | 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) |
| 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) |
| 15.1 | Letter to SEC from KPMG |

(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.

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**SIGNATURES**

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

**CHINA TELECOM CORPORATION LIMITED**

By: /s/ Wang Xiaochu

Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

Date: April 29, 2013

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**


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| Consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012 | F-4 |
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**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 January 1, 2011, December 31, 2011 and 2012, 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, 2012. 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 audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Telecom Corporation Limited and subsidiaries as of January 1, 2011, December 31, 2011 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Telecom Corporation Limited and subsidiaries internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 20, 2013 expressed an unqualified opinion on the effectiveness of the Group s internal control over financial reporting.

/s/ KPMG

Hong Kong, China

March 20, 2013

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

AS OF JANUARY 1, 2011, DECEMBER 31, 2011 AND 2012

(Amounts in millions)

| | Note | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | **4** | 25,824 | 27,372 | 29,982 |
| Time deposits with original maturity over three months | | 1,968 | 1,804 | 2,730 |
| Accounts receivable, net | **5** | 17,328 | 18,471 | 18,768 |
| Inventories | **6** | 3,174 | 4,843 | 5,928 |
| Prepayments and other current assets | **7** | 5,074 | 4,666 | 6,297 |
| Income tax recoverable | | 1,882 | 2,425 | 1,505 |
| **Total current assets** | | 55,250 | 59,581 | 65,210 |
| **Non-current assets** | | | | |
| Property, plant and equipment, net | **8** | 272,514 | 268,904 | 373,743 |
| Construction in progress | **9** | 14,445 | 18,448 | 32,484 |
| Lease prepayments | | 27,078 | 26,280 | 25,759 |
| Goodwill | **10** | 29,920 | 29,918 | 29,918 |
| Intangible assets | **11** | 9,968 | 7,715 | 9,214 |
| Interests in associates | **12** | 1,123 | 985 | 1,016 |
| Investments | **13** | 854 | 648 | 616 |
| Deferred tax assets | **14** | 5,024 | 3,070 | 2,922 |
| Other assets | **18** | 4,399 | 3,602 | 4,190 |
| **Total non-current assets** | | 365,325 | 359,570 | 479,862 |
| **Total assets** | | 420,575 | 419,151 | 545,072 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities** | | | | |
| Short-term debt | **15** | 20,675 | 9,187 | 6,523 |
| Current portion of long-term debt | **15** | 10,352 | 11,766 | 10,212 |
| Accounts payable | **16** | 40,041 | 44,359 | 68,844 |
| Accrued expenses and other payables | **17** | 52,892 | 59,375 | 105,736 |
| Income tax payable | | 327 | 482 | 492 |
| Current portion of deferred revenues | **18** | 2,645 | 2,093 | 1,654 |
| **Total current liabilities** | | 126,932 | 127,262 | 193,461 |
| **Non-current liabilities** | | | | |
| Long-term debt and payable | **15** | 42,549 | 31,150 | 83,070 |
| Finance lease obligations | | | | 3 |
| Deferred revenues | **18** | 3,558 | 2,712 | 1,791 |
| Deferred tax liabilities | **14** | 1,375 | 1,117 | 717 |

| | | | | |
|---|---|---|---|---|
| **Total non-current liabilities** | | 47,482 | 34,979 | 85,581 |
| **Total liabilities** | | 174,414 | 162,241 | 279,042 |
| **Equity** | | | | |
| Share capital | **19** | 80,932 | 80,932 | 80,932 |
| Reserves | **20** | 164,733 | 175,190 | 184,137 |
| **Total equity attributable to equity holders of the Company** | | 245,665 | 256,122 | 265,069 |
| Non-controlling interests | | 496 | 788 | 961 |
| **Total equity** | | 246,161 | 256,910 | 266,030 |
| **Total liabilities and equity** | | 420,575 | 419,151 | 545,072 |

See accompanying notes to consolidated financial statements.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in millions, except per share data)

| | Note | Year ended December 31, 2010 RMB (restated) | 2011 RMB (restated) | 2012 RMB |
|---|---|---|---|---|
| **Operating revenues** | **21** | 219,897 | 245,068 | 283,073 |
| **Operating expenses** | | | | |
| Depreciation and amortization | | (52,224) | (51,233) | (49,655) |
| Network operations and support | **22** | (47,445) | (52,925) | (66,003) |
| Selling, general and administrative | | (42,136) | (48,746) | (63,076) |
| Personnel expenses | **23** | (35,537) | (39,167) | (42,812) |
| Other operating expenses | **24** | (19,111) | (28,870) | (40,341) |
| **Total operating expenses** | | (196,453) | (220,941) | (261,887) |
| **Operating income** | | 23,444 | 24,127 | 21,186 |
| Net finance costs | **25** | (3,600) | (2,254) | (1,564) |
| Investment income | | 328 | 40 | 93 |
| Equity in income of associates | | 131 | 99 | 78 |
| **Earnings before income tax** | | 20,303 | 22,012 | 19,793 |
| Income tax | **26** | (4,846) | (5,416) | (4,753) |
| **Profit for the year** | | 15,457 | 16,596 | 15,040 |
| **Other comprehensive income for the year:** | | | | |
| Change in fair value of available-for-sale equity securities | | 132 | (205) | (228) |
| Deferred tax on change in fair value of available-for-sale equity securities | | (48) | 51 | 57 |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China | | (48) | (103) | (3) |
| Share of other comprehensive income from associates | | (25) | | |
| **Other comprehensive income for the year, net of tax** | | 11 | (257) | (174) |
| **Total comprehensive income for the year** | | 15,468 | 16,339 | 14,866 |
| **Profit attributable to:** | | | | |
| Equity holders of the Company | | 15,339 | 16,500 | 14,925 |
| Non-controlling interests | | 118 | 96 | 115 |
| **Profit for the year** | | 15,457 | 16,596 | 15,040 |

| | | | | |
|---|---|---|---|---|
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of the Company | | 15,350 | 16,243 | 14,751 |
| Non-controlling interests | | 118 | 96 | 115 |
| **Total comprehensive income for the year** | | 15,468 | 16,339 | 14,866 |
| **Basic earnings per share** | **28** | 0.19 | 0.20 | 0.18 |
| **Number of shares (in millions)** | **28** | 80,932 | 80,932 | 80,932 |

See accompanying notes to consolidated financial statements.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(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, 2010, as previously reported | | 80,932 | 16,767 | 10,746 | 60,606 | 382 | (667) | 67,538 | 236,304 | 848 | 237,152 |
| Adjusted for the Sixth Acquisition | | | | | | | | 48 | 48 | | 48 |
| Balance as of January 1, 2010, as restated | | 80,932 | 16,767 | 10,746 | 60,606 | 382 | (667) | 67,586 | 236,352 | 848 | 237,200 |
| Profit for the year, as restated | | | | | | | | 15,339 | 15,339 | 118 | 15,457 |
| Other comprehensive income | | | | | | 59 | (48) | | 11 | | 11 |
| Total comprehensive income, as restated | | | | | | 59 | (48) | 15,339 | 15,350 | 118 | 15,468 |
| Distributions to non-controlling interests | | | | | | | | | | (110) | (110) |
| Acquisition of non-controlling interests | | | | | | (3) | | | (3) | (41) | (44) |
| Disposal of a subsidiary | | | | | | | | | | (319) | (319) |
| Distribution to China Telecom Group | | | | | | | | (3) | (3) | | (3) |
| Dividends | **27** | | | | | | | (6,031) | (6,031) | | (6,031) |
| Appropriations | **20** | | | | 2,028 | | | (2,028) | | | |
| Balance as of December 31, 2010, as restated | | 80,932 | 16,767 | 10,746 | 62,634 | 438 | (715) | 74,863 | 245,665 | 496 | 246,161 |
| Profit for the year | | | | | | | | 16,500 | 16,500 | 96 | 16,596 |
| Other comprehensive income | | | | | | (154) | (103) | | (257) | | (257) |
| Total comprehensive income | | | | | | (154) | (103) | 16,500 | 16,243 | 96 | 16,339 |
| Distributions to non-controlling interests | | | | | | | | | | (57) | (57) |
| Acquisition of non-controlling interests | | | | | | (1) | | | (1) | (1) | (2) |
| Acquisition of the Fifth Acquired Group | **1** | | | | | | | (19) | (19) | | (19) |
| Acquisition of a subsidiary | | | | | | | | | | 264 | 264 |
| Disposal of a subsidiary | | | | | | | | | | (10) | (10) |
| Distribution to China Telecom Group | | | | | | | | (3) | (3) | | (3) |
| Dividends | **27** | | | | | | | (5,763) | (5,763) | | (5,763) |
| Appropriations | **20** | | | | 1,682 | | | (1,682) | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2011, as restated | | 80,932 | 16,767 | 10,746 | 64,316 | 283 | (818) | 83,896 | 256,122 | 788 | 256,910 |
| Profit for the year | | | | | | | | 14,925 | 14,925 | 115 | 15,040 |
| Other comprehensive income | | | | | | (171) | (3) | | (174) | | (174) |
| Total comprehensive income | | | | | | (171) | (3) | 14,925 | 14,751 | 115 | 14,866 |
| Contribution from non-controlling interests | | | 249 | | | | | | 249 | 131 | 380 |
| Distribution to non-controlling interests | | | | | | | | | | (73) | (73) |
| Acquisition of the Sixth Acquired Business | **1** | | (48) | | | | | | (48) | | (48) |
| Dividends | **27** | | | | | | | (5,625) | (5,625) | | (5,625) |
| Appropriations | **20** | | | | 1,413 | | | (1,413) | | | |
| Others | | | (380) | | | | | | (380) | | (380) |
| Balance as of December 31, 2012 | | 80,932 | 16,588 | 10,746 | 65,729 | 112 | (821) | 91,783 | 265,069 | 961 | 266,030 |

See accompanying notes to consolidated financial statements.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in millions)

| | Note | Year ended December 31, 2010 RMB (restated) | 2011 RMB (restated) | 2012 RMB |
|---|---|---|---|---|
| **Net cash from operating activities** | **(a)** | 75,574 | 73,009 | 70,667 |
| **Cash flows used in investing activities** | | | | |
| Capital expenditure | | (41,597) | (48,495) | (50,028) |
| Purchase of investments | | (41) | (6) | |
| Lease prepayments | | (111) | (60) | (133) |
| Proceeds from disposal of property, plant and equipment | | 2,738 | 3,234 | 2,696 |
| Proceeds from disposal of lease prepayments | | 176 | 487 | 255 |
| Proceeds from disposal of investments | | 1 | 1,040 | |
| Net cash outflow from disposal of a subsidiary | | | | (116) |
| Proceeds from return of investments | | | 10 | |
| Purchase of time deposits with maturity over three months | | (1,968) | (1,804) | (2,730) |
| Maturity of time deposits with maturity over three months | | 442 | 1,968 | 1,804 |
| Payment of purchase price for the acquisition of CDMA business | | (5,374) | | |
| Payment for acquisition of a subsidiary | | | (11) | |
| **Net cash used in investing activities** | | (45,734) | (43,637) | (48,252) |
| **Cash flows used in financing activities** | | | | |
| Principal element of finance lease payments | | (18) | | |
| Proceeds from bank debt and other loans | | 53,518 | 23,876 | 9,702 |
| Repayment of bank debt and other loans | | (86,001) | (45,329) | (24,133) |
| Payment of dividends | | (5,608) | (6,174) | (5,625) |
| Distribution to China Telecommunications Corporation in connection with the Fourth Acquisition | **1** | (535) | | |
| Payment for acquisition of non-controlling interests | | (27) | (1) | |
| Payment for the acquisition price of the Fifth Acquisition | **1** | | (27) | (29) |
| Payment for the acquisition price of the Sixth Acquisition | **1** | | | (48) |
| Distribution to China Telecom Group | | (3) | (3) | |
| Net cash (distributions)/contribution to non-controlling interests | | (100) | (65) | 331 |
| **Net cash used in financing activities** | | (38,774) | (27,723) | (19,802) |
| **Net (decrease) / increase in cash and cash equivalents** | | (8,934) | 1,649 | 2,613 |
| **Cash and cash equivalents at beginning of year** | | 34,804 | 25,824 | 27,372 |
| **Effect of changes in foreign exchange rate** | | (46) | (101) | (3) |
| **Cash and cash equivalents at end of year** | | 25,824 | 27,372 | 29,982 |

See accompanying notes to consolidated financial statements.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in millions)

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 RMB (restated) | 2011 RMB (restated) | 2012 RMB |
| **Earnings before income tax** | 20,303 | 22,012 | 19,793 |
| Adjustments for: | | | |
| Depreciation and amortization | 52,224 | 51,233 | 49,655 |
| Impairment losses on property, plant and equipment | 139 | | |
| Impairment losses for doubtful debts | 1,593 | 1,367 | 1,612 |
| Write down of inventories | 88 | 96 | 235 |
| Investment income | (328) | (40) | (93) |
| Equity in income of associates | (131) | (99) | (78) |
| Interest income | (287) | (405) | (591) |
| Interest expense | 3,795 | 2,710 | 2,154 |
| Unrealized foreign exchange loss / (gain) | 92 | (51) | 1 |
| Gain on retirement and disposal of property, plant and equipment | (430) | (2,436) | (2,429) |
| Increase in accounts receivable | (1,475) | (2,546) | (2,125) |
| Increase in inventories | (625) | (1,763) | (1,185) |
| Increase in prepayments and other current assets | (1,202) | (3,019) | (1,025) |
| Decrease in other assets | 928 | 796 | 484 |
| Increase in accounts payable | 4,120 | 6,323 | 4,987 |
| Increase in accrued expenses and other payables | 5,999 | 6,939 | 6,233 |
| Decrease in deferred revenues | (2,259) | (1,398) | (1,360) |
| **Cash generated from operations** | 82,544 | 79,719 | 76,268 |
| Interest received | 292 | 396 | 587 |
| Interest paid | (3,824) | (3,084) | (2,200) |
| Investment income received | 10 | 42 | 23 |
| Income tax paid | (3,448) | (4,064) | (4,011) |
| **Net cash from operating activities** | 75,574 | 73,009 | 70,667 |

See accompanying notes to consolidated financial statements.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

## 1. PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION

### Principal activities

China Telecom Corporation Limited (the Company ) and its subsidiaries (hereinafter, collectively referred to as the Group ) offers a comprehensive range of wireline and mobile telecommunications services including wireline voice, mobile voice, Internet, managed data and leased line, value-added services, integrated information application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People s Republic of China (the PRC ). Following the acquisition of Code Division Multiple Access ( CDMA ) mobile telecommunications business in October 2008, the Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region ( Macau ) of the PRC. The Group also provides international telecommunications services, including leased line, International Internet access and transit, and Internet data centre service in certain countries of the Asia Pacific, 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. The Ministry of Industry and Information Technology of the PRC (the MIIT ), pursuant to the authority delegated to it by the PRC State Council, is responsible for formulating the telecommunications industry policies and regulations, including the regulation and setting of tariff levels for basic telecommunications services, such as wireline and mobile local and long distance telephony services, managed data services, leased line, roaming and interconnection arrangements.

### 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 ), China Telecom Global Limited (formerly known as China Telecom (Hong Kong) International Limited ) ( CT Global ) and China Telecom (Americas) Corporation ( CT Americas ) (collectively the Third Acquired Group ) from China Telecommunications Corporation for a total purchase price of RMB1,408 (hereinafter, referred to as the Third Acquisition ).

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

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**Organization (continued)**

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 ).

Pursuant to an acquisition agreement entered into on April 28, 2011 by the Company and Besttone Holding Co., Ltd. (formerly known as China Satcom Guomai Communications Co.,Ltd. ) ( Besttone Holding ), which is controlled by China Telecommunications Corporation, upon receiving the relevant government approval in March 2012, the Company disposed of 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company that was primarily engaged in the provision of e-commerce and booking services, to Besttone Holding. Besttone Holding paid the consideration by issuing 21,814,894 of its shares to the Company, representing around 4.1% of its enlarged share capital. The disposal of Besttone E-Commerce Co., Ltd. was completed on April 30, 2012.

The Company acquired the digital trunking business (the Sixth Acquired Business ) from Besttone Holding at a purchase price of RMB48 (hereinafter, referred to as the Sixth Acquisition ) during the year. The Sixth Acquisition was completed on April 30, 2012.

As of December 31, 2012, the purchase price of the above acquisitions, except for the Fifth Acquisition with an outstanding balance of RMB5, was fully settled.

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

**Basis of presentation**

Since the Group is 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 these entities are accounted for as an equity transaction in the consolidated statements of changes in equity.

The consolidated results of operations for the years ended December 31, 2010 and 2011 and the consolidated financial position as of December 31, 2011 as previously reported by the Group and the combined amounts presented in the consolidated financial statements of the Group to reflect the acquisition of the Sixth Acquired Business are set out below:

| | The Group | The Sixth Acquired Business | The Group |
|---|---|---|---|

| | (as previously reported) RMB millions | RMB millions | (as restated) RMB millions |
|---|---|---|---|
| **Consolidated statement of comprehensive income for the year ended December 31, 2010:** | | | |
| Operating revenues | 219,864 | 33 | 219,897 |
| Profit for the year | 15,465 | (8) | 15,457 |
| **Consolidated statement of comprehensive income for the year ended December 31, 2011:** | | | |
| Operating revenues | 245,041 | 27 | 245,068 |
| Profit for the year | 16,598 | (2) | 16,596 |
| **Consolidated statement of financial position as of December 31,2011:** | | | |
| Total assets | 419,115 | 36 | 419,151 |
| Total liabilities | 162,237 | 4 | 162,241 |
| Total equity | 256,878 | 32 | 256,910 |

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

On June 15, 2012, China Telecom (Hong Kong) International Limited, a subsidiary of the Company primarily engaged in the provision of international value-added network services, changed its name to China Telecom Global Limited.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**Merger with subsidiaries**

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

**2. ACQUISITION OF CERTAIN CDMA NETWORK ASSETS AND ASSOCIATED LIABILITIES**

In October 2008, the Group acquired the CDMA mobile telecommunications business from China Unicom Limited (currently known as China Unicom (Hong Kong) Limited) and China Unicom Corporation Limited (currently known as China United Network Communications Corporation Limited) (collectively China Unicom ). At the same time, China Telecommunications Corporation purchased the CDMA network assets from China United Telecommunications Corporation (currently known as China United Network Telecommunications Group Co., Ltd.) and Unicom New Horizon Mobile Telecommunications Co., Limited (currently known as Unicom New Horizon Telecommunications Company Limited). The Group leased the CDMA network assets from China Telecommunications Corporation under an operating lease. The network branches of China Telecommunications Corporation derived substantially all of their revenues, from the CDMA network through the leasing of such CDMA network to the Group.

Pursuant to the Acquisition Agreement entered into between the Company and China Telecommunications Corporation on August 22, 2012 and the resolution passed by the Company s Extraordinary General Meeting held on October 16, 2012, the Company completed 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 initial consideration of the Mobile Network Acquisition was RMB84,595.41, and was subject to price adjustment, which reflected changes in the value of the CDMA network assets and associated liabilities during the period between the date following the base date for the asset appraisal (being March 31, 2012) up to (and including) the completion date of the acquisition (being December 31, 2012), to arrive at the final consideration. The final consideration was agreed to be RMB87,210.35, which consisted of RMB25,500.00 paid within five business days following the completion date of the Mobile Network Acquisition, and a deferred consideration of RMB61,710.35, which will be payable on or before the fifth anniversary of the completion date of the Mobile Network Acquisition. The interest rate of the deferred consideration will be adjusted 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 rate for the first year is 4.83%. The tax expenses related to the Mobile Network Acquisition, which mainly include deed tax for the transfer of properties and land use rights, amounted to RMB29.43. The related tax expenses have been included in the book value of assets acquired.

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 as follows:

| | Note | RMB millions |
|---|---|---|
| Property, plant and equipment, net | 8 | 102,873 |
| Construction in progress | 9 | 9,177 |
| Lease prepayments | | 151 |
| Intangible assets | 11 | 3,578 |
| Other assets | | 1,080 |
| Inventories | | 135 |
| Accounts receivable, net | | 2,079 |
| Prepayments and other current assets | | 642 |
| Total assets acquired | | 119,715 |
| Accounts payable | | (17,965) |
| Accrued expenses and other payables | | (14,540) |
| Total liabilities assumed | | (32,505) |

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ). IFRS includes International Accounting Standards ( IAS ) and interpretations. These financial statements were approved and authorized by the Board of Directors on March 20, 2013.

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities (Note 3(l)). The accounting policies described below have been consistently applied by the Group.

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

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

Judgments made by management in the application of IFRS that have significant effect on the 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. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 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 jointly controlled entity.

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 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). Thereafter, the investment is adjusted for the Group s equity share of the post-acquisition changes in the associate s net assets. 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.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Basis of consolidation (continued)**

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) Translation of 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 CT Global, CT Americas, China Telecom (Macau) Company Limited ( CT Macau ), China Telecom (Singapore) Pte. Limited ( CT Singapore ) , China Telecom (Australia) Pty Ltd ( CT Australia ), China Telecom Korea Co.,Ltd ( CT Korea ), China Telecom (Malaysia) SDN BHD ( CT Malaysia ) and China Telecom Information Technology (Vietnam) Co. Ltd ( CT Vietnam ) is Hong Kong dollars (HK$), US dollars (US$), Macau Pataca (MOP), Singapore dollars (S$), Australia dollars (AUD), Korea dollars (KRW), Malaysia dollars (RM) and Vietnamese dong (VND), respectively. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those capitalized as construction in progress (Note 3(i)), are recognized as income or expense in profit or loss. For the periods presented, no exchange differences were capitalized.

When preparing the Group s consolidated financial statements, the results of operations of CT Global, CT Americas, CT Macau, CT Singapore, CT Australia, CT Korea, CT Malaysia and CT Vietnam are translated into RMB at average rate prevailing during the year. Assets and liabilities of CT Global, CT Americas, CT Macau, CT Singapore, CT Australia, CT Korea, CT Malaysia and CT Vietnam 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) Trade and other receivables**

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

**(f) Inventories**

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

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

**(g) Property, plant and equipment**

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

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Property, plant and equipment (continued)**

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as assets under finance leases. Assets held under finance leases are initially recorded at amounts equivalent to the lower of the fair value of the leased assets at the inception of the lease or the present value of the minimum lease payments (computed using the rate of interest implicit in the lease). The net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation. Assets held under finance leases are amortized over their estimated useful lives on a straight-line basis. The carrying amount of assets held under finance leases as of December 31, 2011 and 2012 were RMB76 and RMB3 respectively.

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 asset and are recognized as income or expense in the profit or loss on the date of disposal.

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

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

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

**(h) Lease prepayments**

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

**(i) Construction in progress**

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

transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

**(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 3(n)). On disposal of a cash generating unit during the year, any attributable amount of the goodwill is included in the calculation of the profit or loss on disposal.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Intangible assets**

The Group s intangible assets comprise computer software and customer relationships acquired in the CDMA business (as defined in Note 10) acquisition (Note 11).

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

The customer relationships acquired in the CDMA business acquisition are recorded at the acquisition-date fair value and amortized on a straight-line basis over the expected customer relationship of 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. When these investments are derecognized or impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the profit or loss. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 3(n)).

**(m) Operating lease charges**

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

**(n) Impairment**

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables 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;

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

it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If such evidence exists, the impairment loss 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 trade 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 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 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.

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**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Impairment (continued)**

(ii) Impairment of long-lived assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the net selling price. 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. 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. For the years presented, no reversal of impairment loss was recognized in profit or loss. An impairment loss in respect of goodwill is not reversed.

**(o) Revenue recognition**

The revenue recognition methods of the Group are as follows:

(i) Revenue derived from local, domestic long distance and international, Hong Kong, Macau and Taiwan long distance usage are recognized as the services are provided.

(ii) Fees received for wireline installation charges for periods prior to January 1, 2012 are deferred and recognized over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortized over the same expected customer relationship period. In 2012, 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 are recognized as the cards are used by customers.

(v) Revenue derived from value-added services are recognized when the services are provided to customers.

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

i) The Group is 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;

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Revenue recognition (continued)**

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

(vi) Revenue from the provision of Internet and managed data services are recognized when the services are provided to customers.

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

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

(ix) Revenue derived from integrated information application services are recognized when the services are provided to customers.

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

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, 2012, 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 telecommunications services approximates the total contract consideration. The Group believes that the residual method of accounting for promotional packages provides the most relevant and reliable presentation method of the delivery and sales of the terminal equipment and telecommunications services since it reflects the economic substance of the arrangement.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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 RMB23,363, RMB27,498 and RMB34,901 for the years ended December 31, 2010, 2011 and 2012 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 telecommunications service amounted to RMB12,114, RMB15,641 and RMB21,754 for the years ended December 31, 2010, 2011 and 2012 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, 2010, 2011 and 2012, research and development expense was RMB540, RMB558 and RMB608 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.

**(t) 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.

**(u) Trade and other payables**

Trade 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) 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.

**(w) 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, in which case the relevant amounts of tax are recognized in other comprehensive income. 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.

**(x) Dividends**

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(y) Related parties**

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group s parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);

(iii) The entity and the Group are joint ventures of the same third party;

(iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;

(v) The entity is controlled or jointly controlled by a person identified in (a);

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

**(z) 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 location of the Group s assets and operating revenues derived from activities outside mainland China are less than 10% of the Group s assets and operating revenues, respectively. No geographical area information has been presented as such amount is immaterial. No single external customer accounts for 10 percent or more of the Group s operating revenues.

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## 4. CASH AND CASH EQUIVALENTS

| | December 31, | |
|---|---|---|
| | 2011 RMB | 2012 RMB |
| Cash at bank and in hand | 24,470 | 22,375 |
| Time deposits with original maturity within three months | 2,902 | 7,607 |
| | 27,372 | 29,982 |

## 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analyzed as follows:

| | Note | December 31, | |
|---|---|---|---|
| | | 2011 RMB | 2012 RMB |
| Accounts receivable | | | |
| Third parties | | 18,040 | 19,637 |
| China Telecom Group | (i) | 1,803 | 626 |
| Other telecommunications operators in the PRC | | 570 | 529 |
| | | 20,413 | 20,792 |
| Less: Allowance for doubtful debts | | (1,942) | (2,024) |
| | | 18,471 | 18,768 |

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, 2012:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 RMB | 2011 RMB | 2012 RMB |
| At beginning of year | 2,073 | 2,024 | 1,942 |
| Impairment losses for doubtful debts | 1,567 | 1,383 | 1,624 |

| | | | |
|---|---|---|---|
| Accounts receivable written off | (1,616) | (1,465) | (1,542) |
| At end of year | 2,024 | 1,942 | 2,024 |

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**5. ACCOUNTS RECEIVABLE, NET (continued)**

Ageing analysis of accounts receivable from telephone and Internet subscribers is as follows:

| | December 31, | |
|---|---|---|
| | 2011 RMB | 2012 RMB |
| Current, within 1 month | 10,872 | 11,402 |
| 1 to 3 months | 2,120 | 2,319 |
| 4 to 12 months | 1,444 | 1,613 |
| More than 12 months | 432 | 387 |
| | 14,868 | 15,721 |
| Less: Allowance for doubtful debts | (1,797) | (1,932) |
| | 13,071 | 13,789 |

Ageing analysis of accounts receivable from other telecommunications operators, enterprise customers, and China Telecom Group is as follows:

| | December 31, | |
|---|---|---|
| | 2011 RMB | 2012 RMB |
| Current, within 1 month | 2,763 | 1,945 |
| 1 to 3 months | 899 | 1,573 |
| 4 to 12 months | 1,287 | 980 |
| More than 12 months | 596 | 573 |
| | 5,545 | 5,071 |
| Less: Allowance for doubtful debts | (145) | (92) |
| | 5,400 | 4,979 |

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

| | December 31, | |
|---|---|---|
| | 2011 RMB | 2012 RMB |
| Not past due | 16,687 | 16,840 |

| | | |
|---|---|---|
| Less than 1 month past due | 1,081 | 1,261 |
| 1 to 3 months past due | 703 | 667 |
| Amounts past due | 1,784 | 1,928 |
| | 18,471 | 18,768 |

Amounts due from the provision of telecommunications services to customers are generally due within 30 days from the date of billing.

**6. INVENTORIES**

Inventories represent:

| | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB |
|---|---|---|---|
| Materials and supplies | 874 | 970 | 985 |
| Goods for resale | 2,300 | 3,873 | 4,943 |
| | 3,174 | 4,843 | 5,928 |

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## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets represent:

| | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB |
|---|---|---|---|
| Amounts due from China Telecom Group | 1,044 | 1,091 | 779 |
| Amounts due from other telecommunications operators in the PRC | 232 | 195 | 407 |
| Prepayments in connection with construction work and equipment purchases | 716 | 765 | 1,086 |
| Prepaid expenses and deposits | 1,385 | 1,580 | 2,118 |
| Other receivables | 1,697 | 1,035 | 1,907 |
| | 5,074 | 4,666 | 6,297 |

## 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, 2011, as previously reported | 84,478 | 627,662 | 23,140 | 735,280 |
| Adjusted for the Sixth Acquisition | | | 205 | 205 |
| Balance at January 1, 2011, as restated | 84,478 | 627,662 | 23,345 | 735,485 |
| Additions through acquisition of a subsidiary | 49 | 370 | 20 | 439 |
| Additions | 213 | 1,058 | 1,045 | 2,316 |
| Transferred from construction in progress | 1,768 | 39,221 | 1,241 | 42,230 |
| Disposals | (200) | (14,234) | (811) | (15,245) |
| Reclassification | 1 | 124 | (125) | |
| **Balance at December 31, 2011, as restated** | 86,309 | 654,201 | 24,715 | 765,225 |
| Additions | 582 | 867 | 774 | 2,223 |
| Mobile Network Acquisition (Note 2) | 3,697 | 98,476 | 700 | 102,873 |
| Transferred from construction in progress | 2,348 | 41,997 | 1,328 | 45,673 |
| Disposals | (414) | (4,617) | (448) | (5,479) |
| Reclassification | (1) | 172 | (171) | |
| **Balance at December 31, 2012** | 92,521 | 791,096 | 26,898 | 910,515 |

| | | | | |
|---|---|---|---|---|
| Accumulated depreciation and impairment: | | | | |
| Balance at January 1, 2011, as previously reported | (29,174) | (418,339) | (15,289) | (462,802) |
| Adjusted for the Sixth Acquisition | | | (169) | (169) |
| Balance at January 1, 2011, as restated | (29,174) | (418,339) | (15,458) | (462,971) |
| Acquired through acquisition of a subsidiary | (40) | (251) | (14) | (305) |
| Depreciation charge for the year | (3,634) | (41,111) | (2,158) | (46,903) |
| Written back on disposal | 154 | 13,019 | 685 | 13,858 |
| Reclassification | (2) | (1) | 3 | |
| **Balance at December 31, 2011, as restated** | (32,696) | (446,683) | (16,942) | (496,321) |
| Depreciation charge for the year | (3,810) | (39,315) | (2,160) | (45,285) |
| Written back on disposal | 258 | 4,162 | 414 | 4,834 |
| Reclassification | | (66) | 66 | |
| **Balance at December 31, 2012** | (36,248) | (481,902) | (18,622) | (536,772) |
| **Net book value at December 31, 2012** | 56,273 | 309,194 | 8,276 | 373,743 |
| Net book value at December 31, 2011, as restated | 53,613 | 207,518 | 7,773 | 268,904 |
| Net book value at January 1, 2011, as restated | 55,304 | 209,323 | 7,887 | 272,514 |

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## 9. CONSTRUCTION IN PROGRESS

| | RMB |
|---|---|
| Balance at January 1, 2011 | 14,445 |
| Additions | 47,442 |
| Transferred to property, plant and equipment | (42,230) |
| Transferred to intangible assets | (1,209) |
| **Balance at December 31, 2011** | 18,448 |
| Additions | 51,847 |
| Mobile Network Acquisition (Note 2) | 9,177 |
| Transferred to property, plant and equipment | (45,673) |
| Transferred to intangible assets | (1,315) |
| **Balance at December 31, 2012** | 32,484 |

## 10. GOODWILL

| | 2011 RMB | 2012 RMB |
|---|---|---|
| Cost: | | |
| Goodwill arising from acquisition of CDMA business | 29,918 | 29,918 |

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. 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 10.2% (2011: 11.5%). 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 and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

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## 11. INTANGIBLE ASSETS

| | Computer software RMB | Customer relationships RMB | Total RMB |
|---|---|---|---|
| Cost: | | | |
| Balance at January 1, 2011 | 8,625 | 11,238 | 19,863 |
| Additions | 199 | | 199 |
| Transferred from construction in progress | 1,209 | | 1,209 |
| Disposals | (140) | | (140) |
| **Balance at December 31, 2011** | 9,893 | 11,238 | 21,131 |
| Additions | 269 | | 269 |
| Mobile Network Acquisition (Note 2) | 3,578 | | 3,578 |
| Transferred from construction in progress | 1,315 | | 1,315 |
| Disposals | (67) | | (67) |
| **Balance at December 31, 2012** | 14,988 | 11,238 | 26,226 |
| Accumulated amortization and impairment: | | | |
| Balance at January 1, 2011 . | (4,837) | (5,058) | (9,895) |
| Amortization charge for the year | (1,372) | (2,248) | (3,620) |
| Provision for impairment | (8) | | (8) |
| Written back on disposal | 107 | | 107 |
| Balance at December 31, 2011 | (6,110) | (7,306) | (13,416) |
| Amortization charge for the year | (1,403) | (2,248) | (3,651) |
| Written back on disposal | 55 | | 55 |
| **Balance at December 31, 2012** | (7,458) | (9,554) | (17,012) |
| **Net book value at December 31, 2012** | 7,530 | 1,684 | 9,214 |
| Net book value at December 31, 2011 | 3,783 | 3,932 | 7,715 |

## 12. INTERESTS IN ASSOCIATES

| | December 31, 2011 RMB | 2012 RMB |
|---|---|---|
| Unlisted equity investments, at cost | 233 | 232 |
| Share of post-acquisition changes in net assets | 752 | 784 |

| | | |
|---|---|---|
| | 985 | 1,016 |

The Group s interests in associates are accounted for under the equity method and are individually and in aggregate not material to the Group s financial condition or results of operations for all periods presented. Details of the Group s principal associates are as follows:

| Name of company | Attributable equity interest | Principal activities |
|---|---|---|
| Shanghai Information Investment Incorporation | 24% | Provision of information technology consultancy services |

The above associate is established in the PRC and is not traded on any stock exchange.

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## 13. INVESTMENTS

| | December 31, | |
|---|---|---|
| | 2011 RMB | 2012 RMB |
| Available-for-sale equity securities | 617 | 585 |
| Other unlisted equity investments | 31 | 31 |
| | 648 | 616 |

Unlisted equity investments mainly represent the Group s various interests in PRC private enterprises which are mainly engaged in the provision of information technology services and Internet contents.

As described in Note 1 to the financial statements, the Company disposed of 100% equity interest in Besttone E-Commerce Co., Ltd. to Besttone Holding, which paid the consideration by issuing 21,814,894 shares of itself to the Company, representing around 4.1% of its enlarged share capital. The shares of Besttone Holding are accounted for as available-for-sale equity securities.

## 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 | | |
|---|---|---|---|---|---|---|---|---|---|
| | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB | January 1, 2011 RMB | December 31, 2011 RMB | December 31, 2012 RMB | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB |
| *Current* | | | | | | | | | |
| Provisions and impairment losses, primarily for doubtful debts | 1,049 | 1,011 | 1,028 | | | | 1,049 | 1,011 | 1,028 |
| *Non-current* | | | | | | | | | |
| Property, plant and equipment | 2,882 | 1,145 | 1,279 | (534) | (425) | (266) | 2,348 | 720 | 1,013 |
| Deferred revenues and installation costs | 1,093 | 914 | 615 | (660) | (562) | (378) | 433 | 352 | 237 |
| Available-for-sale equity securities | | | | (181) | (130) | (73) | (181) | (130) | (73) |
| Deferred tax assets/(liabilities) | 5,024 | 3,070 | 2,922 | (1,375) | (1,117) | (717) | 3,649 | 1,953 | 2,205 |

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**14. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

| | Balance as of January 1, 2011 RMB (restated) | Acquired from the Fifth Acquired Group RMB | Recognized in statement of comprehensive income RMB | Balance as of December 31, 2011 RMB (restated) |
|---|---|---|---|---|
| *Current* | | | | |
| Provisions and impairment losses, primarily for doubtful debts | 1,049 | | (38) | 1,011 |
| *Non-current* | | | | |
| Property, plant and equipment | 2,348 | 5 | (1,633) | 720 |
| Deferred revenues and installation costs | 433 | | (81) | 352 |
| Available-for-sale equity securities | (181) | | 51 | (130) |
| Net deferred tax assets | 3,649 | 5 | (1,701) | 1,953 |

| | Balance as of January 1, 2012 RMB (restated) | Recognized in statement of comprehensive income RMB | Disposal of a subsidiary RMB | Balance as of December 31, 2012 RMB |
|---|---|---|---|---|
| *Current* | | | | |
| Provisions and impairment losses, primarily for doubtful debts | 1,011 | 19 | (2) | 1,028 |
| *Non-current* | | | | |
| Property, plant and equipment | 720 | 293 | | 1,013 |
| Deferred revenues and installation costs | 352 | (115) | | 237 |
| Available-for-sale equity securities | (130) | 57 | | (73) |
| Net deferred tax assets | 1,953 | 254 | (2) | 2,205 |

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

Short-term debt comprises:

| | December 31, 2011 RMB | 2012 RMB |
|---|---|---|
| Loans from banks unsecured | 8,123 | 5,521 |
| Other loans unsecured | 244 | 182 |
| Loans from China Telecom Group unsecured | 820 | 820 |
| Total short-term debt | 9,187 | 6,523 |

The weighted average interest rate of the Group s total short-term debt as of December 31, 2011 and 2012 was 5.9% and 5.5%, respectively. As of December 31, 2012, the loans from banks and other loans bear interest at rates ranging from 4.5% to 6.7% per annum and are repayable within one year; the loans from China Telecom Group bear interest at fixed rates ranging from 4.5% to 4.7% per annum and are repayable within one year.

Long-term debt and payable comprises:

| | Interest rates and final maturity | December 31, 2011 RMB | 2012 RMB |
|---|---|---|---|
| **Bank loans unsecured** | | | |
| Renminbi denominated | Interest rates ranging from 3.60% to 7.04% per annum with maturities through 2020 | 409 | 160 |
| US Dollars denominated | Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060 | 648 | 598 |
| Japanese Yen denominated | Interest rates ranging from 1.49% to 1.58% per annum with maturities in 2012 | 1,441 | |
| Euro denominated | Interest rates of 2.30% per annum with maturities through 2032 | 485 | 456 |
| Other currencies denominated | | 29 | 26 |
| | | 3,012 | 1,240 |
| **Other loans unsecured** | | | |
| Renminbi denominated | | 1 | 1 |
| Medium-term notes-unsecured (Note (i)) | | 39,903 | 29,951 |
| **Amount due to China Telecommunications Corporation.** | | | |
| **- unsecured** | | | |

| | | |
|---|---|---|
| Deferred consideration of the Mobile Network Acquisition | | |
| Renminbi denominated (Note (ii)) | | 61,710 |
| **Others** | | 380 |
| Total long-term debt and payable | 42,916 | 93,282 |
| Less: Current portion | (11,766) | (10,212) |
| Non-current portion | 31,150 | 83,070 |

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

Note:

(i) On October 23, 2008, the Group issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum.

On November 16, 2009, the Group issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 3.65% per annum. This medium-term note was repaid by the Group on November 17, 2012.

On December 28, 2009, the Group issued two batches of five-year, 10 billion RMB denominated medium-term notes with annual interest rate of 4.61% per annum.

All of the above medium-term notes are unsecured.

(ii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the Mobile Network Acquisition (Note 2). The Company may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition. The Company 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 rate for the first year is 4.83%.

If the amount is not paid when due, the Company 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.

The aggregate maturities of the Group s long-term debt and payable subsequent to December 31, 2012 are as follows:

| | RMB |
|---|---|
| 2013 | 10,212 |
| 2014 | 20,059 |
| 2015 | 86 |
| 2016 | 86 |
| 2017 | 62,177 |
| Thereafter | 662 |
| | 93,282 |

The Group s short-term and long-term debt and payable do not contain any financial covenants. As of December 31, 2011 and 2012, the Group has unutilized committed credit facilities amounting to RMB118,970 and RMB163,130 respectively.

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## 16. ACCOUNTS PAYABLE

Accounts payable are analyzed as follows:

| | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB |
|---|---|---|---|
| Third parties | 30,840 | 34,749 | 56,333 |
| China Telecom Group | 8,571 | 8,911 | 11,473 |
| Other telecommunications operators in the PRC | 630 | 699 | 1,038 |
| | 40,041 | 44,359 | 68,844 |

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

Accrued expenses and other payables represent:

| | Note | January 1, 2011 RMB (restated) | December 31, 2011 RMB (restated) | December 31, 2012 RMB |
|---|---|---|---|---|
| Amounts due to China Telecom Group | (i) | 389 | 312 | 40,745 |
| Amounts due to other telecommunications operators in the PRC | | 85 | 78 | 59 |
| Accrued expenses | | 14,401 | 14,280 | 14,410 |
| Customer deposits and receipts in advance | | 37,584 | 44,698 | 50,491 |
| Dividend payable | | 433 | 7 | 31 |
| | | 52,892 | 59,375 | 105,736 |

Note:

(i) The amount as of December 31, 2012 includes the first installment of the final consideration of the Mobile Network Acquisition amounting to RMB25,500 and the liabilities assumed by the Group from the network branches of China Telecommunications Corporation payable to China Telecom Group amounting to RMB14,269 in connection with the Mobile Network Acquisition. These amounts were paid in January 2013.

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## 18. DEFERRED REVENUES

Deferred revenues represent the unearned portion of installation fees for wireline services received from customers and the unused portion of calling cards.

| | December 31, 2011 RMB | December 31, 2012 RMB |
|---|---|---|
| Balance at beginning of year . | 6,203 | 4,805 |
| Additions for the year | | |
| installation fees | 373 | |
| calling cards | 1,275 | 773 |
| | 1,648 | 773 |
| Reductions for the year | | |
| amortization of connection fees | (98) | |
| amortization of installation fees | (1,660) | (1,233) |
| usage of calling cards | (1,288) | (900) |
| Balance at end of year | 4,805 | 3,445 |
| Representing: | | |
| current portion | 2,093 | 1,654 |
| non-current portion | 2,712 | 1,791 |
| | 4,805 | 3,445 |

Included in other assets are primarily capitalized direct costs associated with the installation of wireline services. As of December 31, 2011 and 2012, the unamortized portion of these costs was RMB2,444 and RMB1,687 respectively.

## 19. SHARE CAPITAL

| | December 31, 2011 RMB | December 31, 2012 RMB |
|---|---|---|
| **Registered, issued and fully paid** | | |
| 67,054,958,321 ordinary domestic shares of RMB1.00 each | 67,055 | 67,055 |
| 13,877,410,000 overseas listed H shares of RMB1.00 each | 13,877 | 13,877 |
| | 80,932 | 80,932 |

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

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## 20. RESERVES

| | Capital reserve RMB (Note (i)) | Share premium RMB | Re-valuation reserve RMB | Statutory reserves RMB (Note (iii)) | Other reserves RMB (Note (ii)) | Exchange reserve RMB | Retained earnings RMB (Note(i)) | Total RMB |
|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2010, as previously reported | 16,767 | 10,746 | | 60,606 | 382 | (667) | 67,538 | 155,372 |
| Adjusted for the Sixth Acquisition (Note 1) | | | | | | | 48 | 48 |
| Balance as of January 1, 2010, as restated | 16,767 | 10,746 | | 60,606 | 382 | (667) | 67,586 | 155,420 |
| Acquisition of non-controlling interests | | | | | (3) | | | (3) |
| Distribution to China Telecom Group | | | | | | | (3) | (3) |
| Dividends (Note 27) | | | | | | | (6,031) | (6,031) |
| Appropriations (Note (iii)) | | | | 2,028 | | | (2,028) | |
| Total comprehensive income for the year, as restated | | | | | 59 | (48) | 15,339 | 15,350 |
| Balance as of December 31, 2010, as restated | 16,767 | 10,746 | | 62,634 | 438 | (715) | 74,863 | 164,733 |
| Acquisition of non-controlling interests | | | | | (1) | | | (1) |
| Acquisition of the Fifth Acquired Group (Note 1) | | | | | | | (19) | (19) |
| Distribution to China Telecom Group | | | | | | | (3) | (3) |
| Dividends (Note 27) | | | | | | | (5,763) | (5,763) |
| Appropriations (Note (iii)) | | | | 1,682 | | | (1,682) | |
| Total comprehensive income for the year, as restated | | | | | (154) | (103) | 16,500 | 16,243 |
| Balance as of December 31, 2011, as restated | 16,767 | 10,746 | | 64,316 | 283 | (818) | 83,896 | 175,190 |
| Acquisition of the Sixth Acquired Business (Note 1) | (48) | | | | | | | (48) |
| Contribution from non-controlling interests | 249 | | | | | | | 249 |
| Others | (380) | | | | | | | (380) |
| Dividends (Note 27) | | | | | | | (5,625) | (5,625) |
| Appropriations (Note (iii)) | | | | 1,413 | | | (1,413) | |
| Total comprehensive income for the year | | | | | (171) | (3) | 14,925 | 14,751 |
| Balance as of December 31, 2012 | 16,588 | 10,746 | | 65,729 | 112 | (821) | 91,783 | 184,137 |

Note:

(i)

Capital reserve of the Group 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 Company for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation as described in Note 1, which were accounted for as equity transactions as disclosed in Note 1 to the financial statements, and the historical carrying amount of the net assets of these acquired entities.

The difference between the consideration paid by the Company and the historical carrying amount of the net assets of the Fifth Acquired Group 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, 2012, the Company transferred RMB1,413, being 10% of the year s net profit determined in accordance with IFRS, to this reserve. For the year ended December 31, 2011, the Company transferred RMB1,572, being 10% of the year s net profit determined in accordance with the IFRS.

According to the Company s Articles of Association, the Company did not transfer any discretionary surplus reserve for the year ended December 31, 2012. The Company transferred RMB110 for the year ended December 31, 2011, being 0.7% of the year s net profit determined in accordance with IFRS.

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**20. RESERVES (continued)**

Note: (continued)

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 determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As of December 31, 2011 and 2012, the amount of retained earnings available for distribution was RMB67,623 and RMB74,494 respectively, being the amount determined in accordance with IFRS. Final dividend of approximately RMB5,522 in respect of the financial year 2012 proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period (Note 27).

**21. OPERATING REVENUES**

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

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | **Note** | **2010 RMB (restated)** | **2011 RMB (restated)** | **2012 RMB** |
| Wireline voice | (i) | 62,498 | 49,764 | 43,335 |
| Mobile voice | (ii) | 28,906 | 38,628 | 49,166 |
| Internet | (iii) | 63,985 | 74,992 | 87,660 |
| Value-added services | (iv) | 22,599 | 25,554 | 31,104 |
| Integrated information application services | (v) | 15,519 | 20,473 | 23,174 |
| Managed data and leased line | (vi) | 12,389 | 14,273 | 15,710 |
| Others | (vii) | 13,504 | 21,286 | 32,924 |
| Upfront connection fees | (viii) | 497 | 98 | |
| | | 219,897 | 245,068 | 283,073 |

Note:

(i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections fees and installation fees charged to customers for the provision of wireline telephony services.
(ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.
(iii) Represent amounts charged to customers for the provision of Internet access services.
(iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services.
(v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.
(vi) Represent primarily the aggregate amount of fees charged to customers for the provision of managed data transmission services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group s telecommunications networks and equipment.
(vii) Represent primarily revenue from sale, rental and repair and maintenance of equipment.
(viii) Represent the amortized amount of the upfront fees received for initial activation of wireline services.

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## 22. NETWORK OPERATIONS AND SUPPORT EXPENSES

Included in the Group s network operations and support expenses are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 RMB (restated) | 2011 RMB (restated) | 2012 RMB |
| Operating and maintenance | 19,770 | 20,814 | 24,766 |
| Utility | 7,051 | 7,040 | 7,822 |
| Property rental and management fee | 3,882 | 4,693 | 5,240 |
| CDMA network capacity lease fee | 13,320 | 19,011 | 25,546 |
| Others | 3,422 | 1,367 | 2,629 |
| | 47,445 | 52,925 | 66,003 |

## 23. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 RMB (restated) | 2011 RMB | 2012 RMB |
| Network operations and support | 23,131 | 25,924 | 28,385 |
| Selling, general and administrative | 12,406 | 13,243 | 14,427 |
| | 35,537 | 39,167 | 42,812 |

## 24. OTHER OPERATING EXPENSES

Other operating expenses consist of:

| | Note | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2010 RMB (restated) | 2011 RMB (restated) | 2012 RMB |
| Interconnection charges | (i) | 11,130 | 13,042 | 14,103 |
| Cost of goods sold | (ii) | 7,914 | 15,730 | 26,162 |
| Donations | | 21 | 13 | 12 |

| | | | |
|---|---|---|---|
| Others | 46 | 85 | 64 |
| | 19,111 | 28,870 | 40,341 |

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.

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## 25 NET FINANCE COSTS

Net finance costs comprise:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 RMB | 2011 RMB | 2012 RMB |
| Interest expense incurred | 4,057 | 3,023 | 2,479 |
| Less: Interest expense capitalized* | (262) | (313) | (325) |
| Net interest expense | 3,795 | 2,710 | 2,154 |
| Interest income | (287) | (405) | (591) |
| Foreign exchange losses | 178 | 48 | 47 |
| Foreign exchange gains | (86) | (99) | (46) |
| | 3,600 | 2,254 | 1,564 |

* Interest expense was capitalized in construction in progress at the following rates per annum 2.5%-4.7% 2.5% -5.6% 1.3% - 6.2%

## 26. INCOME TAX

Income tax in the profit or loss comprises:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 RMB | 2011 RMB | 2012 RMB |
| Provision for PRC income tax | 3,165 | 3,635 | 4,900 |
| Provision for income tax of other jurisdictions | 47 | 29 | 50 |
| Deferred taxation | 1,634 | 1,752 | (197) |
| | 4,846 | 5,416 | 4,753 |

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**26. INCOME TAX (continued)**

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

| | Note | Year ended December 31, 2010 RMB (restated) | 2011 RMB (restated) | 2012 RMB |
|---|---|---|---|---|
| Earnings before income tax | | 20,303 | 22,012 | 19,793 |
| Expected PRC income tax expense at statutory tax rate of 25% | (i) | 5,076 | 5,503 | 4,948 |
| Differential tax rate on PRC subsidiaries and branches income | (i) | (579) | (255) | (269) |
| Differential tax rate on other subsidiaries income | (ii) | (11) | (3) | (23) |
| Non-deductible expenses | (iii) | 834 | 489 | 539 |
| Non-taxable income | (iv) | (444) | (291) | (156) |
| Effect of change in tax rate | (v) | | | 155 |
| Others | (vi) | (30) | (27) | (441) |
| Actual income tax expense | | 4,846 | 5,416 | 4,753 |

Note:

(i) Except for certain subsidiaries and branches which are taxed at 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 35%.

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

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

(v) Certain branches with operations in the western region of the PRC obtained approvals from tax authorities to adopt the preferential income tax rate of 15%. Accordingly, deferred tax assets that were recovered and deferred tax liabilities that were settled after December 31, 2011 were adjusted to reflect the change in tax rate. The overall effect of change in tax rate amounting to RMB155 was charged to the consolidated statement of comprehensive income.

(vi) Amounts primarily represent tax deduction on prior years research and development expenses and losses on disposal of property, plant and equipment approved by tax authorities during the year.

**27. DIVIDENDS**

Pursuant to a resolution passed at the Directors meeting on March 20, 2013, a final dividend of equivalent to HK$0.085 per share totaling approximately RMB5,522 for the year ended December 31, 2012 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, 2012.

Pursuant to the shareholders approval at the Annual General Meeting held on May 30, 2012, a final dividend of RMB0.069506 (equivalent to HK$0.085) per share totaling RMB5,625 in respect of the year ended December 31, 2011 was declared, of which RMB5,235 was paid on July 20, 2012 and the remaining amounts were paid by December 2012.

Pursuant to the shareholders approval at the Annual General Meeting held on May 20, 2011, a final dividend of RMB0.071208 (equivalent to HK$0.085) per share totaling RMB5,763 in respect of the year ended December 31, 2010 was declared and paid on June 30, 2011.

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## 28. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended December 31, 2010, 2011 and 2012 is based on the profit attributable to equity holders of the Company of RMB15,339, RMB16,500 and RMB14,925 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, 2012, the Group s future minimum lease payments under non-cancelable operating leases are as follows:

| | RMB |
|---|---|
| 2013 | 2,119 |
| 2014 | 1,195 |
| 2015 | 877 |
| 2016 | 686 |
| 2017 | 553 |
| Thereafter | 1,489 |
| Total minimum lease payments | 6,919 |

Total rental expense in respect of operating leases charged to profit or loss for the years ended December 31, 2010, 2011 and 2012 were RMB16,335, RMB22,539 and RMB29,529, respectively.

***Capital commitments***

As of December 31, 2012, the Group had capital commitments as follows:

| | RMB |
|---|---|
| Authorized and contracted for | |
| - property | 462 |
| - telecommunications network plant and equipment | 6,641 |
| | 7,103 |

| | |
|---|---|
| Authorized but not contracted for | |
| - property | 764 |
| - telecommunications network plant and equipment | 8,401 |
| | 9,165 |

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**29. COMMITMENTS AND CONTINGENCIES (continued)**

***Contingent liabilities***

(a) The Company and the Group were advised by their PRC lawyers that, except for liabilities arising out of or relating to the businesses of the Fifth Acquired Group and the Sixth Acquired Business transferred to the Group, no other contingent liabilities were assumed by the Company or the Group, and the Company or the Group are not jointly and severally liable for other debts and obligations incurred by China Telecom Group prior to these acquisitions.

(b) As of December 31, 2011 and 2012, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

***Legal contingencies***

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

**30. FINANCIAL INSTRUMENTS**

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

(a) *Fair Value*

The amendments to IFRS 7, *Financial Instruments: Disclosures*, require disclosures relating to fair value measurements of financial instruments across three levels of a fair value hierarchy . 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 (highest level): 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 (lowest level): 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 RMB617 and RMB585 as of December 31, 2011 and 2012 respectively was based on quoted market price on a PRC stock exchange. 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 accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs.

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**30. FINANCIAL INSTRUMENTS (continued)**

(a) *Fair Value (continued)*

The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The interest rates used 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 6.8% (2011: 1.0% to 7.51%). As of December 31, 2011 and 2012, the carrying amounts and fair values of the Group s long-term debt and payable were as follows:

| | December 31, 2011 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying amount RMB | Fair value RMB | Carrying amount RMB | Fair value RMB |
| Long-term debt and payable | 42,916 | 41,698 | 93,282 | 92,931 |

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

(b) *Risks*

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

(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 Group s credit policy and quantitative disclosures in respect of the Group s exposure on credit risk for accounts receivable are set out in Note 4.

(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.

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**30. FINANCIAL INSTRUMENTS (continued)**

(b) *Risks (continued)*

(ii) Liquidity risk (continued)

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:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 9,187 | (9,391) | (9,391) | | | |
| Long-term debt and payable | 42,916 | (47,087) | (13,513) | (11,592) | (21,211) | (771) |
| Accounts payable (restated) | 44,359 | (44,359) | (44,359) | | | |
| Accrued expenses and other payables (restated) | 59,375 | (59,375) | (59,375) | | | |
| | 155,837 | (160,212) | (126,638) | (11,592) | (21,211) | (771) |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 6,523 | (6,652) | (6,652) | | | |
| Long-term debt and payable | 93,282 | (110,705) | (14,571) | (23,997) | (71,441) | (696) |
| Accounts payable | 68,844 | (68,844) | (68,844) | | | |
| Accrued expenses and other payables | 105,736 | (105,736) | (105,736) | | | |
| Finance lease obligations | 3 | (3) | | (2) | (1) | |
| | 274,388 | (291,940) | (195,803) | (23,999) | (71,442) | (696) |

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 debts and long-term debts 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 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:

| | 2011 | | 2012 | |
|---|---|---|---|---|
| | Effective interest rate | | Effective interest rate | |
| | % | RMB | % | RMB |
| **Fixed rate debt:** | | | | |
| Short-term debt | 5.8 | 7,471 | 5.4 | 5,877 |
| Long-term debt and payable | 4.1 | 42,712 | 4.4 | 31,572 |
| | | 50,183 | | 37,449 |
| **Variable rate debt:** | | | | |
| Short-term debt | 6.1 | 1,716 | 5.5 | 646 |
| Long-term debt and payable | 1.5 | 204 | 4.8 | 61,710 |
| | | 1,920 | | 62,356 |
| Total debt | | 52,103 | | 99,805 |
| Fixed rate debt as a percentage of total debt | | 96.3% | | 37.5% |

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**30. FINANCIAL INSTRUMENTS (continued)**

(b) *Risks (continued)*

(iii) Interest rate risk (continued)

As of December 31, 2011 and 2012, 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 income and retained earnings by approximately RMB14 and RMB468 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 2011.

(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, Japanese Yen 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 97.6% (2011: 94.4%) of the Group s cash and cash equivalents and 98.9% (2011: 94.7%) of the Group s short-term and long-term debt and payable as of December 31, 2012 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 15.

**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 and long-term debt and payable and finance lease obligations. As of December 31, 2011 and 2012, the Group s total debt-to-total assets ratio was 12.4% and 18.3% respectively, which is within the range of management s expectation.

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

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## 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 | 2010 RMB | 2011 RMB | 2012 RMB |
| Purchases of telecommunications equipment and materials | (i) | 2,215 | 2,764 | 3,029 |
| Sales of telecommunications equipment and materials | (i) | 993 | 1,642 | 2,685 |
| Construction and engineering services | (ii) | 6,415 | 8,293 | 10,203 |
| Provision of IT services | (iii) | 295 | 365 | 370 |
| Receiving IT services | (iii) | 556 | 692 | 764 |
| Receiving community services | (iv) | 2,185 | 2,362 | 2,652 |
| Receiving ancillary services | (v) | 6,838 | 7,878 | 9,541 |
| Operating lease expenses | (vi) | 385 | 395 | 366 |
| Net transaction amount of centralized services | (vii) | 466 | 625 | 570 |
| Interconnection revenues | (viii) | 55 | 48 | 44 |
| Interconnection charges | (viii) | 571 | 498 | 410 |
| Interest on loans from China Telecom Group | (ix) | 896 | 208 | 24 |
| CDMA network capacity lease fee | (x) | 13,320 | 19,011 | 25,546 |
| Reimbursement of capacity maintenance related costs of CDMA network | (xi) | 1,755 | 3,151 | 2,519 |
| Mobile Network Acquisition | (xii) | | | 87,210 |

Note:

(i) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
(ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
(iii) Represent IT services provided by 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 net amounts paid and payable to China Telecom Group for leases of business premises and the amounts paid and payable to China Telecom Group for inter-provincial transmission optic fibres.
(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 interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 15).

(x) Represent amounts paid and payable to China Telecom Group for lease of CDMA mobile telecommunications network ( CDMA network ) capacity.

(xi) Represent amounts shared between the Company and China Telecom Group for the capacity maintenance related costs in connection with the CDMA network capacity used by the Company.

(xii) Represent the final consideration of the Mobile Network Acquisition (Note 2).

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**32. RELATED PARTY TRANSACTIONS (continued)**

**(a) Transactions with China Telecom Group (continued)**

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

| | December 31, | |
|---|---|---|
| | 2011 RMB | 2012 RMB |
| Accounts receivable | 1,803 | 626 |
| Prepayments and other current assets | 1,091 | 779 |
| Total amounts due from China Telecom Group | 2,894 | 1,405 |
| Accounts payable | 8,911 | 11,473 |
| Accrued expenses and other payables | 312 | 40,745 |
| Short-term debt | 820 | 820 |
| Long-term debt and payable | | 61,710 |
| Total amounts due to China Telecom Group | 10,043 | 114,748 |

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, 2011 and 2012, no material allowance for doubtful debts was recognized in respect of amounts due from China Telecom Group.

On August 25, 2010, the Company and China Telecommunications Corporation entered into supplemental agreements to renew the CDMA network capacity lease agreement ( the 2010 CDMA Network Lease ), which it first entered into with China Telecommunications Corporation and which were approved by the Company s independent shareholders at an Extraordinary General Meeting held on September 16, 2008, for a further term of two years expiring on December 31, 2012. Pursuant to the 2010 CDMA Network Lease, the lease fee for the capacity on the constructed CDMA network shall be 28% of the CDMA service revenue. For the year ending December 31, 2011 and 2012, the minimum annual lease fee shall be 90% of the total amount of the lease fee paid by the Company to China Telecommunications Corporation in the previous year.

The 2010 CDMA Network Lease expired on December 31, 2012 and was not renewed.

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**32. RELATED PARTY TRANSACTIONS (continued)**

**(b) 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, | | |
|---|---|---|---|
| | 2010 RMB thousands | 2011 RMB thousands | 2012 RMB thousands |
| Short-term employee benefits | 13,778 | 9,037 | 9,041 |
| Post-employment benefits | 802 | 696 | 704 |
| Equity-based compensation benefits | 5,351 | 8,959 | |
| | 19,931 | 18,692 | 9,745 |

The above remuneration is included in personnel expenses.

**(c) 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.

**(d) 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 affiliates (Note 32(a)), the Group has, collectively but not individually, significant transactions 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 money

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 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 18% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member s retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

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**33. POST-EMPLOYMENT BENEFITS PLANS (continued)**

The Group s contributions for the above plans for the year ended December 31, 2010, 2011 and 2012 were RMB4,244, RMB4,529 and RMB5,048 respectively.

The amount payable for contributions to the above defined contribution retirement plans as of December 31, 2011 and 2012 was RMB639 and RMB615 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 2003, the Company approved the granting of 276.5 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$1.48 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 18 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In 2005, the Company approved the granting of 560.0 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$2.78 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In 2006, the Company approved the granting of 837.3 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$2.85 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of five years from date of grant and an exercise price of HK$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As of each of the third, fourth and fifth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 33%, 66% and 100%, respectively, of the total stock appreciation rights granted to such person

During the years ended December 31, 2010 and 2011, 483 million and 412 million stock appreciation right units were exercised, respectively. During the year ended December 31, 2012, no stock appreciation right units were exercised. For the year ended December 31, 2010, 2011 and 2012, compensation expense recognized by the Group in respect of stock appreciation rights were RMB592, RMB328 and RMB163 respectively.

As of December 31, 2011 and 2012, the carrying amount of the liability arising from stock appreciation rights was RMB28 and RMB163 respectively. As of December 31, 2012, no stock appreciation right units were vested. As of December 31, 2011, all stock appreciation right units vested were exercised.

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**35. PRINCIPAL SUBSIDIARIES**

Details of the Company s subsidiaries which principally affected the results, assets and liabilities of the Group as of December 31, 2012 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$ 58 million | Provision of international value-added network services |
| China Telecom (Americas) Corporation | Limited Company | November 22, 2001 | The United States of America | US$ 43 million | Provision of telecommunications services |
| China Telecom Best Tone Information Service Co., Limited | Limited Company | August 15, 2007 | PRC | 350 | Provision of Best Tone information services |
| China Telecom (Macau) Company Limited | Limited Company | October 15, 2004 | Macau Special Administrative Region of the PRC | MOP60 million | Provision of telecommunications services |
| Tianyi Telecom Terminals Company Limited | Limited Company | July 1, 2005 | PRC | 500 | Sales of telecommunications terminals |
| China Telecom (Singapore) Pte. Limited | Limited Company | October 5, 2006 | Singapore | S$ 1 | Provision of international value-added network services |
| E-surfing Pay Co., Ltd | Limited Company | March 3, 2011 | PRC | 300 | Provision of e-commerce service |
| E-surfing Media Co., Ltd | Limited Company | March 11, 2011 | PRC | 313 | Provision of video media services |
| Shenzhen Shekou Telecommunications Company Limited | Limited Company | May 5, 1984 | PRC | 91 | Provision of telecommunications services |

| | | | | | |
|---|---|---|---|---|---|
| China Telecom (Australia) Pty Ltd | Limited Company | January 10, 2011 | Australia | AUD1 million | Provision of international value-added network services |
| China Telecom Korea Co.,Ltd | Limited Company | May 16 , 2012 | South Korea | KRW500 million | Provision of international value-added network services |
| China Telecom (Malaysia) SDN BHD | Limited Company | June 26 , 2012 | Malaysia | RM500,000 | Provision of international value-added network services |

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**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 Information Technology (Vietnam) Co. Ltd | Limited Company | July 9, 2012 | Vietnam | VND6,300 million | Provision of international value-added network services |

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company, and E-surfing Media Co., Ltd which is 80% owned by the Company, all of the above subsidiaries are directly or indirectly wholly-owned by the Company.

**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 judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 3. Management believes the following significant accounting policies involve the most significant judgments and estimates used in the preparation of the consolidated financial statements.

**Allowance for doubtful debts**

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the aging 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 3(n). The carrying amounts of the Group s long-lived assets, including property, plant and equipment, intangible assets 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 the net selling price. 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 selling price 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.

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**36. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)**

**Impairment of long-lived assets (continued)**

For the years ended December 31, 2010, provision for impairment losses of RMB139 was made against the carrying value of property, plant and equipment. For the year ended December 31, 2011 and 2012, no provision for impairment loss was made against the carrying value of property, plant and equipment (Note 8). In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

**Depreciation and amortization**

Property, plant and equipment is depreciated 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 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 expense for future periods is adjusted if there are significant changes from previous estimates.

Amortization of customer relationships is recognized on a straight-line basis over the expected customer relationship period of five years. Management reviews the expected customer relationship period annually in order to estimate the amount of amortization expense to be recorded during any reporting period. The expected customer relationship period is based on the estimate period over which future economic benefits will be received by the Group and takes into account the level of future competition, the risk of technological or functional obsolescence of its services, and the expected changes in the regulatory and social environment. The amortization expense for future periods is adjusted if there are significant changes from previous estimates.

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## 37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2012

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended December 31, 2012:

| | Effective for accounting period beginning on or after |
|---|---|
| Amendments to IAS 1, Presentation of Financial Statements Presentation of Items of Other Comprehensive Income | July 1, 2012 |
| IFRS 10, Consolidated Financial Statements | January 1, 2013 |
| IFRS 11, Joint Arrangements | January 1, 2013 |
| IFRS 12, Disclosure of Interests in Other Entities | January 1, 2013 |
| IFRS 13, Fair Value Measurement | January 1, 2013 |
| IAS 27, Separate Financial Statements (2011) | January 1, 2013 |
| IAS 28, Investments in Associates and Joint Ventures (2011) | January 1, 2013 |
| Revised IAS 19, Employee Benefits | January 1, 2013 |
| IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine | January 1, 2013 |
| Amendments to IFRS 7, Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities | January 1, 2013 |
| Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards Government Loans | January 1, 2013 |
| Annual Improvements to IFRSs 2009-2011 Cycle | January 1, 2013 |
| Amendments to IFRS 10, Consolidated Financial Statements , IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities Transition Guidance | January 1, 2013 |
| Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities | January 1, 2014 |
| Amendments to IAS 32, Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities | January 1, 2014 |
| IFRS 9, Financial Instruments (2009) | January 1, 2015 |
| IFRS 9, Financial Instruments (2010) | January 1, 2015 |
| Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures Mandatory Effective Date and Transition Disclosures | January 1, 2015 |

The Group is in the process of making an assessment of the impact that will result from adopting the amendments, new standards and interpretations issued by the IASB which are not yet effective for the accounting period ended on December 31, 2012. So far the Group believes that the adoption of these amendments, new standards and interpretations may result in new or amended disclosures, it is unlikely to have a significant impact on its financial position and the results of operations.

## 38. COMPARATIVE FIGURES

As a result of the Sixth Acquisition, certain comparative figures have been adjusted or restated to account for the acquisition as if it had occurred before the start of the earliest period presented. Further details of this acquisition are disclosed in Note 1.

**39. PARENT AND ULTIMATE HOLDING COMPANY**

The parent and ultimate holding company of the Group as of December 31, 2012 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.