

---

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

---

**FORM 20-F**

---

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

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

Date of event requiring this shell company report \_\_\_\_\_

\_\_\_\_\_  
Commission file number 1-31517  
\_\_\_\_\_

中国电信股份有限公司

(Exact Name of Registrant as Specified in Its Charter)

**China Telecom Corporation Limited**

(Translation of Registrant's Name into English)

**People's Republic of China**

(Jurisdiction of Incorporation or Organization)

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

**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 H shares, par value RMB1.00 per share	New York Stock Exchange, Inc. New York Stock Exchange, Inc.*

---

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

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

**None**  
(Title of Class)

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

**None**  
(Title of Class)

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

As of December 31, 2011, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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  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

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

---

---

**CHINA TELECOM CORPORATION LIMITED**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PART I</u></b>	- 2 -
Item 1. <a href="#"><u>Identity of Directors, Senior Management and Advisers.</u></a>	- 2 -
Item 2. <a href="#"><u>Offer Statistics and Expected Timetable.</u></a>	- 2 -
Item 3. <a href="#"><u>Key Information.</u></a>	- 2 -
Item 4. <a href="#"><u>Information on the Company.</u></a>	- 14 -
Item 4A. <a href="#"><u>Unresolved Staff Comments.</u></a>	- 34 -
Item 5. <a href="#"><u>Operating and Financial Review and Prospects.</u></a>	- 35 -
Item 6. <a href="#"><u>Directors, Senior Management and Employees.</u></a>	- 47 -
Item 7. <a href="#"><u>Major Shareholders and Related Party Transactions.</u></a>	- 57 -
Item 8. <a href="#"><u>Financial Information.</u></a>	- 65 -
Item 9. <a href="#"><u>The Offer and Listing.</u></a>	- 65 -
Item 10. <a href="#"><u>Additional Information.</u></a>	- 66 -
Item 11. <a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk.</u></a>	- 78 -
Item 12. <a href="#"><u>Description of Securities Other than Equity Securities.</u></a>	- 81 -
<b><u>PART II</u></b>	- 82 -
Item 13. <a href="#"><u>Defaults, Dividend Arrearages and Delinquencies.</u></a>	- 82 -
Item 14. <a href="#"><u>Material Modifications to the Rights of Security Holders and Use of Proceeds.</u></a>	- 82 -
Item 15. <a href="#"><u>Controls and Procedures.</u></a>	- 82 -
Item 16A. <a href="#"><u>Audit Committee Financial Expert.</u></a>	- 84 -
Item 16B. <a href="#"><u>Code of Ethics.</u></a>	- 84 -
Item 16C. <a href="#"><u>Principal Accountant Fees and Services.</u></a>	- 84 -
Item 16D. <a href="#"><u>Exemptions from the Listing Standards for Audit Committees.</u></a>	- 85 -
Item 16E. <a href="#"><u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers.</u></a>	- 85 -
Item 16F. <a href="#"><u>Change in Registrant’s Certifying Accountant.</u></a>	- 85 -
Item 16G. <a href="#"><u>Corporate Governance.</u></a>	- 85 -
Item 16H. <a href="#"><u>Mine Safety Disclosure.</u></a>	- 85 -
Item 17. <a href="#"><u>Financial Statements.</u></a>	- 85 -
Item 18. <a href="#"><u>Financial Statements.</u></a>	- 85 -
Item 19. <a href="#"><u>Exhibits.</u></a>	- 86 -

## 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;
- 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;
- the industry regulatory environment as well as the industry outlook generally; and
- future developments in the telecommunications industry in the People’s Republic of China, or the PRC.

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

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

- 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 Limited and its consolidated subsidiaries except where we make clear that the term means China Telecom Corporation Limited or a particular subsidiary or business group only. References to matters relating to our H shares or American depositary shares, or ADSs, or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. 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, 2010 and 2011, and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2009, 2010 and 2011, 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, 2007, 2008 and 2009 and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2007 and 2008 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.

The selected financial data reflect the acquisitions in 2007 and 2008 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” and “—Industry Restructuring and Our Acquisition of the CDMA Business in 2008.”

On June 30, 2007, we acquired the entire equity interests in each of China Telecom System Integration Co., Limited, China Telecom (Hong Kong) International Limited and China Telecom (Americas) Corporation (formerly known as “China Telecom (USA) Corporation”) from China Telecom Group. In 2008, we acquired the entire equity interests in China Telecom Group Beijing Corporation, or Beijing Telecom, from China Telecom Group. Because we and these acquired companies were under the common control of China Telecom Group, our acquisitions of these acquired companies are accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the acquired companies have been accounted for at historical amounts and our financial statements for periods prior to the respective acquisitions have been restated to include the financial position and results of operations of the acquired companies on a combined basis.

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.

	As of or for the year ended December 31,					
	2007 RMB (restated) <sup>(1)</sup>	2008 RMB (restated) <sup>(1)</sup>	2009 RMB (restated) <sup>(1)</sup>	2010 RMB (restated) <sup>(1)</sup>	2011 RMB	2011 US\$
(in millions, except share numbers and per share and per ADS data)						
<b>Consolidated Statement of Comprehensive Income</b>						
<b>Data:</b>						
Operating revenues	180,804	186,529	209,370	219,864	245,041	38,933
Operating expenses <sup>(2)</sup>	(143,775)	(182,162)	(187,318)	(196,412)	(220,912)	(35,099)
Operating income	37,029	4,367	22,052	23,452	24,129	3,834
Earnings/(losses) before income tax	33,039	(592)	18,569	20,311	22,014	3,498
Income tax	(7,214)	983	(4,382)	(4,846)	(5,416)	(861)
Profit attributable to equity holders of the Company	25,728	296	13,983	15,347	16,502	2,622
Basic earnings per share <sup>(3)</sup>	0.32	0.00	0.17	0.19	0.20	0.03
Basic earnings per ADS <sup>(3)</sup>	31.79	0.37	17.28	18.96	20.39	3.24
Cash dividends declared per share	0.08	0.08	0.08	0.07	0.07	0.01
<b>Consolidated Statement of Financial Position Data:</b>						
Cash and cash equivalents	21,427	27,866	34,804	25,824	27,372	4,349
Accounts receivable, net	16,979	17,289	17,438	17,328	18,471	2,935
Total current assets	44,110	55,499	60,936	55,245	59,576	9,466
Property, plant and equipment, net	326,663	296,376	283,550	272,478	268,877	42,720
Total assets	427,541	454,086	439,956	420,529	419,115	66,591
Short-term debt	67,767	83,448	51,650	20,675	9,187	1,460
Current portion of long-term debt	3,811	565	1,487	10,352	11,766	1,869

	As of or for the year ended December 31,					
	2007 RMB (restated) <sup>(1)</sup>	2008 RMB (restated) <sup>(1)</sup>	2009 RMB (restated) <sup>(1)</sup>	2010 RMB (restated) <sup>(1)</sup>	2011 RMB	2011 US\$
	(in millions, except share numbers and per share and per ADS data)					
Accounts payable	29,013	34,458	34,321	40,039	44,358	7,048
Total current liabilities	140,245	176,790	143,481	126,923	127,258	20,219
Long-term debt	34,148	39,226	52,768	42,549	31,150	4,949
Deferred revenues (including current portion)	15,486	11,444	8,462	6,203	4,805	763
Total liabilities	186,003	224,560	202,804	174,405	162,237	25,777
Equity attributable to equity holders of the Company	240,120	228,047	236,304	245,628	256,090	40,689
<b>Consolidated Cash Flow Data:</b>						
Net cash from operating activities	75,783	76,756	74,988	75,571	73,006	11,599
Net cash used in investing activities <sup>(4)</sup>	(46,618)	(75,819)	(43,255)	(45,734)	(43,637)	(6,933)
Capital expenditures <sup>(4)</sup>	(46,847)	(46,652)	(40,311)	(41,597)	(48,495)	(7,705)
Net cash (used in) / generated from financing activities	(30,747)	5,585	(24,793)	(38,771)	(27,720)	(4,404)

- (1) Certain comparative financial data prior to January 1, 2011 presented herein have been restated as a result of the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRSs). See Note 3 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 and 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 2007, 2008, 2009, 2010 and 2011 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 20, 2011, a final dividend of RMB5,763 million (RMB0.071208 equivalent to HK\$0.085 per share) for the year ended December 31, 2010 was declared, all of which has been fully paid.

Pursuant to a resolution passed at the Directors' meeting on March 20, 2012, a final dividend of approximately RMB5,583 million (RMB0.068984 equivalent to HK\$0.085 per share) for the year ended December 31, 2011 was proposed for shareholders' approval at the forthcoming annual general meeting.

### Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For any date and period, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 30, 2011 (RMB6.2939 to US\$1.00 and HK\$7.7663 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 20, 2012, the daily exchange rates reported by the Federal Reserve Board was RMB6.3080 to US\$1.00 and HK\$7.7613 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.

	<u>RMB per US\$1.00</u>			<u>HK\$ per US\$1.00</u>	
	<u>High</u>	<u>Low</u>		<u>High</u>	<u>Low</u>
October 2011	6.3825	6.3534	October 2011	7.7884	7.7634
November 2011	6.3839	6.3400	November 2011	7.7957	7.7679
December 2011	6.3733	6.2939	December 2011	7.7851	7.7663
January 2012	6.3330	6.2940	January 2012	7.7674	7.7538
February 2012	6.3120	6.2935	February 2012	7.7559	7.7532
March 2012	6.3315	6.2975	March 2012	7.7678	7.7551
April 2012 (through April 20, 2012)	6.3150	6.2975	April 2012 (through April 20, 2012)	7.7660	7.7580

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 2007, 2008, 2009, 2010 and 2011 calculated by averaging the exchange rates on the last day of each month during each of the relevant years.

#### Average Exchange Rate

	<u>RMB per US\$ 1.00</u>	<u>HK\$ per US\$1.00</u>
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8295	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793

#### **B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

#### **D. Risk Factors**

##### *Risks Relating to Our Business*

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

The telecommunications industry in the PRC is rapidly evolving.

After the industry restructuring in 2008, China Unicom 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.

In May 2010, the PRC State Council issued Several Opinions on Encouraging and Guiding the Healthy Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. 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.

***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 7.2% at the end of 2010 compared to that at the end of 2009 and further decreased by 3.1% at the end of 2011. Revenues from our wireline voice services decreased by 20.3% in 2010 compared to that in 2009 and further decreased by 20.4% in 2011. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 37.5% in 2009 to 28.4% in 2010 and 20.3% in 2011.

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 23, 2012. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

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

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

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

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

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

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 "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.

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, we have started to prepare for the application of Internet Protocol version 6, or IPv6, the next-generation Internet Protocol version, to our networks. However, the deployment of IPv6 depends on a number of external factors, including, among others, PRC domestic industry policies. If the future transition to IPv6 is delayed due to factors beyond our control, we may face obstacles in further developing our Internet-related business 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.

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 to the NDRC a proposal for enhancement initiatives as well as an application for suspension of investigation. We 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. Our proposal of enhancement initiatives and application for suspension of investigation are being considered by the NDRC. 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.

***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;
- 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.

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.

During the economic recovery in the PRC that followed the 2008 global financial crisis, the PRC government implemented various policies to control inflation. For example, the PRC government introduced measures in 2011 in certain sectors to avoid overheating of the economy, including tighter bank lending policies and increases in bank interest rates. More recently, the PRC government has announced its intention to relax certain of these policies in response to slowing economic growth in the PRC in the second half of 2011 and the beginning of 2012. However, continued implementation of these or similar measures, or a variety of other factors, may cause a continued slowdown in the PRC economy, which, in turn, could significantly reduce business activities in the PRC, as well as the demand for our products and services, and thus materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

***Fluctuation of the Renminbi could materially affect our financial condition 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.”

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 withheld. The Company will withhold the 10.0% enterprise income tax when it pays dividend to holders of H shares or ADSs who are non-resident enterprises. See “Item 10. Additional Information—E. Taxation—People’s Republic of China.”

Furthermore, dividends paid by us to holders of our H shares or ADSs who are individuals outside the PRC are subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty. 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.

**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.

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 2011, 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 (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.

### ***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.

#### ***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.

### ***Related Transactions***

**Acquisition of the CDMA Network by 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.

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

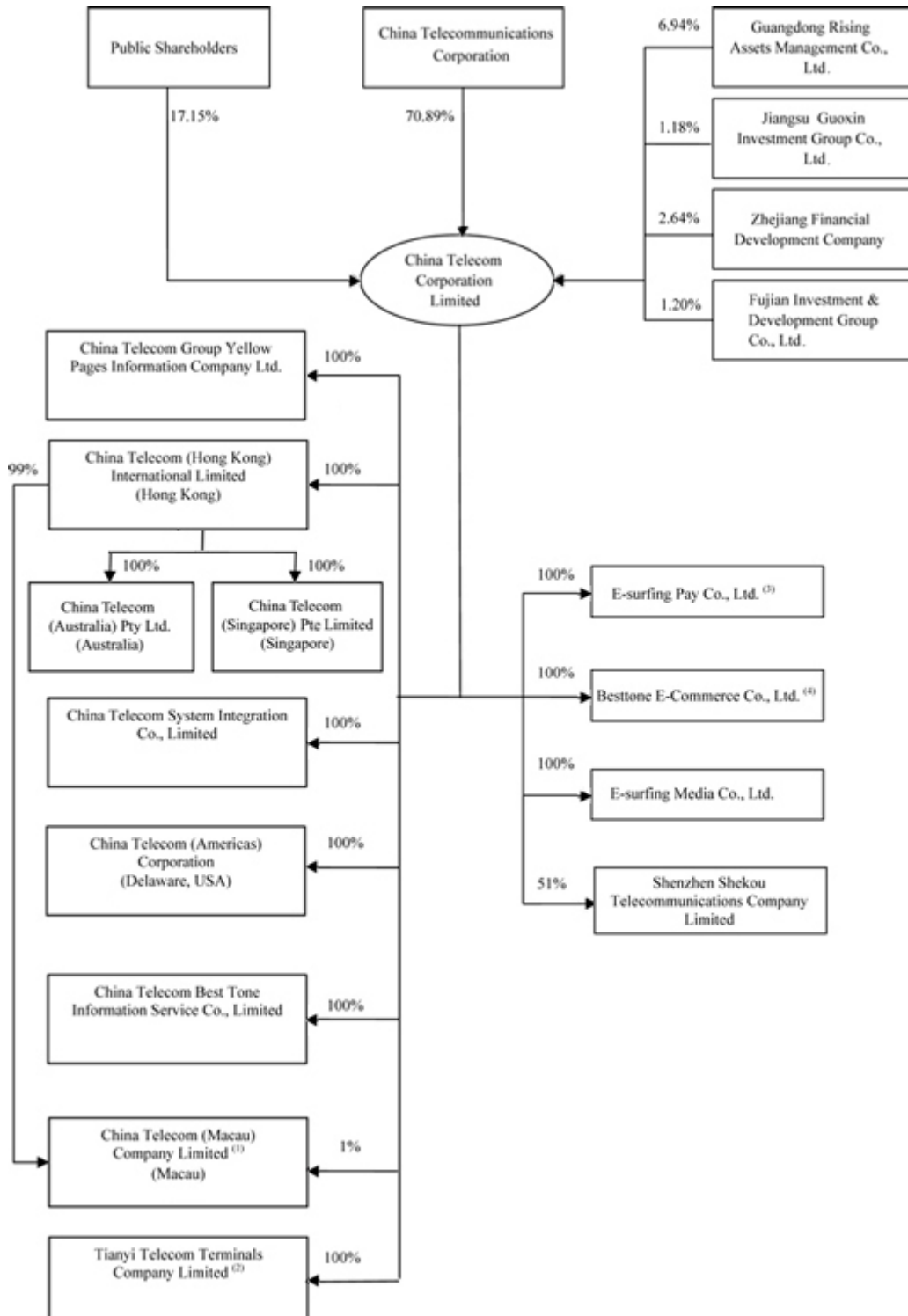
In connection with our restructuring and acquisitions set forth above, we entered into various arrangements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. These arrangements include agreements for trademark licensing, centralized services, 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 Proposed Sale of Besttone E-Commerce Co., Ltd.***

On April 28, 2011, we entered into an asset restructuring agreement with China Satcom Guomai Communications Co., Ltd., or Satcom Guomai, which is a subsidiary of China Telecommunications Corporation and listed on the Shanghai Stock Exchange. We have agreed to sell to Satcom Guomai our 100.0% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services, for an estimated consideration of RMB350 million, subject to adjustment. Satcom Guomai will pay the consideration by issuing to us a certain number of its shares with reference to the average trading price for the twenty trading days to April 1, 2011 (inclusive) of RMB14.92 per share, representing around 4.0% of its enlarged share capital. In March 2012, the relevant government approval for the transaction has been obtained, which approval will remain in effect for 12 months. We intend to complete the transaction within such period.

**Organizational Structure**

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 23, 2012:



- 
- (1) Formerly known as China Unicom (Macau) Company Limited.
  - (2) Formerly known as Unicom Huasheng Telecommunications Technology Co., Ltd.
  - (3) Formerly known as Bestpay Co., Ltd.
  - (4) We have agreed to sell our 100.0% equity interest in this company to Satcom Guomai. See “Item 4-Information on the Company—A. History and Development of the Company – Our Proposed Sale of Beststone E-Commerce 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](http://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 2011, facing a complex economic situation and increasing market competition, we continued to pursue the strategy of differentiation, integration and innovation to achieve the scale development of our full-service operations. By taking advantage of the opportunities created by the rapid development of 3G services, smartphones and wireless Internet access services in 2011, we have further developed our high-growth services such as mobile, wireline broadband, and wireline integrated information application services. We have maintained the high growth rate of our mobile services and further solidified the competitive advantage of our broadband services. While continuing to optimize our business structure, we have effectively managed the risks related to our declining wireline voice services. Focusing on 3G services, we continued to improve our wireless Internet access services in 2011. We will continue the scale development of our business through innovation and quality services.

### 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,		
	2009	2010	2011
<b>Wireline Voice Services:</b>			
Local wireline access lines in service (in millions)	188.6	175.1	169.6
Residential	112.2	110.2	108.0
Government and enterprises	32.1	34.0	36.8
Public telephones	15.1	14.5	13.9
Wireless local access	29.2	16.4	10.9
Wireline local voice usage (in billion pulses) <sup>(1)</sup>	320.6	251.4	206.4
Domestic long distance wireline usage (in billion minutes) <sup>(2)</sup>	83.9	68.5	52.9
International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes) <sup>(3)</sup>	1.2	1.2	1.1
<b>Mobile Voice Services:</b>			
Mobile subscribers (in millions)	56.1	90.5	126.5
Mobile voice usage (in billion minutes)	155.4	295.9	407.8
<b>Internet Access Services:</b>			
Wireline broadband subscribers (in millions)	53.5	63.5	76.8
<b>Value-added Services</b>			
Mobile SMS Usage (in billion messages)	15.1	33.1	49.9
Mobile Color Ring Tone subscribers (in millions)	32.6	54.2	75.4
Wireline caller ID service subscribers (in millions)	128.5	119.0	115.6
Wireline Color Ring Tone subscribers (in millions)	74.1	73.9	73.8

(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.

## ***Our Products and Services***

### ***Wireline Voice Services***

The total number of wireline telephone subscribers decreased to 169.6 million as of December 31, 2011 from 175.1 million as of December 31, 2010. As of December 31, 2011, we had less than 11 million PHS subscribers which contributed to 0.8% of our operating revenues in 2011.

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 17.9% from 251.4 billion pulses in 2010 to 206.4 billion pulses in 2011. Total domestic long distance wireline usage was 52,937 million minutes in 2011, representing a decrease of approximately 22.8% from 68,544 million minutes in 2010. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2011 was 1,130 million minutes, representing a decrease of approximately 6.4% from 1,207 million minutes in 2010.

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 2011 compared to 2010 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 2011, we continued to experience rapid growth in our mobile services. In 2011, the number of subscribers of our mobile services increased by 36.0 million to 126.5 million as of December 31, 2011. The number of subscribers of our 3G services increased by 24.0 million to 36.3 million as of December 31, 2011, representing 28.7% of our mobile subscribers. The mobile voice usage increased to 407.8 billion minutes in 2011 from 295.9 billion minutes in 2010.

In 2011, 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 March 2012, we began to offer iPhone 4S and launched related marketing initiatives, which are expected to benefit our long term growth but may have an adverse effect on our profitability in the short term.

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 2011, we launched 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, 2011, we provided 8Mbps broadband access in substantially all of our service regions. The number of our wireline broadband subscribers increased by 21.0% from 63.5 million as of December 31, 2010 to 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. As of December 31, 2011, we have established close to 0.6 million Wi-Fi access points in the PRC, where our customers can have Internet access.

### ***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 products 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 115.6 million as of December 31, 2011, a decrease from 119.0 million as of December 31, 2010. The usage volume of our mobile SMS increased by 50.8% from 33.1 billion messages in 2010 to 49.9 billion messages in 2011. The number of subscribers to our mobile Color Ring Tone services increased to 75.4 million as of December 31, 2011 from 54.2 million as of December 31, 2010.

### ***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 2011, 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 2011, 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.

### ***Other Services***

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

### ***Our Customers and Brand Management***

In 2011, 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. Benefiting from the leading “eSurfing” brand name, we promoted the coordinated development of our other customer-based brands such as “BizNavigator” and “One Home.” We also launched “eSurfing Fly Young” to target the youth market. As of the end of 2011, the number of subscribers of “BizNavigator” increased to approximately 6.1 million, or a 22.1% increase over 2010. The number of our “One Home” subscribers increased to approximately 56.0 million, or a 15.6% increase over 2010.

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 State. 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.

### ***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, 2011, 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.

### ***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 scaled 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 2011, sales in our self-owned business outlets increased primarily due to the adoption of new sales practices and marketing initiatives targeting holidays. Open channel sales continue to grow through cooperation with well-known electronics chain stores, top retail stores and their affiliated stores. In 2011, we gained approximately 58% of our new mobile subscribers through open channel sales, and open channel handset sales accounted for approximately 69% of our total handset sales.

In 2011, 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. In 2011, approximately 60 million CDMA handsets were sold, including approximately 34 million Evolution-Data Optimized handsets. The portfolio of handsets offered was further enriched with price performance factors further enhanced. As of December 31, 2011, over 500 models of 3G handsets 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 system, 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.

### ***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.

We lease CDMA network capacity from China Telecom Group and have the exclusive right to use and operate the CDMA network to provide our CDMA mobile services. We expect to acquire China Telecom Group's CDMA network in 2012, which acquisition, if proposed by our Board of Directors, will be subject to the consideration and approval by our shareholders meeting pursuant to relevant regulatory requirements and corporate governance procedures.

### ***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.
- 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 21.9% of our total amount of annual purchases in 2011. Purchases from our largest supplier of telecommunications equipment accounted for approximately 9.4% of our total amount of annual purchases in 2011.

### ***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.

In May 2010, the PRC State Council issued Several Opinions on Encouraging and Guiding the Healthy Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. 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, 2012, 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.”

## ***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.

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%.
- 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.



### ***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:

<u>Network from Which Calls Originated</u>	<u>Network at Which Calls Terminated</u>	<u>Current Main Settlement Arrangement</u>
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).

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

<u>Network from Which Calls Originated</u>	<u>Network at Which Calls Terminated</u>	<u>Current Main Settlement Arrangement</u>
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:

<u>Network from Which Calls Originated</u>	<u>Network at Which Calls Terminated</u>	<u>Current Main Settlement Arrangement</u>
Domestic wireline local or mobile operator A	Without using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) operator A collects the tariff from the subscribers (2) operator A retains RMB0.06 per minute, and operator B gets the rest of the international long distance tariff.
	Using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) Operator B collects the tariff from the subscribers (2) Operator B pays operator A RMB0.06 per minute
International long distance operator	Operator B through domestic long distance network of operator C and international gateway of domestic operator A	(1) operator A pays not more than RMB0.54 per minute to operator C, operator C pays not more than RMB0.06 per minute to operator B, where operator A and operator C, or operator B and operator C can be the same operator

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

<u>Network from Which Calls Originated</u>	<u>Network at Which Calls Terminated</u>	<u>Current Main Settlement Arrangement</u>
Wireline or mobile network A	Wireline local or mobile operator B 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

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

<u>Network from Which SMS Originated</u>	<u>Network at Which SMS Terminated</u>	<u>Current Main Settlement Arrangement</u>
Wireline or mobile operator A	Wireline or mobile operator B	(1) operator A collects the tariff from its subscribers (2) 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:

<u>Network from Which MMS Originated</u>	<u>Network at Which MMS Terminated</u>	<u>Current Main Settlement Arrangement</u>
Wireline or mobile operator A	Wireline or mobile operator B	(1) operator A collects the tariff from its subscribers (2) 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 2011, we paid approximately RMB104 million of usage fees for the telecommunications network numbers and approximately RMB65 million of frequency usage fees, respectively.

### ***Quality of Service***

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

On March 13, 2005, the MII promulgated the Telecommunications Services Standards. 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. Accordingly, China Telecom Group has initiated "Village to Village" projects. By the end of 2011, China Telecom Group had invested in the construction of network facilities in certain remote villages of 20 provinces and autonomous regions. We have been requested by China Telecom Group to operate and maintain such network facilities from 2006 onwards, and China Telecom Group will compensate us for all the related expenses. We believe the expenses for such operation and maintenance will not have a material effect on our financial condition.

### ***State-Owned Assets Supervision***

Under the PRC Company Law, 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. We are in the process of implementing the second phase of the trial in selected cities. The PRC government may promulgate new regulations or adjust relevant policies corresponding to the implementation of the three-network convergence policy in the future.

### **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.”

### **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.

The selected consolidated financial statements data as of and for the years ended December 31, 2009 and 2010 under this Item 5 was restated to reflect the effect of the change in accounting policies upon the adoption of the amendments to IFRS 1 in 2011. See Note 3 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 Anhui Province, Beijing Municipality, 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.

Following our acquisition of China Telecom System Integration Co., Limited, 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 the mainland PRC and Macau, which were previously operated by China Unicom and launched our 3G services in March 2009.

### ***Financial Overview***

Our operating revenues increased by 11.5%, from RMB219,864 million in 2010 to RMB245,041 million in 2011. The increase was mainly attributable to revenues growth from mobile voice services, Internet access services and other services. Our total operating expenses increased by 12.5%, from RMB196,412 million in 2010 to RMB220,912 million in 2011. 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 increased by 2.9%, from RMB23,452 million in 2010 to RMB24,129 million in 2011. The profit attributable to equity holders of the Company increased from RMB15,347 million in 2010 to RMB16,502 million in 2011.

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,					
	2009		2010		2011	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
(RMB in millions, except percentage data)						
<b>Operating Revenues:</b>						
Wireline voice services <sup>(1)</sup>	78,432	37.5%	62,498	28.4%	49,764	20.3%
Mobile voice services <sup>(2)</sup>	20,027	9.6	28,906	13.1	38,628	15.8
Internet access services <sup>(3)</sup>	51,567	24.6	63,985	29.1	74,992	30.6
Value-added services <sup>(4)</sup>	21,533	10.3	22,571	10.3	25,529	10.4
Integrated information application services <sup>(5)</sup>	12,659	6.0	15,519	7.1	20,473	8.4
Managed data and leased line services <sup>(6)</sup>	11,499	5.5	12,389	5.6	14,273	5.8
Other services <sup>(7)</sup>	12,502	6.0	13,499	6.1	21,284	8.7
Upfront connection fees <sup>(8)</sup>	1,151	0.5	497	0.2	98	0.0
Total operating revenues	<u>209,370</u>	<u>100.0%</u>	<u>219,864</u>	<u>100.0%</u>	<u>245,041</u>	<u>100.0%</u>

- (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 broadband 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.

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,					
	2009 (restated)		2010 (restated)		2011	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
(RMB in millions, except percentage data)						
<b>Operating Expenses:</b>						
Depreciation and amortization	52,784	25.2%	52,215	23.7%	51,224	20.9%
Network operations and support expenses <sup>(1)(2)</sup>	43,721	20.9	47,432	21.6	52,912	21.6
Selling, general and administrative expenses <sup>(1)</sup>	40,507	19.3	42,130	19.2	48,741	19.9
Personnel expenses	32,857	15.7	35,529	16.2	39,167	16.0
Other operating expenses	17,449	8.3	19,106	8.7	28,868	11.8
Total operating expenses	<u>187,318</u>	<u>89.5%</u>	<u>196,412</u>	<u>89.3%</u>	<u>220,912</u>	<u>90.2%</u>

- (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,					
	2009 (restated)		2010 (restated)		2011	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)					
Operating revenues	209,370	100.0%	219,864	100.0%	245,041	100.0%
Operating expenses	187,318	89.5%	196,412	89.3%	220,912	90.2%
Operating income	22,052	10.5%	23,452	10.7%	24,129	9.8%
Profit attributable to equity holders of the Company	13,983	6.7%	15,347	7.0%	16,502	6.7%
Net cash from operating activities	74,988	—	75,571	—	73,006	—

### **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 2 to our consolidated financial statements included elsewhere in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

#### **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.

	<u>Depreciable lives primarily range from</u>
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, 2008, an impairment loss on property, plant, and equipment of RMB24,167 million was recognized, which primarily represented an impairment loss on PHS specific equipment of RMB23,954 million. The primary factor causing the impairment loss was lower revenues expected to be generated from this equipment following our acquisition of the CDMA Business in 2008. For the year ended December 31, 2009, an impairment loss on property, plant, and equipment of RMB753 million was primarily recognized on DDN specific equipment. This was mainly due to the decrease in customer demand for DDN services and its technology being gradually substituted by other technologies, resulting in a significant decrease in the revenues generated from DDN specific equipment. 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 year ended December 31, 2011, no provision for impairment loss was made against the carrying value of property, plant and equipment.

#### ***Revenues Recognition for Upfront Connection and Installation Fees***

We defer the recognition of upfront fees for activation of wireline services and wireline installation fees and amortize them over the expected customer relationship period of ten years. The related direct incremental customer acquisition costs (including direct costs of installation) are also deferred and amortized over the same expected customer relationship period. We estimate the expected customer relationship period based on our historical customer retention experience and factoring in the expected level of future competition, the risk of technological or functional obsolescence to our services, technological innovation, and the expected changes in the regulatory and social environment. If our estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of our deferred revenues would change for future periods. There have been no changes to the estimated customer relationship period in any of the three years ended December 31, 2011.

#### ***Impairment Losses for Bad and Doubtful Debts***

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

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

The following table summarizes the changes in the provision for impairment losses for bad and doubtful debts for each of the years in the three-year period ended December 31, 2011:

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	(RMB in millions)		
At beginning of year	2,118	2,073	2,024
Allowance for doubtful debts	1,787	1,567	1,383
Accounts receivable written off	<u>(1,832)</u>	<u>(1,616)</u>	<u>(1,465)</u>
At end of year	<u>2,073</u>	<u>2,024</u>	<u>1,942</u>

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

Up to the date of issue of our 2011 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, 2011:

	<b>Effective for accounting period beginning on or after</b>
Amendments to IFRS 1, “First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	July 1, 2011
Amendments to IFRS 7, “Financial instruments: Disclosures — Transfers of Financial Assets”	July 1, 2011
Amendments to IAS 12, “Income taxes - Deferred Tax: Recovery of Underlying Assets”	January 1, 2012
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
Amendments to IAS32, “Financial instruments: Presentation — Offsetting financial assets and financial liabilities”	January 1, 2014
IFRS 9, “Financial Instruments”	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, 2011. 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 results of operations.

## A. Operating Results

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

#### *Operating Revenues*

Our operating revenues increased by RMB25,177 million, or 11.5%, from RMB219,864 million in 2010 to RMB245,041 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.

*Value-Added Services.* Revenues from our value-added services increased by 13.1% from RMB22,571 million in 2010 to RMB25,529 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 informatisation.

*Other Services.* Revenues from other services increased by 57.7%, from RMB13,499 million in 2010 to RMB21,284 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 RMB14,453 million, representing an increase of 132.0% from RMB6,231 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 RMB196,412 million in 2010 to RMB220,912 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 RMB52,215 million in 2010 to RMB51,224 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 RMB47,432 million in 2010 to RMB52,912 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 RMB42,130 million in 2010 to RMB48,741 million in 2011. The increase was primarily due to the increased marketing expenditure for our mobile services and broadband services.

*Personnel Expenses.* Personnel expenses increased by 10.2%, from RMB35,529 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.

*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 RMB28,868 million in 2011, increased by 51.1% from RMB19,106 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 25 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 RMB16,502 million in 2011, with a net margin of 6.7%, compared to profit attributable to equity holders of the Company of RMB15,347 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.”

#### ***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

##### ***Operating Revenues***

Our operating revenues grew by RMB10,494 million, or 5.0%, from RMB209,370 million in 2009 to RMB219,864 million in 2010. 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 20.3%, from RMB78,432 million in 2009 to RMB62,498 million in 2010. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communication, such as VoIP, which continued to divert revenues from wireline voice services, as well as a decrease in revenues from our PHS services. Revenues from our wireline voice services accounted for 28.4% of our operating revenues in 2010, compared to 37.5% in 2009.

*Mobile Voice Services.* Revenues from our mobile voice services increased by 44.3%, from RMB20,027 million in 2009 to RMB28,906 million in 2010, representing 13.1% of our operating revenues in 2010, compare to 9.6% in 2009. This increase was primarily due to the rapid expansion of our mobile services subscriber base. The number of our mobile services subscribers increased to 90.5 million as of December 31, 2010, representing an increase of 61.4% from 56.1 million as of December 31, 2009.

*Internet Access Services.* Revenues from our Internet access services increased by 24.1% from RMB51,567 million in 2009 to RMB63,985 million in 2010, representing 29.1% 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 63.5 million as of December 31, 2010, representing an increase of 10.0 million or, 18.7%, from 53.5 million as of December 31, 2009. The revenues attributable to mobile Internet access services in 2010 was RMB9,020 million, representing an increase of 139.9% from RMB3,760 million in 2009.

*Value-Added Services.* Revenues from our value-added services increased by 4.8% from RMB21,533 million in 2009 to RMB22,571 million in 2010, representing 10.3% of our operating revenues in 2010. 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 2010 was RMB7,858 million, compared to RMB5,602 million in 2009.

*Integrated Information Application Services.* Revenues from our integrated information application services increased by 22.6% from RMB12,659 million in 2009 to RMB15,519 million in 2010, representing 7.1% of our operating revenues in 2010. 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 2010 was RMB1,920 million, representing an increase of 216.3% from RMB607 million in 2009.

*Managed Data and Leased Line Services.* Revenues from our managed data and leased line services increased by 7.7%, from RMB11,499 million in 2009 to RMB12,389 million in 2010, representing 5.6% of our operating revenues in 2010. This increase was primarily due to the increasing revenues in leased circuits services, the IP-VPN services, and leased equipment for system integration and Mega-Eye services, driven by the increasing demand from customers for network resources and informatisation.

*Other Services.* Revenues from other services increased by 8.0%, from RMB12,502 million in 2009 to RMB13,499 million in 2010. The increase in revenues from other services was primarily due to the increase in sales of mobile terminal equipment and system integration equipment. The revenues attributable to other mobile services in 2010 was RMB6,231 million, representing an increase of 10.9% from RMB5,617 million in 2009.

*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. Consequently, the amortized amount decreased by 56.8%, from RMB1,151 million in 2009 to RMB497 million in 2010. We expect the remaining upfront connection fee of RMB98 million to be fully amortized in 2011.

### ***Operating Expenses***

Total operating expenses increased by 4.9%, from RMB187,318 million in 2009 to RMB196,412 million in 2010. The total operating expenses included impairment losses on property, plant and equipment of RMB753 million and RMB139 million recognized in 2009 and 2010, respectively. The increase in operating expenses was primarily due to increased network operations and support expenses, selling, general and administrative, personnel expenses as well as other operating expenses.

*Depreciation and Amortization.* Our depreciation and amortization expenses decreased by 1.1%, from RMB52,784 million in 2009 to RMB52,215 million in 2010, mainly due to our continuous stringent control of capital expenditure in 2010. The depreciation and amortization expenses as a percentage of our operating revenues decreased from 25.2% in 2009 to 23.7% in 2010.

*Network Operations and Support Expenses.* Our network operations and support expenses, which included impairment losses on property, plant and equipment, increased by 8.5%, from RMB43,721 million in 2009 to RMB47,432 million in 2010, which was primarily attributable to the increased CDMA network capacity lease fees and the increased expenditure in network maintenance and our Transformation Business. Our CDMA network capacity lease fee increased by 58.9% from RMB8,383 million in 2009 to RMB13,320 million in 2010, corresponding to the increase in our mobile service revenues during that period.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 4.0% to RMB42,130 million in 2010 from RMB40,507 million in 2009. The increase was primarily due to the increased expenditure in marketing and in expanding distribution channels for our mobile services, partially offset by a decrease in general and administrative expenses due to our effective cost control.

*Personnel Expenses.* Personnel expenses increased by 8.1%, from RMB32,857 million in 2009 to RMB35,529 million in 2010. This increase was primarily attributable to the enhancement of our performance-based incentive schemes of the frontline employees.

*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 RMB19,106 million in 2010, increased by 9.5% from RMB17,449 million in 2009, which was primarily attributable to an increase in expenses incurred in connection with the mobile interconnection settlement for mobile services. Our expenses incurred in mobile the interconnection settlement for mobile services were RMB5,821 million in 2010, representing an increase of 67.9% from RMB3,467 million in 2009, primarily due to the growth of our mobile services during that period.

#### ***Net Finance Costs***

In 2010, our net finance costs decreased by 17.7% from RMB4,375 million in 2009 to RMB3,600 million in 2010. Our interest expense decreased by 19.7 %, or RMB929 million, from RMB4,724 million in 2009 to RMB3,795 million in 2010. The decreases were mainly due to our increased repayment of the bank loans and other loans in 2010.

The net exchange loss was RMB92 million in 2010, while the net exchange gain was RMB67 million in 2009, which was mainly due to the depreciation of RMB against the Japanese Yen in 2010. According to the exchange rates published by the People's Bank of China on December 31, 2010, the exchange rate of Renminbi depreciated by 10.1% against the Japanese Yen from December 31, 2009.

#### ***Income Tax***

In 2010, our income tax expense was RMB4,846 million with an effective tax rate of 23.9%. Our expected income tax expense at our statutory tax rate of 25.0% in 2010 would be RMB5,078 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the exclusion of the upfront connection fees from taxable revenues and the preferential income tax rate of 22.0% or 15.0% applied to some of our branches located in special economic zones and in the western region of the PRC. See Note 25 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%.

Based on a tax notice issued by the State Council on December 26, 2007, the applicable tax rate for entities operating in the western region of the PRC which were granted a preferential tax rate of 15.0% from 2004 to 2010, such as some branches of ours, remains at 15.0% in 2008, 2009 and 2010 and will be increased to 25.0% from January 1, 2011.

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

As a result of foregoing, the profit attributable to equity holders of the Company was RMB15,347 million in 2010, with a net margin of 7.0%, compared to profit attributable to equity holders of the Company of RMB13,983 million with a net margin of 6.7% in 2009.

#### ***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,		
	2009	2010	2011
	(RMB in millions)		
Net cash generated from operating activities	74,988	75,571	73,006
Net cash used in investing activities	(43,255)	(45,734)	(43,637)
Net cash used in financing activities	(24,793)	(38,771)	(27,720)
Increase/(decrease) in cash and cash equivalents	6,940	(8,934)	1,649

Cash and cash equivalents increased by 6.0%, from RMB25,824 million as of December 31, 2010, of which 91.2% was denominated in RMB to RMB27,372 million as of December 31, 2011, of which 94.4% was denominated in RMB. Our net cash inflow was RMB1,649 million in 2011, as compared with a net cash outflow of RMB8,934 million in 2010.

Our principal source of liquidity is cash generated from operating activities, which was RMB73,006 million in 2011, a decrease of RMB2,565 million from RMB75,571 million in 2010.

Net cash used in investing activities decreased by RMB2,097 million from RMB45,734 million in 2010 to RMB43,637 million in 2011 primarily as a result of an increase in proceeds from the disposal of assets compared to 2010, and the payment of purchase price for the CDMA business of RMB5,374 million in 2010, which was partially offset by increased capital expenditure.

Net cash used in financing activities was RMB27,720 million in 2011 compared to RMB38,771 million net cash used in financing activities in 2010. This decrease in cash outflow was primarily due to our decreased repayment of bank loans and other loans in 2011.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB67,682 million as of December 31, 2011, compared to a deficit of RMB71,678 million as of December 31, 2010.

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 2012. 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, 2011, we had available credit facilities of RMB118,970 million with major domestic commercial banks, from which we can draw upon. We intend to fund our planned acquisition of China Telecom Group's CDMA network in 2012, if consummated, by means to be determined by taking into account our liquidity needs, the condition of the capital markets and other relevant factors, and in the interest of the Company and our shareholders.

### *Indebtedness*

Our indebtedness as of the dates indicated was as follows:

	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Short-term debt	51,650	20,675	9,187
Current portion of long-term debt	1,487	10,352	11,766
Current portion of finance lease obligations	18	—	—
Long-term debt, excluding current portion	52,768	42,549	31,150
Total debt	105,923	73,576	52,103



Our short-term debt constituted 17.6% of our total debt as of December 31, 2011. The weighted average interest rate of our short-term debt was 5.9% as of December 31, 2011, representing an increase of 1.6 percentage points from that as of December 31, 2010.

Our total debt decreased by RMB21,473 million from RMB73,576 million as of December 31, 2010 to RMB52,103 million as of December 31, 2011, primarily due to our repayment of a portion of bank loans and other debts. Our debt-to-asset ratio (total debt divided by total assets) decreased from 17.5% in 2010 to 12.4% in 2011. We believe that our Company has maintained a solid capital structure.

Our long-term debt (including current portion) decreased from RMB52,901 million as of December 31, 2010 to RMB42,916 million as of December 31, 2011. In addition, our short-term debt decreased from RMB20,675 million as of December 31, 2010 to RMB9,187 million as of December 31, 2011.

Of our total debt as of December 31, 2011, 94.7%, 3.1%, 1.3% and 0.9% 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, 2011 may differ from the amounts indicated below.

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(RMB in millions)		
Total capital expenditure	43,037	49,551	54,000

In 2011, 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 2011, our capital expenditure was RMB49,551 million, an increase of 15.1% from RMB43,037 million in 2010.

Our capital expenditure for 2012 is projected to be approximately RMB54,000 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.

### ***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, 2011, we did not have any off-balance sheet arrangements or guarantees.

#### F. Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2011:

	Payable in						After 2016
	Total	2012	2013	2014	2015	2016	
			(RMB in millions)				
<b>Contractual Obligations<sup>(1)</sup>:</b>							
Short-term debt	9,187	9,187	—	—	—	—	—
Long-term debt	42,916	11,766	10,188	20,049	89	89	735
Interest payable	4,375	1,951	1,404	970	7	7	36
Operating lease commitments	21,103	18,182	782	600	413	450	676
Capital commitments	6,369	6,369	—	—	—	—	—
Total contractual obligations	<u>83,950</u>	<u>47,455</u>	<u>12,374</u>	<u>21,619</u>	<u>509</u>	<u>546</u>	<u>1,447</u>

(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. On May 20, 2011, election of new members and re-election of current members of the Board of Directors was conducted which resulted in the fourth session of the Board of Directors, 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.

Effective as of July 13, 2011, Mr. Shang Bin resigned from his positions as an Executive Director, the President and the Chief Operating Officer of our Company. Effective as of March 20, 2012, Mr. Zhang Chenshuang retired from his positions as an Executive Director and Executive Vice President of our Company. The Board of Directors has appointed Mr. Ke Ruiwen as an Executive Vice President of our Company effective as of March 20, 2012, and proposed that he be appointed as an Executive Director of our Company subject to approval at the shareholders’ meeting. Our Board of Directors currently consists of 12 directors with six Executive Directors, one Non-Executive Director, 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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Wang Xiaochu	54	Chairman of the Board of Directors and Chief Executive Officer
Yang Jie	50	Executive Director, President and Chief Operating Officer
Wu Andi	57	Executive Director, Executive Vice President and Chief Financial Officer
Zhang Jiping	56	Executive Director and Executive Vice President
Li Ping	58	Executive Vice President
Yang Xiaowei	48	Executive Director and Executive Vice President
Sun Kangmin	55	Executive Director and Executive Vice President
Ke Ruiwen	49	Executive Vice President
Li Jinming	60	Non-Executive Director
Wu Jichuan	74	Independent Non-Executive Director
Qin Xiao	64	Independent Non-Executive Director
Tse Hau Yin, Aloysius	64	Independent Non-Executive Director
Cha May Lung, Laura	62	Independent Non-Executive Director
Xu Erming	62	Independent Non-Executive Director
Yung Shun Loy, Jacky	49	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary
Gao Jinxing	49	Financial Controller

*Wang Xiaochu*, age 54, is the Chairman of the Board of Directors and Chief Executive Officer of our Company. He 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 Group, President of China Telecommunications Corporation, and Chairman and Non-Executive Director of China Communications Services Corporation Limited. He is also the Chairman of China Telecommunications Corporation and the 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 50, is an Executive Director of our Company and has been the President and Chief Operating Officer of our Company since November 2, 2011. He is a professor-level senior engineer. He graduated from 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 28 years of operational and managerial experience in the PRC telecommunications industry.

*Wu Andi*, age 57, is an Executive Director, Executive Vice President and 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, 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. Ms. Wu has 30 years of economic and financial management experience in the telecommunications industry in the PRC.

*Zhang Jiping*, age 56, 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 Telecommunications Technology Center of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has 30 years of experience in network operation and management in the telecommunications industry in the PRC.

*Li Ping*, age 58, 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 an 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 36 years of operational and managerial experience in the telecommunications industry in the PRC.

*Yang Xiaowei*, age 48, 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 and Deputy Director of Chongqing Telecommunications Bureau, a Deputy Director of the Chongqing Telecommunications Administration Bureau and a Director of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the China United Telecommunications Corporation, Vice President of the China United Telecommunications Corporation, Director of China United Telecommunications Corporation 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 55, is an Executive Director and Executive Vice President of our Company. He 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 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 28 years of operational and managerial experience in the telecommunications industry in the PRC.

*Ke Ruiwen*, age 49, is an Executive Vice President of the Company. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation. Mr. Ke has 26 years of operational and managerial experience in the telecommunications industry in China.

*Li Jinming*, age 60, is a Non-Executive Director of our Company, Chairman of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company) and Chairman of Shenzhen Zhongjin Lingnan Nonfemet Company Limited. Mr. Li graduated from Guangdong Radio and TV University, and holds an EMBA degree from Lingnan College, Zhong Shan University after the completion of his study in the postgraduate program of international economics and industrial commerce management. Mr. Li served as Chief and Deputy Director General of the Guangdong Provincial Discipline Inspection Commission, and Director and Deputy General Manager of Guangdong Rising Assets Management Co., Ltd. Mr. Li has extensive experience in enterprise management.

*Wu Jichuan*, age 74, is an Independent Non-Executive Director of our Company. He is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Telecommunications and Economics Specialists Committee, 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 PRC 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 Subcommittee of Education, Science, Culture, Health and Sports of the Tenth National People's Congress.

*Qin Xiao*, age 64, is an Independent Non-Executive Director of our Company. He has a 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. Mr. Qin is a member of the Eleventh Chinese People's Political Consultative Conference and 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. 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. Mr. Qin was a deputy to the Ninth National People's Congress, a member of the Tenth 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. Mr. Qin 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.

*Tse Hau Yin, Aloysius*, age 64, is an Independent Non-Executive Director of the Company. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Wing Hang Bank Limited, Linmark Group Limited, Sinofert Holdings Limited and SJM 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. Mr. Tse is a former president and a current member of the Audit Committee of the Hong Kong Institute of Certified Public Accountants. 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 62, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the Eleventh National People's Congress of the PRC, a Member of the Standing Committee of the Chinese People's Political Consultative Conference Shanghai Committee, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission, and a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region. 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 also an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited and Tata Consultancy Services Limited. She is member of the Banking & Capital Markets Industry Agenda Council 2011 of the World Economic Forum and a member of the Yale School of Management Board of Advisors. Mrs. Cha served as a Vice Chairwoman of the China Securities Regulatory Commission from January 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director and Deputy Chairwoman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University in 1982.

*Xu Erming*, age 62, is an Independent Non-Executive Director of our Company. He is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, Deputy Secretary-General of the Tenth Session of the Academic Committee, and 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, Vice Chairman of the Chinese Enterprise Management Research Association, and Chairman of Beijing Contemporary Enterprise 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). Professor Xu has conducted research in the areas of strategic management, organizational theories, international management and education management. He has completed numerous research projects sponsored by the PRC National Natural Science Foundation, the PRC National Social Science Foundation and other institutions in the PRC. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award and the State-Level Class Two Teaching 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. He 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 Hong Kong Polytechnic University.

*Yung Shun Loy, Jacky*, age 49, is the Assistant Chief Financial Officer, Qualified Accountant and 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, and acting as company secretary and senior financial management member of listed companies.

*Gao Jinxing*, age 49, is the Financial Controller of the 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, and 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. At the annual general meeting held on May 20, 2011, the shareholders of the Company approved the expansion of our supervisory committee by one member to six Supervisors. One member of our supervisory committee must be an employee representative elected by our employees. The remaining members must be 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. On May 20, 2011, Mr. Mao Shejun replaced Mr. Ma Yuzhu as the employee representative Supervisor of the Company, and Mr. Du Zuguo was appointed at the annual general meeting as a Supervisor of the Company.

The following table sets forth certain information concerning our Supervisors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Miao Jianhua	60	Chairman of the Supervisory Committee
Zhu Lihao	71	Independent Supervisor
Mao Shejun	58	Supervisor (Employee Representative)
Xu Cailiao	48	Supervisor
Han Fang	39	Supervisor
Du Zuguo	49	Supervisor

*Miao Jianhua*, age 60, is Chairman of the Supervisory Committee of our Company. He is the head of the Discipline Inspection Division of China Telecom Group. Mr. Miao obtained a master's degree in management from the Australian National University. Mr. Miao held senior positions at the former Jilin Provincial Administration of Posts and Telecommunications and served as a Director of the Inspection Bureau of the former MPT and the MII. Mr. Miao also served as the General Manager of the Human Resources Department of China Network Communications Group Corporation and China Netcom Group Corporation (Hong Kong) Limited, Assistant to President of China Network Communications Group Corporation, Executive Director and the Joint Company Secretary of China Netcom Group Corporation (Hong Kong) Limited, the head of the Discipline Inspection Division and the Chairman of the union of China United Telecommunications Corporation, Executive Director of China Unicom Limited and Chairman of the Supervisory Committee of China United Telecommunications Corporation Limited. Mr. Miao is a senior economist and has extensive management experience in working for the government and enterprises in the PRC.

*Zhu Lihao*, age 71, 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, Director and Deputy 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 58, has been an Employee Representative Supervisor of the Supervisory Committee of our Company since May 20, 2011. Mr. Mao is currently the Vice Chairman of the Labour Unions of our Company and China Telecom Group. Mr. Mao holds a master's degree in management from the Australian National University. Mr. Ma 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.

*Xu Cailiao*, age 48, is a Supervisor of the Supervisory Committee of our Company. Mr. Xu is a senior manager of the Sideline Industrial Management Department of China Telecom Group. He is also a Director of Strategic Marketing (Domestic) Department of China Communications Services Corporation Limited. He graduated from the Law School of Peking University with a master's degree in law in 1987. He served as a Director of the State Commission for Economic Restructuring, Managing Director of the Hong Kong branch of Irico Group and Director of the Corporate Strategy Department of the Company. He was qualified to practice law in China in 1988. Mr. Xu is highly experienced in respect of corporate governance, organizational development and process management.

*Han Fang*, age 39, is a Supervisor of the Supervisory Committee of our Company. Ms. Han is a Vice President of China Telecom (Hong Kong) International Ltd. Ms. Han graduated from Beijing University of Posts and Telecommunications with a bachelor's degree in engineering management in 1995. She obtained a master's degree in business administration from the Norwegian School of Management in 2007. She worked in finance-related areas when serving in the China Huaxin Post and Telecommunications Economy Development Centre and the audit department of China Telecom Group. Ms. Han is an international internal auditor, a qualified accountant in the PRC and a senior accountant and has 17 years of finance and audit experience.

*Du Zuguo*, age 49, has been a Supervisor of the Supervisory Committee of our Company since May 20, 2011. Mr. Du is a senior economist. He is the General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of our Company), Chairman and Chief Executive Officer of Zhejiang venture capital fund of funds management Co., Ltd., and Chairman of Zhejiang SME Re-guarantee Co., Ltd. Mr. Du served as Section Chief, Deputy Director General and Director General of Zhoushan Finance and Local Tax Bureau in Zhejiang province. Mr. Du is a Chinese Communist Party 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, 2011 was approximately RMB16.9 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					
<b>2011</b>						
<i>Executive Directors</i>						
Wang Xiaochu	—	350	339	1,400	60	2,149
Shang Bing <sup>(1)</sup>	—	237	227	—	50	514
Yang Jie	—	311	305	1,120	52	1,788
Wu Andi	—	304	305	1,120	53	1,782
Zhang Jiping	—	304	305	1,120	52	1,781
Zhang Chenshuang <sup>(2)</sup>	—	304	305	—	53	662
Yang Xiaowei	—	304	305	—	52	661
Sun Kangmin	—	304	305	1,120	52	1,781
<i>Non-Executive Directors</i>						
Li Jinming	—	—	—	—	—	—
<i>Independent Non-Executive Directors</i>						
Wu Jichuan	176	—	—	—	—	176
Qin Xiao	178	—	—	—	—	178
Tse Hau Yin	405	—	—	—	—	405
Cha May Lung	184	—	—	—	—	184
Xu Erming	176	—	—	—	—	176
<i>Supervisors</i>						
Miao Jianhua	—	304	305	—	53	662
Ma Yuzhu <sup>(3)</sup>	—	69	319	—	27	415
Mao Shejun <sup>(3)</sup>	—	166	450	933	53	1,602
Xu Cailiao	—	93	307	513	43	956
Han Fang	—	92	302	513	42	949
Du Zuguo <sup>(3)</sup>	—	—	—	—	—	—
<i>Independent Supervisor</i>						
Zhu Lihao	88	—	—	—	—	88
Total	<u>1,207</u>	<u>3,142</u>	<u>4,079</u>	<u>7,839</u>	<u>642</u>	<u>16,909</u>

(1) Mr. Shang Bing resigned as an executive director of the Company, effective July 13, 2011.

(2) Mr. Zhang Chenshuang retired as an executive director of the Company, effective March 20, 2012.

(3) On May 20, 2011, Mr. Mao Shejun replaced Mr. Ma Yuzhu as the employee representative supervisor of the Company, and Mr. Du Zuguo was appointed as a supervisor of the Company.

### Discretionary Bonuses for Executive Directors

Compensation of our Executive Directors is determined pursuant to our director compensation plans thereof approved and adopted in 2008 and 2011 by the Board of Directors and the Remuneration Committee. Under the director compensation plan, Executive Directors receive discretionary bonuses subject to achievement of certain performance targets. The amounts of discretionary bonuses are reviewed and determined annually, with reference to certain financial indicators of the preceding year. Independent directors and non-executive directors do not receive any discretionary bonus.



### ***Discretionary Bonuses for Employee Supervisors***

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

### ***Stock Appreciation Rights***

We implemented a plan of stock appreciation rights for members of our 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 March 2003, we approved the granting of 276.5 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from date of grant and an exercise price of HK\$1.48 per unit. A recipient of these 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 25.0%, 50.0%, 75.0% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

In April 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 will have 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 January 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 will have 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.

During the years ended December 31, 2009, 2010 and 2011, 0.2 million, 483 million and 412 million stock appreciation right units were exercised, respectively.

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, 2009, compensation expense recognized in respect of stock appreciation rights was RMB56 million. 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.

## **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 new members and re-election of current members of the Board of Directors were conducted and this election generated the fourth session of the Board of Directors consisting of 14 directors with eight executive directors, one non-executive director, and five independent non-executive directors, each having a period of office of three years. The term of the fourth session of the Board of Directors ends on the day of our annual general meeting in 2014, upon which the fifth session of the Board of Directors will be elected. None of the service contracts with our directors provide benefits to them upon termination.

Effective as of July 13, 2011, Mr. Shang Bin resigned from his position as an executive director, the President and the Chief Operating Officer of our Company. Effective as of March 20, 2012, Mr. Zhang Chenshuang retired from his position as an executive director and Executive Vice President of our Company. The Board of Directors has appointed Mr. Ke Ruiwen as an executive vice president of our Company effective as of March 20, 2012, and proposed he be appointed as an executive director of our Company subject to approval at the shareholders' meeting. Our Board of Directors currently consists of 12 directors with six executive directors, one non-executive director, 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, Mr. Qin Xiao and Mr. Xu Erming. They are all independent non-executive directors. The Audit Committee is accountable to the Board of Directors and reports to it periodically. The Committee meets at least twice each year. The Charter of the Audit Committee was approved by our Board of Directors 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 2011, 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.

### ***Remuneration Committee***

The Remuneration Committee was established in 2003, and currently consists of four members, Mr. Xu Erming, Mr. Wu Jichuan, Mr. Qin Xiao and Mr. Tse Hau Yin, Aloysius, all of whom are independent non-executive directors. The Remuneration Committee is accountable to the Board of Directors 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 of Directors 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 of Directors 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 one meeting in 2011.

#### ***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 Mr. Xu Erming, all of whom are Independent Non-Executive Directors. The Nomination Committee is accountable to the Board of Directors 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 of Directors 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 one meeting in 2011.

#### ***Independent Director Committee***

The Independent Director Committee consists of all Independent Non-Executive Directors. Meetings of the Independent Director 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 Director Committee did not hold any meeting in 2011 as there was no renewal of any related party transactions agreement which needs to be reviewed.

### **D. Employees**

#### ***General***

As of December 31, 2011, we had 309,799 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2009, 2010 and 2011:

	As of December 31,					
	2009		2010		2011	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Management, finance and administrative	50,206	16.1%	49,124	15.7%	49,455	16.0%
Sales and marketing	160,780	51.4	161,569	51.8	159,374	51.4
Operations and maintenance	99,904	32.0	99,704	31.9	98,801	31.9
Others	1,630	0.5	1,925	0.6	2,169	0.7
<b>Total</b>	<b>312,520</b>	<b>100.0%</b>	<b>312,322</b>	<b>100.0%</b>	<b>309,799</b>	<b>100.0%</b>

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 senior engineers). 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, 2011, 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, 2011, none of our directors, supervisors or other senior executives was a legal or beneficial owner of any shares of our share capital.

## Item 7. Major Shareholders and Related Party Transactions.

### A. Major Shareholders

The table below sets forth information regarding the ownership of our share capital as of April 23, 2012 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

<u>Title of Shares</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Percentage of the Respective Type of Shares</u>	<u>Percentage of Total Shares</u>
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.	2,787,807,757 <sup>(1)</sup>	20.09%	3.44%
H shares	RFS Holdings B.V.	2,087,518,664 <sup>(2)</sup>	15.04%	2.58%
H shares	BlackRock, Inc.	1,273,370,613 <sup>(3)</sup>	9.18%	1.57%
H shares	Commonwealth Bank of Australia	1,117,484,681	8.05%	1.38%

(1) Includes (i) 1,627,739,289 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 11.73% of the total number of H shares and 2.01% of the total number of all outstanding shares; (ii) 12,741,386 shares held by JPMorgan Chase & Co. in short position, or Short Position, as defined under the SFO, representing 0.09% of the total number of H shares and 0.02% of the total number of all outstanding shares; and (iii) 1,147,327,082 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 8.27% of the total number of H shares and 1.42% of the total number of all outstanding shares.

(2) Includes (i) 907,191,530 shares held by RFS Holdings B.V. in Long Position, representing 6.54% of the total number of H shares and 1.12% of the total number of all outstanding shares, and (ii) 1,180,327,134 shares held by RFS Holdings B.V. in Short Position, representing 8.51% of the total number of H shares and 1.46% of the total number of all outstanding shares.

(3) Includes (i) 1,181,412,010 shares held by BlackRock, Inc. in Long Position, representing 8.51% of the total number of H Shares and 1.46% of the total number of all outstanding shares, and (ii) 91,958,603 shares held by BlackRocks, Inc. in Short Position, representing 0.66% of the total number of H Shares and 0.11% 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. RFS Holdings B.V. is located at Strawinskylaan 3105, 1077 ZX, Amsterdam, the Netherlands. BlackRock, Inc. is located at 40 East 52nd Street, New York 10022, U.S.A. Commonwealth Bank of Australia is located at Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW, Australia.

Based solely on information contained in an Amendment No.4 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the U.S. Securities Exchange Commission, or SEC, on February 9, 2012 by Franklin Resources, Inc., or FRI, Charles B. Johnson and Rupert H. Johnson, Jr., 1,135,952,545 H shares of our Company, or the FRI Shares, representing approximately 8.2% of the total number of our H shares outstanding as of December 31, 2011, 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 9, 2012.

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

## **B. Related Party Transactions**

As of April 23, 2012, 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, and our acquisition of the CDMA Business in 2008, 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, CDMA network capacity leasing and other services.

Our independent non-executive directors have confirmed that all connected transactions for the year ended December 31, 2011 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
- 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 the 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, 2011:

<b>Transactions</b>	<b>Transaction Amounts (RMB millions)</b>
Net transaction amount of centralized services	625
Net expenses for interconnection settlement	450
Lease of property from China Telecom Group	373
Lease of property to China Telecom Group	39
Provision of IT services by China Telecom Group	692
Provision of IT services to China Telecom Group	365
Provision of supplies procurement services by China Telecom Group	2,764
Provision of supplies procurement services to China Telecom Group	1,642
Provision of engineering services by China Telecom Group	8,293
Provision of community services by China Telecom Group	2,362
Provision of ancillary telecommunications services by China Telecom Group	7,878
Lease of CDMA network capacity from China Telecom Group <sup>(1)</sup>	15,860
Lease of optic fibers from China Telecom Group	61

(1) Net off the capacity maintenance related costs of CDMA network payable to the Company by China Telecommunications Corporation amounted to RMB3,151 million.

### ***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. 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, the annual utilization fee and related service cost shall be determined on a pro rata basis according to the actual utilization each year. When both parties use the international telecommunications facilities of China Telecommunications Corporation, the associated costs shall be determined 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 aggregate volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from both parties. The utilization fee shall be determined through negotiation between the two parties based on market rates.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Centralised Services Agreement for a further term expiring on December 31, 2012. 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 Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Interconnection Settlement Agreement for a further term expiring on December 31, 2012. 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.

### ***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 entered into a supplemental agreement on August 25, 2010 to renew the Property Leasing Framework Agreement for a further term expiring on December 31, 2012. 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”), 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 including office automation and software testing. 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 give priority to using the services provided by the other party.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the IT Services Framework Agreement for a further term expiring on December 31, 2012. 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
- (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 entered into a supplemental agreement on August 25, 2010 to renew the Community Services Framework Agreement for a further term expiring on December 31, 2012. 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 entered into a supplemental agreement on August 25, 2010 to renew the Supplies Procurement Services Framework Agreement for a further term expiring on December 31, 2012. 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 supervision and management of services relating to construction, design, equipment installation and testing and/or services as the main contractors for the construction and supervision of engineering projects. 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 price.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Engineering Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Engineering Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Engineering Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### ***Ancillary Telecommunications Services Framework Agreement***

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

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Ancillary Telecommunications Services Framework Agreement for a further term expiring on December 31, 2012. 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 its capacity under the CDMA Network to the Company and the Company shall have the exclusive right to use and operate the CDMA Network to provide CDMA services in its service areas. The leasing fee is 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 shall 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 shall 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 Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the CDMA Network Capacity Lease Agreement for a further term expiring 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 (“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. 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 annually with a total value of no less than RMB1,780 million annually.

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 the same 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 does 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 frameworks agreements are subject to annual caps, and the proposed annual caps for the transactions under the Strategic Agreement are subsumed under the annual caps of these framework agreements.

#### ***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 entered into a supplemental agreement on August 25, 2010 to renew the Trademark License Agreement for a further term expiring on December 31, 2012. The Company may renew the Trade Mark 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.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Optic Fiber Leasing Agreement for a further term expiring on December 31, 2012. 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 Proposed Sale of Besttone E-Commerce Co., Ltd.***

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

We from time to time borrow short term unsecured loans from China Telecom Group to supplement our working capital needs. As of December 31, 2011, the aggregate outstanding principal amount of such loans was RMB820 million, which bear interest at fixed rates ranging from 3.9% to 4.9% 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.

#### **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 a proposal for enhancement initiatives as well as an application for suspension of investigation, which are being considered by the NDRC.

#### ***Policy on Dividend Distributions***

Pursuant to the shareholders' approval at the annual general meeting held on May 20, 2011, a final dividend of RMB5,763 million (RMB0.071208 equivalent to HK\$0.085 per share) in respect of the year ended December 31, 2010 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 20, 2012, a final dividend of approximately RMB5,583 million (RMB0.068984 equivalent to HK\$0.085 per share) for the year ended December 31, 2011 was proposed for shareholders' approval at the annual general meeting.

The declaration and payment of dividends for years following 2011 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 of Directors 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, 2011 and April 23, 2012, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2011 and April 23, 2012, there were, respectively, 55 and 54 registered holders of American depositary receipts evidencing 4,927,550 and 5,293,232 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
<b>Annual</b>				
2007	7.22	3.35	97.00	42.49
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
<b>Quarterly</b>				
First Quarter, 2010	3.89	3.20	50.09	40.72
Second Quarter, 2010	4.02	3.34	52.00	42.41
Third Quarter, 2010	4.36	3.65	55.99	46.76
Fourth Quarter, 2010	4.35	3.88	56.09	49.78
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
<b>Monthly</b>				
October 2011	5.07	4.63	66.51	59.97
November 2011	4.84	4.57	63.42	58.74
December 2011	4.70	4.34	60.65	55.96
January 2012	4.52	4.00	58.53	52.00
February 2012	4.74	4.30	60.75	55.58
March 2012	4.71	4.16	60.87	53.61
April 2012 (through April 26)	4.26	4.11	55.12	52.23

## 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 was 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 of Directors at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the Board of Directors. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined in the Listing Rules of the Hong Kong Stock Exchange) is interested.

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

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

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

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

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

## ***Dividends***

Our Board of Directors may propose dividend distributions at any time. Our Board of Directors 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, as determined in accordance with PRC accounting rules; 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 depository, will convert these proceeds into U.S. dollars and will remit the converted proceeds to holders of our ADSs after deduction of related fees and expenses and any withholding tax.

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

### ***Voting Rights and Shareholders’ Meetings***

Our Board of Directors will convene a shareholders’ annual general meeting once every year and within six months from the end of the preceding fiscal year. Our Board of Directors 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 of Directors deems necessary or our supervisory board so requests; or
- whenever two or more of our independent directors so request.

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

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

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

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

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

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

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

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

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

### ***Liquidation Rights***

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

### ***Increases in Share Capital***

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

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



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

### ***Decrease in Share Capital and Repurchase***

We may reduce our registered share capital only upon obtaining the approval of at least two-thirds of our shareholders and, in certain circumstances, of relevant PRC authorities. The number of H shares that may be repurchased is subject to the Hong Kong Codes on Takeovers and Mergers and Share 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 of Directors;
- has the power to exercise, or to control the exercise of, 30.0% or more of our voting rights;
- holds 30.0% or more of our issued and outstanding shares; or
- has de facto control of us in any other way.

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

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

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

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

### ***Sources of Shareholders' Rights***

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

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

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

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

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

### ***Enforceability of Shareholders' Rights***

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

### ***Restrictions on Transferability and the Share Register***

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

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

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

### C. Material Contracts

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

### D. Exchange Controls

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

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

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

### E. Taxation

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

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

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

#### ***People’s Republic of China***

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

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

## ***Taxation of Dividends***

*Individual Investors.* According to the PRC Provisional Regulations Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, and 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;
- 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 by individuals were temporarily exempted from individual income tax pursuant to notices issued by the SAT dated March 30, 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of H shares or ADSs may be subject to capital gains tax at the rate of 20.0% unless such tax is reduced or eliminated by an applicable double-taxation treaty. If tax on capital gains from the sale of H shares or ADSs become applicable, it is arguable that under the PRC-US Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H shares or ADSs representing an interest in our Company of 25.0% or more, but this position is uncertain and the PRC authorities may take a different position.

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

### ***Additional PRC Tax Considerations***

*PRC Stamp Duty.* PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the 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 PRC Provisional Regulations Concerning Stamp Duty, 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 business. 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 Depository, as depository of the ADSs, or for the account of the Depository, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

### ***Estate Duty***

No Hong Kong estate duty is currently payable.

### ***United States***

#### ***Material United States Federal Income Taxation***

This section describes the material United States federal income tax consequences of the acquisition, ownership and disposition of H shares or ADSs. It applies to you only if you are a U.S. holder, as described below, and 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 U.S. holder, as described below, 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.

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 paid to you in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15.0% 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 maximum 15.0% tax rate.

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 special tax rate 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.

### ***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 special 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.”

The following tables provide information regarding our financial instruments that are sensitive to foreign exchange rates as of December 31, 2011 and 2010, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

As of December 31, 2011:

	Expected Maturity						Total	Fair Value
	2012	2013	2014	2015	2016	Thereafter		
(RMB equivalent in millions, except interest rates)								
<b>Assets:</b>								
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	—	—	—	—	—	—	—	—
<b>Liabilities:</b>								
Debts in Japanese yen								

	Expected Maturity						Total	Fair Value
	2012	2013	2014	2015	2016	Thereafter		
	(RMB equivalent in millions, except interest rates)							
Fixed rate	1,603	—	—	—	—	—	1,603	1,603
<i>Average interest rate</i>	2.7%	—	—	—	—	—		
<b>Debts in United States dollars</b>								
Fixed rate	42	42	42	43	43	363	575	546
<i>Average interest rate</i>	2.2%	1.3%	1.2%	1.2%	1.2%	1.2%		
Variable rate	8	8	8	8	8	33	73	69
<i>Average interest rate<sup>(1)</sup></i>	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%		
<b>Debts in Euro</b>								
Fixed rate	28	22	26	27	27	267	397	365
<i>Average interest rate</i>	1.8%	1.3%	1.3%	1.3%	1.3%	1.3%		
Variable rate	6	6	6	6	6	58	88	81
<i>Average interest rate<sup>(1)</sup></i>	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%		
<b>Debts in other currencies</b>								
Variable rate	5	5	5	5	5	4	29	24
<i>Average interest rate<sup>(1)</sup></i>	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.

As of December 31, 2010:

	Expected Maturity						Total	Fair Value
	2011	2012	2013	2014	2015	Thereafter		
	(RMB equivalent in millions, except interest rates)							
<b>Assets:</b>								
<b>Cash and cash equivalents</b>								
United States dollars	2,130	—	—	—	—	—	2,130	2,130
Japanese yen	15	—	—	—	—	—	15	15
Euro	1	—	—	—	—	—	1	1
Hong Kong dollars	112	—	—	—	—	—	112	112
Other currencies	15	—	—	—	—	—	15	15
<b>Time deposits</b>								
United States dollars	160	—	—	—	—	—	160	160
Japanese yen	—	—	—	—	—	—	—	—
<b>Liabilities:</b>								
<b>Debts in Japanese yen</b>								
Fixed rate	206	1,384	—	—	—	20	1,610	1,608
<i>Average interest rate</i>	3.6%	2.7%	—	—	—	2.6%		
<b>Debts in United States dollars</b>								
Fixed rate	44	45	45	46	44	426	650	607
<i>Average interest rate</i>	2.3%	2.2%	1.3%	1.2%	1.2%	1.2%		
Variable rate	8	8	8	8	8	43	83	77
<i>Average interest rate<sup>(1)</sup></i>	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%		
<b>Debts in Euro</b>								
Fixed rate	30	33	26	29	28	315	461	421
<i>Average interest rate</i>	1.9%	1.8%	1.3%	1.3%	1.3%	1.3%		
Variable rate	1	7	7	7	7	69	98	88
<i>Average interest rate<sup>(1)</sup></i>	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%		
<b>Debts in other currencies</b>								
Variable rate	5	5	5	5	5	11	36	30
<i>Average interest rate<sup>(1)</sup></i>	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, 2010.

### 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, 2010 and 2011, our debt consisted of fixed and variable rate debt obligations with maturities from 2011 to 2040 and from 2012 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, 2010 and 2011, respectively.

As of December 31, 2011:

	Expected Maturity						Total	Fair Value
	2012	2013	2014	2015	2016	Thereafter		
(RMB equivalent in millions, except interest rates)								
<b>Liabilities:</b>								
Debts in Renminbi								
Fixed rate	17,531	10,105	19,962	—	—	10	47,608	46,467
<i>Average interest rate</i>	3.7%	4.2%	4.6%	—	—	5.9%		
Variable rate	1,730	—	—	—	—	—	1,730	1,730
<i>Average interest rate<sup>(1)</sup></i>	6.1%	—	—	—	—	—		
Debts in Japanese yen								
Fixed rate	1,603	—	—	—	—	—	1,603	1,603
<i>Average interest rate</i>	2.7%	—	—	—	—	—		
Debts in United States dollars								
Fixed rate	42	42	42	43	43	363	575	546
<i>Average interest rate</i>	2.2%	1.3%	1.2%	1.2%	1.2%	1.2%		
Variable rate	8	8	8	8	8	33	73	69
<i>Average interest rate<sup>(1)</sup></i>	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
<i>Average interest rate</i>	1.8%	1.3%	1.3%	1.3%	1.3%	1.3%		
Variable rate	6	6	6	6	6	58	88	81
<i>Average interest rate<sup>(1)</sup></i>	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
<i>Average interest rate<sup>(1)</sup></i>	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

As of December 31, 2010:

	Expected Maturity						Total	Fair Value
	2011	2012	2013	2014	2015	Thereafter		
(RMB equivalent in millions, except interest rates)								
<b>Liabilities:</b>								
<b>Debts in Renminbi</b>								
Fixed rate	29,862	10,036	9,924	19,945	—	—	69,767	65,603
<i>Average interest rate</i>	4.3%	3.7%	4.2%	4.6%	—	—		
Variable rate	871	—	—	—	—	—	871	871
<i>Average interest rate<sup>(1)</sup></i>	4.9%	—	—	—	—	—		
<b>Debts in Japanese yen</b>								
Fixed rate	206	1,384	—	—	—	20	1,610	1,608
<i>Average interest rate</i>	3.6%	2.7%	—	—	—	2.6%		
<b>Debts in United States dollars</b>								
Fixed rate	44	45	45	46	44	426	650	607
<i>Average interest rate</i>	2.3%	2.2%	1.3%	1.2%	1.2%	1.2%		
Variable rate	8	8	8	8	8	43	83	77
<i>Average interest rate<sup>(1)</sup></i>	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%		
<b>Debts in Euro</b>								
Fixed rate	30	33	26	29	28	315	461	421
<i>Average interest rate</i>	1.9%	1.8%	1.3%	1.3%	1.3%	1.3%		
Variable rate	1	7	7	7	7	69	98	88
<i>Average interest rate<sup>(1)</sup></i>	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%		
<b>Debts in other currencies</b>								
Variable rate	5	5	5	5	5	11	36	30
<i>Average interest rate<sup>(1)</sup></i>	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, 2010

## Item 12. Description of Securities Other than Equity Securities.

The Bank of New York Mellon, as the depository of our ADSs, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

### ADR holders must pay:

- US\$5.00 (or less) per 100 ADRs (or portion thereof)
- US\$.02 (or less) per ADR
- Registration or transfer fees
- Expenses of the depository
- Taxes and other governmental charges the depository or the custodian has to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes

### For:

- Each issuance of an ADR, including as a result of a distribution of shares or rights or other property
- Each cancellation of an ADR, including if the deposit agreement terminates
- Each distribution of securities, other than shares or ADRs, treating the securities as if they were shares for purpose of calculating fees
- Any cash distribution (not including cash dividend distribution)
- Transfer and registration of shares on the share register of our transfer agent and the registrar in Hong Kong from an ADR holder's name to the name of the depository or its agent when the ADR holder deposit or withdraw shares
- Conversion of Hong Kong dollars to U.S. dollars
- Cable, telex and facsimile transmission expenses
- Servicing of the shares or deposited securities
- As necessary

With respect to certain expenses incurred by us in connection with our depositary facility in 2011, including expenses related to our attendance at the annual ADR training seminar, we received from the Bank of New York Mellon a total of US\$31,649 reimbursement, net of withholding tax. The Bank of New York Mellon also waived certain costs of US\$131,942 in connection with the administration of the ADR program and other services provided to our registered shareholders. 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.

## 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 of Directors; 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, 2011, 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, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by KPMG, Hong Kong, 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, 2011, 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 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, 2011, 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, 2010, December 31, 2010 and 2011, 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, 2011, and our report dated March 20, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Hong Kong, China

March 20, 2012

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

During the fiscal year ended December 31, 2011, 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, Mr. Qin Xiao and Mr. Xu Erming. They are all independent non-executive directors. See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Audit Committee,” Our Board of Directors 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 2010 and 2011:

	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>Other Fees</u>
2010	RMB67.0 million	RMB5.50 million	RMB0.07 million	RMB1.22 million
2011	RMB68.0 million	RMB2.15 million <sup>(1)</sup>	RMB0.14 million <sup>(2)</sup>	RMB1.62 million <sup>(3)</sup>

(1) Audit-related fees in the amount of RMB2.15 million were paid for the advisory services provided to us regarding our internal control.

- (2) Tax fees in the amount of RMB0.14 million were paid for profit tax filing assistance service.  
(3) Other fees in the amount of RMB1.62 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.

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

Not applicable.

**Item 16G. Corporate Governance.**

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

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 of the Hong Kong Stock Exchange for the year ended December 31, 2011.

**Item 16H. Mine Safety Disclosure.**

Not applicable.

**Item 17. Financial Statements.**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Item 18. Financial Statements.**

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



**Item 19. Exhibits.**

- (a) See Item 18 for a list of the financial statements filed as part of this annual report.
- (b) Exhibits to this annual report:

<u>Exhibits</u>	<u>Description</u>
1.1	Articles of Association (as amended) (English translation).
2.1	Form of H Share Certificate. <sup>(1)</sup>
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. <sup>(2)</sup>
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). <sup>(3)</sup>
4.2	Sale and Purchase Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation). <sup>(3)</sup>
4.3	Supplemental Connected Transactions Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation). <sup>(3)</sup>
4.4	Form of Underwriting Agreement. <sup>(4)</sup>
4.5	Supplemental Trademark License Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation). <sup>(5)</sup>
4.6	Supplemental Connected Transactions Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation). <sup>(6)</sup>
4.7	Conditional Sale and Purchase Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation). <sup>(7)</sup>
4.8	Supplemental Conditional Sale and Purchase Agreement, dated June 9, 2005, between the Registrant and China Telecommunications Corporation (English summary). <sup>(8)</sup>
4.9	Supplemental Centralized Services Agreement, dated December 15, 2005, between the Registrant and China Telecommunications Corporation (English summary). <sup>(9)</sup>
4.10	Property Leasing Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). <sup>(10)</sup>
4.11	IT Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). <sup>(10)</sup>
4.12	Equipment Procurement Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). <sup>(10)</sup>
4.13	Engineering Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). <sup>(10)</sup>
4.14	Community Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). <sup>(10)</sup>
4.15	Ancillary Telecommunications Service Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). <sup>(10)</sup>

<u>Exhibits</u>	<u>Description</u>
4.16	Strategic Agreement, dated August 30, 2006, between the Registrant and China Communications Services Corporation Limited (English summary). <sup>(10)</sup>
4.17	Supplemental Agreement to the Strategic Agreement, dated June 15, 2007, between the Registrant and the China Communications Services Corporation Limited (English Summary). <sup>(10)</sup>
4.18	Supplemental Agreement to the Strategic Agreement, dated October 29, 2009, between the Registrant and the China Communications Services Corporation Limited (English Summary). <sup>(13)</sup>
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. <sup>(10)</sup>
4.20	Stock Purchase Agreement in respect of sales and purchase of shares in China Telecom (USA) Corporation, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. <sup>(10)</sup>
4.21	Share Purchase Agreement in respect of sales and purchase of shares in China Telecom (Hong Kong) International Limited, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. <sup>(10)</sup>
4.22	Share Transfer Agreement in respect of transfer of shareholdings in China Telecom System Integration Co., Limited, dated June 15, 2007, among China Telecommunications Corporation, China Huaxin Post and Telecommunications Economy Development Center and China Telecom Corporation Limited. <sup>(10)</sup>
4.23	Agreement on the Transfer of the Entire Equity Interests in China Telecom Group Beijing Corporation, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Translation). <sup>(11)</sup>
4.24	Form Merger Agreement, dated January 10, 2008, between the Registrant and each of certain subsidiaries wholly owned by the Registrant (English Translation). <sup>(11)</sup>
4.25	Supplemental Agreement to the Centralized Services Agreement, dated December 26, 2007, between the Registrant and China Telecommunications Corporation (English Summary). <sup>(11)</sup>
4.26	Supplemental Agreement to the Centralized Services Agreement, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Summary). <sup>(11)</sup>
4.27	Framework Agreement for Transfer of CDMA Business, dated June 2, 2008, among the Registrant, China Unicom Limited and China Unicom Corporation Limited (English Summary). <sup>(11)</sup>
4.28	Supplemental Agreement to the Interconnection Settlement Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>
4.29	Supplemental Agreement to the IT Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>
4.30	Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>
4.31	Supplemental Agreement to the Engineering Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>
4.32	Supplemental Agreement to the Community Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>

<u>Exhibits</u>	<u>Description</u>
4.33	Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>
4.34	CDMA Network Capacity Lease Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English translation). <sup>(12)</sup>
4.35	Agreement for Transfer of CDMA Business, dated July 27, 2008, between the Registrant, China Unicom Limited and China Unicom Corporation Limited (English summary). <sup>(12)</sup>
4.36	Merger Agreement, dated November 14, 2008, between the Registrant and China Telecommunications Corporation Beijing Corporation (English translation). <sup>(12)</sup>
4.37	Supplemental Agreement to the Optic Fiber Leasing Agreement, dated July 10, 2008, between the Registrant and China Telecommunications Corporation (English summary). <sup>(12)</sup>
4.38	Underwriting Agreement regarding Medium Term Notes of China Telecom Corporation Limited in 2008, dated April 15, 2008, among the Registrant, Industrial and Commercial Bank of China Limited and CITIC Securities Company Limited (English summary), and its Supplemental Agreement, dated December 15, 2008 (English summary). <sup>(12)</sup>
4.39	Underwriting Agreement regarding the First Tranche of Short-Term Commercial Paper of China Telecom Corporation Limited in 2008, dated July 7, 2008, among the Registrant, Bank of Communications Co., Ltd. and China Development Bank (English summary). <sup>(12)</sup>
4.40	Underwriting Agreement regarding the First Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated September 8, 2009 (as supplemented on September 9, 2009), among the Registrant, Bank of Communications Co., Ltd. and Agricultural Bank of China Limited (English summary). <sup>(13)</sup>
4.41	Underwriting Agreement regarding the Second Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated October 19, 2009 (as supplemented respectively on October 20, 2009 and December 4, 2009), among the Registrant, Agriculture Bank of China Limited and China Merchants Bank Co., Ltd. (English summary). <sup>(13)</sup>
4.42	Underwriting Agreement regarding the Third Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated October 19, 2009 (as supplemented respectively on October 20, 2009 and December 4, 2009), among the Registrant, China Construction Bank Corporation and Industrial and Commercial Bank of China Ltd. (English summary). <sup>(13)</sup>
4.43	Supplemental Agreement to the Centralized Services Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>
4.44	Supplemental Agreement to the Interconnection Settlement Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>
4.45	Supplemental Agreement to the Property Leasing Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>
4.46	Supplemental Agreement to the IT services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>
4.47	Supplemental Agreement to the Community Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>
4.48	Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>
4.49	Supplemental Agreement to the Engineering Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary). <sup>(14)</sup>

<u>Exhibits</u>	<u>Description</u>
4.50	Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) <sup>(14)</sup>
4.51	Supplemental Agreement to the CDMA Network Capacity Lease Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) <sup>(14)</sup>
4.52	Supplemental Agreement to the Trademark License Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) <sup>(14)</sup>
4.53	Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) <sup>(14)</sup>
8.1	List of subsidiaries of the Registrant.
11.1	Code of Ethics (English translation). <sup>(3)</sup>
12.1	Certification of CEO pursuant to Rule 13a-14(a).
12.2	Certification of CFO pursuant to Rule 13a-14(a).
13.1	Certification of CEO pursuant to Rule 13a-14(b).
13.2	Certification of CFO pursuant to Rule 13a-14(b).

- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-100042), filed with the Securities and Exchange Commission on November 5, 2002.
- (2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-100617), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H shares.
- (3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (4) Incorporated by reference to Exhibit 1.1 to our Form 6-K filed on April 29, 2004
- (5) Incorporated by reference to Exhibit 1.2 to our Form 6-K filed on April 29, 2004.
- (6) Incorporated by reference to Exhibit 1.3 to our Form 6-K filed on April 29, 2004.
- (7) Incorporated by reference to Exhibit 1.5 to our Form 6-K filed on April 29, 2004.
- (8) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (9) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (10) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (11) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (12) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2008 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (13) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2009 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (14) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 001-31517), filed with the Securities and Exchange Commission.

## 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 30, 2012

**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Pages</u>
<u>Report of independent registered public accounting firm</u>	F-2
<u>Consolidated statements of financial position as of January 1, 2010, December 31, 2010 and December 31, 2011</u>	F-3
<u>Consolidated statements of comprehensive income for the years ended December 31, 2009, 2010 and 2011</u>	F-4
<u>Consolidated statements of changes in equity for the years ended December 31, 2009, 2010 and 2011</u>	F-5
<u>Consolidated statements of cash flows for the years ended December 31, 2009, 2010 and 2011</u>	F-6
<u>Notes to the consolidated financial statements</u>	F-8

## **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, 2010, December 31, 2010 and 2011, 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, 2011. 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, 2010, December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

As discussed in Note 3 to the consolidated financial statements, the Group changed its method of accounting for property, plant, and equipment, and lease prepayments during the year ended December 31, 2011 due to the adoption of Amendments to International Financial Reporting Standard 1, *First-time adoption of International Financial Reporting Standards*. This change in accounting policy was applied retrospectively.

We have also 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, 2011, 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, 2012 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

/s/KPMG

Hong Kong, China  
March 20, 2012

**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
AS OF JANUARY 1, 2010, DECEMBER 31, 2010 AND 2011  
(Amounts in millions)

	Note	<u>January 1,</u> <u>2010</u> RMB (restated)	<u>December 31,</u> <u>2010</u> RMB (restated)	<u>December 31,</u> <u>2011</u> RMB
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	4	34,804	25,824	27,372
Time deposits with original maturity over three months		442	1,968	1,804
Accounts receivable, net	5	17,438	17,328	18,471
Inventories	6	2,628	3,170	4,840
Prepayments and other current assets	7	3,910	5,073	4,664
Income tax recoverable		1,714	1,882	2,425
<b>Total current assets</b>		<u>60,936</u>	<u>55,245</u>	<u>59,576</u>
<b>Non-current assets</b>				
Property, plant and equipment, net	8	283,550	272,478	268,877
Construction in progress	9	11,567	14,445	18,448
Lease prepayments		27,790	27,078	26,280
Goodwill	10	29,922	29,920	29,918
Intangible assets	11	12,311	9,968	7,715
Interests in associates	12	997	1,123	985
Investments	13	722	854	648
Deferred tax assets	14	6,839	5,022	3,068
Other assets	18	5,322	4,396	3,600
<b>Total non-current assets</b>		<u>379,020</u>	<u>365,284</u>	<u>359,539</u>
<b>Total assets</b>		<u>439,956</u>	<u>420,529</u>	<u>419,115</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Short-term debt	15	51,650	20,675	9,187
Current portion of long-term debt	15	1,487	10,352	11,766
Accounts payable	16	34,321	40,039	44,358
Accrued expenses and other payables	17	52,193	52,885	59,372
Income tax payable		395	327	482
Current portion of finance lease obligations		18	—	—
Current portion of deferred revenues	18	3,417	2,645	2,093
<b>Total current liabilities</b>		<u>143,481</u>	<u>126,923</u>	<u>127,258</u>
<b>Non-current liabilities</b>				
Long-term debt	15	52,768	42,549	31,150
Deferred revenues	18	5,045	3,558	2,712
Deferred tax liabilities	14	1,510	1,375	1,117
<b>Total non-current liabilities</b>		<u>59,323</u>	<u>47,482</u>	<u>34,979</u>
<b>Total liabilities</b>		<u>202,804</u>	<u>174,405</u>	<u>162,237</u>
<b>Equity</b>				
Share capital	19	80,932	80,932	80,932
Reserves	20	155,372	164,696	175,158
<b>Total equity attributable to equity holders of the Company</b>		<u>236,304</u>	<u>245,628</u>	<u>256,090</u>
Non-controlling interests		848	496	788
<b>Total equity</b>		<u>237,152</u>	<u>246,124</u>	<u>256,878</u>
<b>Total liabilities and equity</b>		<u>439,956</u>	<u>420,529</u>	<u>419,115</u>

See accompanying notes to consolidated financial statements.



**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011  
(Amounts in millions, except per share data)

	Note	Year ended December 31,		
		2009 RMB (restated)	2010 RMB (restated)	2011 RMB
<b>Operating revenues</b>	<b>21</b>	209,370	219,864	245,041
<b>Operating expenses</b>				
Depreciation and amortization		(52,784)	(52,215)	(51,224)
Network operations and support		(43,721)	(47,432)	(52,912)
Selling, general and administrative		(40,507)	(42,130)	(48,741)
Personnel expenses	<b>22</b>	(32,857)	(35,529)	(39,167)
Other operating expenses	<b>23</b>	(17,449)	(19,106)	(28,868)
<b>Total operating expenses</b>		<u>(187,318)</u>	<u>(196,412)</u>	<u>(220,912)</u>
<b>Operating income</b>		22,052	23,452	24,129
Net finance costs	<b>24</b>	(4,375)	(3,600)	(2,254)
Investment income		791	328	40
Equity in income of associates		101	131	99
<b>Earnings before income tax</b>		18,569	20,311	22,014
Income tax	<b>25</b>	(4,382)	(4,846)	(5,416)
<b>Profit for the year</b>		<u>14,187</u>	<u>15,465</u>	<u>16,598</u>
<b>Other comprehensive income for the year:</b>				
Change in fair value of available-for-sale equity securities		538	132	(205)
Deferred tax on change in fair value of available-for-sale equity securities		(120)	(48)	51
Exchange difference on translation of financial statements of subsidiaries outside mainland China		(2)	(48)	(103)
Share of other comprehensive income from associates		—	(25)	—
<b>Other comprehensive income for the year, net of tax</b>		<u>416</u>	<u>11</u>	<u>(257)</u>
<b>Total comprehensive income for the year</b>		<u>14,603</u>	<u>15,476</u>	<u>16,341</u>
<b>Profit attributable to:</b>				
Equity holders of the Company		13,983	15,347	16,502
Non-controlling interests		204	118	96
<b>Profit for the year</b>		<u>14,187</u>	<u>15,465</u>	<u>16,598</u>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Company		14,324	15,358	16,245
Non-controlling interests		279	118	96
<b>Total comprehensive income for the year</b>		<u>14,603</u>	<u>15,476</u>	<u>16,341</u>
<b>Basic earnings per share</b>	<b>27</b>	<u>0.17</u>	<u>0.19</u>	<u>0.20</u>
<b>Number of shares (in millions)</b>	<b>27</b>	<u>80,932</u>	<u>80,932</u>	<u>80,932</u>

See accompanying notes to consolidated financial statements.



interests		—	—	—	—	—	—	—	—	—	(57)	(57)
Acquisition of non-controlling interests		—	—	—	—	—	(1)	—	—	(1)	(1)	(2)
Acquisition of the Fifth Acquired Group	<b>1</b>	—	—	—	—	—	—	—	(19)	(19)	—	(19)
Acquisition of a subsidiary		—	—	—	—	—	—	—	—	—	264	264
Disposal of a subsidiary		—	—	—	—	—	—	—	—	—	(10)	(10)
Dividends	<b>26</b>	—	—	—	—	—	—	—	(5,763)	(5,763)	—	(5,763)
Appropriations	<b>20</b>	—	—	—	—	1,682	—	—	(1,682)	—	—	—
Balance as of December 31, 2011		<u>80,932</u>	<u>16,767</u>	<u>10,746</u>	<u>—</u>	<u>64,316</u>	<u>283</u>	<u>(818)</u>	<u>83,864</u>	<u>256,090</u>	<u>788</u>	<u>256,878</u>

See accompanying notes to consolidated financial statements.

**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011  
(Amounts in millions)

	Note	Year ended December 31,		
		2009 RMB (restated)	2010 RMB (restated)	2011 RMB
<b>Net cash from operating activities</b>	<b>(a)</b>	<b>74,988</b>	<b>75,571</b>	<b>73,006</b>
<b>Cash flows used in investing activities</b>				
Capital expenditure		(40,311)	(41,597)	(48,495)
Purchase of investments		(23)	(41)	(6)
Lease prepayments		(94)	(111)	(60)
Proceeds from disposal of property, plant and equipment		393	2,738	3,234
Proceeds from disposal of lease prepayments		380	176	487
Proceeds from disposal of investments		735	1	1,040
Proceeds from return of investments		—	—	10
Purchase of time deposits with maturity over three months		(442)	(1,968)	(1,804)
Maturity of time deposits with maturity over three months		397	442	1,968
Payment of purchase price for the acquisition of CDMA business		(4,290)	(5,374)	—
Payment for acquisition of a subsidiary		—	—	(11)
<b>Net cash used in investing activities</b>		<b>(43,255)</b>	<b>(45,734)</b>	<b>(43,637)</b>
<b>Cash flows used in financing activities</b>				
Principal element of finance lease payments		(22)	(18)	—
Proceeds from bank debt and other loans		88,958	53,518	23,876
Proceeds from issuance of medium-term notes		29,906	—	—
Repayment of bank debt and other loans		(111,084)	(86,001)	(45,329)
Repayment of short-term commercial papers		(10,000)	—	—
Repayment of amount due to China Telecommunications Corporation in connection with the Second Acquisition	1	(15,150)	—	—
Payment of dividends		(6,493)	(5,608)	(6,174)
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)
Net cash distributions to non-controlling interests		(908)	(100)	(65)
<b>Net cash used in financing activities</b>		<b>(24,793)</b>	<b>(38,771)</b>	<b>(27,720)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>6,940</b>	<b>(8,934)</b>	<b>1,649</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>27,866</b>	<b>34,804</b>	<b>25,824</b>
Effect of changes in foreign exchange rate		(2)	(46)	(101)
<b>Cash and cash equivalents at end of year</b>		<b>34,804</b>	<b>25,824</b>	<b>27,372</b>

See accompanying notes to consolidated financial statements.

**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011  
(Amounts in millions)

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

	Year ended December 31,		
	2009 RMB (restated)	2010 RMB (restated)	2011 RMB
<b>Earnings before income tax</b>	18,569	20,311	22,014
Adjustments for:			
Depreciation and amortization	52,784	52,215	51,224
Impairment losses on property, plant and equipment	753	139	—
Impairment losses for doubtful debts	1,791	1,593	1,367
Write down of inventories	108	87	96
Investment income	(791)	(328)	(40)
Equity in income of associates	(101)	(131)	(99)
Interest income	(282)	(287)	(405)
Interest expense	4,724	3,795	2,710
Unrealized foreign exchange (gain) / loss	(67)	92	(51)
Loss / (gain) on retirement and disposal of property, plant and equipment	1,417	(430)	(2,436)
Increase in accounts receivable	(1,906)	(1,475)	(2,546)
Increase in inventories	(175)	(629)	(1,764)
Increase in prepayments and other current assets	(78)	(1,203)	(3,018)
Decrease in other assets	1,290	928	795
Increase in accounts payable	2,178	4,120	6,324
Increase in accrued expenses and other payables	7,105	6,003	6,943
Decrease in deferred revenues	(2,982)	(2,259)	(1,398)
<b>Cash generated from operations</b>	84,337	82,541	79,716
Interest received	271	292	396
Interest paid	(5,053)	(3,824)	(3,084)
Investment income received	58	10	42
Income tax paid	(4,625)	(3,448)	(4,064)
<b>Net cash from operating activities</b>	<u>74,988</u>	<u>75,571</u>	<u>73,006</u>

See accompanying notes to consolidated financial statements.

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

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

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

**Principal activities**

China Telecom Corporation Limited (the “Company”) and its subsidiaries (hereinafter, collectively referred to as the “Group”) offers a comprehensive range of wireline and mobile telecommunications services including 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 leased line and other related services 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 (Hong Kong) International Limited (“CT (HK)”) 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”).

As of December 31, 2009, the purchase price of the above acquisitions was fully settled.

**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”). The purchase price has not been fully settled at the end of the reporting period.

Hereinafter, the First Acquired Group, the Second Acquired Group, the Third Acquired Group, the Fourth Acquired Company and the Fifth Acquired Group 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 Group 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.

**Merger with subsidiaries**

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation**

The accompanying 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 are approved and authorized by the Board of Directors on March 20, 2012.

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities (Note 2(1)). The accounting policies described below have been consistently applied by the Group, except those disclosed in Note 3.

The preparation of the 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.

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

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

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

**(a) Basis of preparation (continued)**

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 35.

**(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 statements 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.

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(HK), CT Americas, China Telecom (Macau) Company Limited ("CT Macau"), China Telecom (Singapore) Pte. Limited ("CT Singapore") and China Telecom (Australia) Pty Ltd ("CT Australia") is Hong Kong dollars (HK\$), US dollars (US\$), Macau Pataca (MOP), Singapore dollars (S\$) and Australia dollars (AUD), 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 2(i)), are recognized as income or expense in profit or loss. For the periods presented, no exchange differences were capitalized.



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

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

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

**(c) Translation of foreign currencies (continued)**

When preparing the Group's consolidated financial statements, the results of operations of CT (HK), CT Americas, CT Macau, CT Singapore and CT Australia are translated into RMB at average rate prevailing during the year. Assets and liabilities of CT (HK), CT Americas, CT Macau, CT Singapore and CT Australia are translated into RMB at the foreign exchange rates ruling at the end of 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 2(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 recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 2(n)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Assets 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, 2010 and 2011 were RMB64 and RMB76 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.

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

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

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

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

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

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

**(h) Lease prepayments**

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

**(i) Construction in progress**

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

No depreciation is provided in respect of construction in progress.

**(j) Goodwill**

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 10) acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(n)). On disposal of a cash generating unit during the year, any attributable amount of the goodwill is included in the calculation of the profit or loss on disposal.

**(k) Intangible assets**

The Group's intangible assets 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 2(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.

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

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

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

**(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 2(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.

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.

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

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

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

**(n) Impairment (continued)**

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

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) Upfront fees received for activation of wireline services and wireline installation charges 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 are amortized over the same expected customer relationship period.
- (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.
- (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.

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

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

**2. 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 RMB22,360, RMB23,363 and RMB27,498 for the years ended December 31, 2009, 2010 and 2011 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, 2009, 2010 and 2011, research and development expense were RMB545, RMB540 and RMB558 respectively.

**(s) Employee benefits**

The Group's contributions to defined contribution retirement plans administered by the PRC government are recognized in profit or loss as incurred. Further information is set out in Note 32.

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 33.

**(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.

**(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.

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

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

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

**(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.

**(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.

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

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

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

**(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 an integrated telecommunications business. The location of the Group's assets and operating revenues derived from activities outside mainland China are less than 1% 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.

**3. CHANGES IN ACCOUNTING POLICIES**

The IASB has issued a number of amendments to IFRS and one new Interpretation that are effective for accounting period beginning on or after January 1, 2011. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), "Related Party Disclosures"
- Improvements to IFRSs (2010)

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current accounting period (Note 36).

**(i) IAS 24 (revised 2009), "Related Party Disclosures"**

IAS 24 (revised 2009), "Related Party Disclosures" revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related or transactions with other entities related to the same government. As such, the adoption of IAS 24 (revised 2009), "Related Party Disclosures" has resulted in a change in the disclosures for the related party transactions with government-related entities in the financial statements.

**(ii) Improvements to IFRSs (2010)**

Improvements to IFRSs (2010) omnibus standard introduces an amendment to IFRS 1, "First-time adoption of International Financial Reporting Standards". In the amendment to IFRS 1, a first-time adopter of IFRSs is allowed to use an event-driven fair value measurement as deemed cost for some or all of its assets and liabilities, even when the measurement date is after the IFRS transition date, provided that the measurement date is during the period covered by the entity's first IFRS financial statements. This amendment can be adopted retrospectively by existing IFRS reporters at the latest in the annual period beginning on or after January 1, 2011.

The accounting periods covered by the first IFRS financial statements of the Predecessor Operations, the First Acquired Group and the Second Acquired Group are from January 1, 1999 to December 31, 2001, from January 1, 2001 to June 30, 2003 and from January 1, 2001 to December 31, 2003, respectively. During the Restructuring, the First Acquisition and the Second Acquisition, as required by the applicable laws and regulations of the PRC, the Group's financial statements prepared under Accounting Standards for Business Enterprises and other relevant accounting standards and rules (collectively "PRC GAAP"), accounted for property, plant and equipment and lease prepayments at deemed cost based on the valuations performed by China Enterprise Appraisals Co., Ltd. as of December 31, 2001, December 31, 2002 and December 31, 2003, respectively. As the valuations were performed as of a date later than the respective dates of transition to IFRSs, the Group was not permitted at that time to adopt these valuations as deemed cost for the respective IFRS financial statements and instead adopted the following IFRS accounting policies:

- property, plant and equipment were recognized at carrying amounts determined in accordance with IAS 16 at the respective dates of transition to IFRS and subsequently carried at the revalued amount, being its fair value at the dates of revaluations; and
- lease prepayments were recognized at historical cost and therefore, the related revaluation gains arising from the revaluation in 2001, 2002 and 2003 as mentioned above were not recognized.

**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. CHANGES IN ACCOUNTING POLICIES (continued)**

**(ii) Improvements to IFRSs (2010) (continued)**

As a result of the amendment to IFRS 1, the Group has:

- retrospectively adjusted the amounts reported for previous periods in the respective IFRS financial statements to be consistent with the retrospective recognition of property, plant and equipment and lease prepayments acquired during the Restructuring, the First Acquisition and the Second Acquisition at their deemed costs in the respective first IFRS financial statements based on the results of valuations, with consequential adjustments for depreciation and amortization charged in subsequent periods; and
- changed its accounting policy for property, plant and equipment from the revaluation model to the cost model. The revaluation surplus and deficit related to the revaluations performed in 2004 and 2007, has also been adjusted retrospectively. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's consolidated financial statements and to eliminate the differences between the Group's financial statements under IFRS and those under PRC GAAP.

The following table summarizes the retrospective adjustments that have been made in accordance with the amendment to IFRS 1 to each of the line items in the financial statements:

	<u>January 1, 2010</u> RMB	<u>December 31, 2010</u> RMB
<b>Increase/(decrease) on items of consolidated statement of financial position</b>		
Assets		
Property, plant and equipment	(2,778)	(2,770)
Lease prepayments	22,273	21,701
Deferred tax assets	(6,059)	(5,757)
Liabilities		
Deferred tax liabilities	(1,103)	(986)
Equity		
Capital reserves (note)	19,571	19,571
Other reserves (note)	(2,525)	(2,475)
Revaluation reserve (note)	(10,863)	(10,339)
Retained earnings (note)	8,389	7,403
Non-controlling interests (note)	(33)	—

	<u>For the years ended December 31,</u>		
	<u>2009</u> RMB	<u>2010</u> RMB	<u>2011</u> RMB
<b>Increase/(decrease) on items of consolidated statement of comprehensive income</b>			
Depreciation and amortization	541	559	498
Network operations and support	65	5	30
Investment income	—	(33)	—
Income tax	(167)	(185)	(133)
Profit attributable to equity holders of the Company	(439)	(412)	(395)
Total comprehensive income	(439)	(412)	(395)
Basic earnings per share for profit attributable to equity holders of the Company	(0.01)	(0.01)	(0.01)

Note:

As of January 1, 2009, the adoption of amendment to IFRS 1 increased the capital reserves and retained earnings of the Group by RMB19,571 and RMB9,397, respectively, and decreased other reserves, revaluation reserve and non-controlling interests by RMB11,410, RMB2,547 and RMB33, respectively.

**4. CASH AND CASH EQUIVALENTS**



	<u>December 31,</u>	
	<u>2010</u>	<u>2011</u>
	<u>RMB</u>	<u>RMB</u>
Cash at bank and in hand	24,071	24,470
Time deposits with original maturity within three months	1,753	2,902
	<u>25,824</u>	<u>27,372</u>

**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)

**5. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, are analyzed as follows:

	Note	December 31,	
		2010 RMB	2011 RMB
Accounts receivable			
Third parties		17,466	18,040
China Telecom Group	(i)	1,182	1,803
Other telecommunications operators in the PRC		704	570
		<u>19,352</u>	<u>20,413</u>
Less: Allowance for doubtful debts		(2,024)	(1,942)
		<u>17,328</u>	<u>18,471</u>

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, 2011:

	Year ended December 31,		
	2009 RMB	2010 RMB	2011 RMB
At beginning of year	2,118	2,073	2,024
Allowance for doubtful debts	1,787	1,567	1,383
Accounts receivable written off	(1,832)	(1,616)	(1,465)
At end of year	<u>2,073</u>	<u>2,024</u>	<u>1,942</u>

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

	December 31,	
	2010 RMB	2011 RMB
Current, within 1 month	10,769	10,872
1 to 3 months	2,049	2,120
4 to 12 months	1,384	1,444
More than 12 months	495	432
	<u>14,697</u>	<u>14,868</u>
Less: Allowance for doubtful debts	(1,831)	(1,797)
	<u>12,866</u>	<u>13,071</u>

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

	December 31,	
	2010 RMB	2011 RMB
Current, within 1 month	1,844	2,763
1 to 3 months	1,161	899
4 to 12 months	998	1,287
More than 12 months	652	596
	<u>4,655</u>	<u>5,545</u>
Less: Allowance for doubtful debts	(193)	(145)
	<u>4,462</u>	<u>5,400</u>

**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)

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

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

	December 31,	
	2010	2011
	RMB	RMB
Not past due	15,694	16,687
Less than 1 month past due	1,086	1,081
1 to 3 months past due	548	703
Amounts past due	1,634	1,784
	<u>17,328</u>	<u>18,471</u>

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:

	December 31,	
	2010	2011
	RMB	RMB
Materials and supplies	874	970
Goods for resale	2,296	3,870
	<u>3,170</u>	<u>4,840</u>

**7. PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets represent:

	December 31,	
	2010	2011
	RMB	RMB
Amounts due from China Telecom Group	1,044	1,091
Amounts due from other telecommunications operators in the PRC	232	195
Prepayments in connection with construction work and equipment purchases	716	765
Prepaid expenses and deposits	1,384	1,578
Other receivables	1,697	1,035
	<u>5,073</u>	<u>4,664</u>

**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)

**8. PROPERTY, PLANT AND EQUIPMENT, NET**

	<u>Buildings and improvements</u> RMB	<u>Telecommunications network plant and equipment</u> RMB	<u>Furniture, fixture, motor vehicles and other equipment</u> RMB	<u>Total</u> RMB
<b>Cost/Deemed cost:</b>				
Balance at January 1, 2010, as previously reported	87,178	622,138	22,230	731,546
Change in accounting policy	(4,972)	(10,511)	3	(15,480)
Balance at January 1, 2010, as restated	82,206	611,627	22,233	716,066
Additions	186	1,055	722	1,963
Transferred from construction in progress	2,560	33,427	1,420	37,407
Disposals, as restated	(428)	(18,400)	(1,328)	(20,156)
Reclassification	(46)	(47)	93	—
<b>Balance at December 31, 2010, as restated</b>	<b>84,478</b>	<b>627,662</b>	<b>23,140</b>	<b>735,280</b>
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)	—
<b>Balance at December 31, 2011</b>	<b>86,309</b>	<b>654,201</b>	<b>24,510</b>	<b>765,020</b>
<b>Accumulated depreciation and impairment:</b>				
Balance at January 1, 2010, as previously reported	(26,914)	(403,991)	(14,313)	(445,218)
Change in accounting policy	898	11,783	21	12,702
Balance at January 1, 2010, as restated	(26,016)	(392,208)	(14,292)	(432,516)
Depreciation charge for the year, as restated	(3,538)	(42,254)	(2,141)	(47,933)
Provision for impairment	(3)	(135)	(1)	(139)
Written back on disposal, as restated	341	16,208	1,237	17,786
Reclassification	42	50	(92)	—
<b>Balance at December 31, 2010, as restated</b>	<b>(29,174)</b>	<b>(418,339)</b>	<b>(15,289)</b>	<b>(462,802)</b>
Acquired through acquisition of a subsidiary	(40)	(251)	(14)	(305)
Depreciation charge for the year	(3,634)	(41,111)	(2,149)	(46,894)
Written back on disposal	154	13,019	685	13,858
Reclassification	(2)	(1)	3	—
<b>Balance at December 31, 2011</b>	<b>(32,696)</b>	<b>(446,683)</b>	<b>(16,764)</b>	<b>(496,143)</b>
<b>Net book value at December 31, 2011</b>	<b>53,613</b>	<b>207,518</b>	<b>7,746</b>	<b>268,877</b>
Net book value at December 31, 2010, as restated	55,304	209,323	7,851	272,478
Net book value at January 1, 2010, as restated	56,190	219,419	7,941	283,550

**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)

**9. CONSTRUCTION IN PROGRESS**

	RMB
Balance at January 1, 2010	11,567
Additions	41,386
Transferred to property, plant and equipment	(37,407)
Transferred to intangible assets	(1,101)
<b>Balance at December 31, 2010</b>	<b>14,445</b>
Additions	47,442
Transferred to property, plant and equipment	(42,230)
Transferred to intangible assets	(1,209)
<b>Balance at December 31, 2011</b>	<b><u>18,448</u></b>

**10. GOODWILL**

	<u>2010</u>	<u>2011</u>
	RMB	RMB
Cost:		
Goodwill arising from acquisition of CDMA business	<u>29,920</u>	<u>29,918</u>

On October 1, 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the “CDMA business”) from China Unicom Limited (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”). 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 purposes 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 11.5% (2010: 11.2%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1%. 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.

**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)

**11. INTANGIBLE ASSETS**

	<u>Computer software</u> RMB	<u>Customer relationships</u> RMB	<u>Total</u> RMB
Cost:			
Balance at January 1, 2010	7,587	11,238	18,825
Additions	119	—	119
Transferred from construction in progress	1,101	—	1,101
Disposals	(182)	—	(182)
<b>Balance at December 31, 2010</b>	<b>8,625</b>	<b>11,238</b>	<b>19,863</b>
Additions	199	—	199
Transferred from construction in progress	1,209	—	1,209
Disposals	(140)	—	(140)
<b>Balance at December 31, 2011</b>	<b>9,893</b>	<b>11,238</b>	<b>21,131</b>
Accumulated amortization and impairment:			
Balance at January 1, 2010	(3,704)	(2,810)	(6,514)
Amortization charge for the year	(1,303)	(2,248)	(3,551)
Provision for impairment	(1)	—	(1)
Written back on disposal	171	—	171
<b>Balance at December 31, 2010</b>	<b>(4,837)</b>	<b>(5,058)</b>	<b>(9,895)</b>
Amortization charge for the year	(1,372)	(2,248)	(3,620)
Provision for impairment	(8)	—	(8)
Written back on disposal	107	—	107
<b>Balance at December 31, 2011</b>	<b>(6,110)</b>	<b>(7,306)</b>	<b>(13,416)</b>
<b>Net book value at December 31, 2011</b>	<b>3,783</b>	<b>3,932</b>	<b>7,715</b>
Net book value at December 31, 2010	3,788	6,180	9,968

**12. INTERESTS IN ASSOCIATES**

	<u>December 31,</u>	
	<u>2010</u>	<u>2011</u>
	RMB	RMB
Unlisted equity investments, at cost	385	233
Share of post-acquisition changes in net assets	738	752
	<u>1,123</u>	<u>985</u>

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:

<u>Name of company</u>	<u>Attributable equity interest</u>	<u>Principal activities</u>
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.

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

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

**13. INVESTMENTS**

	December 31,	
	2010	2011
	RMB	RMB
Available-for-sale equity securities	822	617
Other unlisted equity investments	32	31
	<u>854</u>	<u>648</u>

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.

**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:

Note	Assets			Liabilities			Net balance		
	January 1, 2010	December 31, 2010	December 31, 2011	January 1, 2010	December 31, 2010	December 31, 2011	January 1, 2010	December 31, 2010	December 31, 2011
	RMB (restated)	RMB (restated)	RMB	RMB (restated)	RMB (restated)	RMB	RMB (restated)	RMB (restated)	RMB
<i>Current</i>									
Provisions and impairment losses, primarily for doubtful debts	931	1,047	1,009	—	—	—	931	1,047	1,009
<i>Non-current</i>									
Property, plant and equipment	4,679	2,882	1,145	(645)	(534)	(425)	4,034	2,348	720
Deferred revenues and installation costs	1,229	1,093	914	(732)	(660)	(562)	497	433	352
Land use rights (i)	—	—	—	—	—	—	—	—	—
Available-for-sale equity securities	—	—	—	(133)	(181)	(130)	(133)	(181)	(130)
Deferred tax assets/ (liabilities)	<u>6,839</u>	<u>5,022</u>	<u>3,068</u>	<u>(1,510)</u>	<u>(1,375)</u>	<u>(1,117)</u>	<u>5,329</u>	<u>3,647</u>	<u>1,951</u>

	Note	Balance as of January 1, 2009 RMB (restated)	Recognized in statement of comprehensive income RMB (restated)	Balance as of December 31, 2009 RMB (restated)
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		726	205	931
<i>Non-current</i>				
Property, plant and equipment		5,373	(1,339)	4,034
Deferred revenues and installation costs		603	(106)	497
Land use rights	(i)	—	—	—
Available-for-sale equity securities		(13)	(120)	(133)
Net deferred tax assets		<u>6,689</u>	<u>(1,360)</u>	<u>5,329</u>

**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)

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

	<u>Note</u>	<u>Balance as of January 1, 2010 RMB (restated)</u>	<u>Recognized in statement of comprehensive income RMB (restated)</u>	<u>Balance as of December 31, 2010 RMB (restated)</u>
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		931	116	1,047
<i>Non-current</i>				
Property, plant and equipment		4,034	(1,686)	2,348
Deferred revenues and installation costs		497	(64)	433
Land use rights	(i)	—	—	—
Available-for-sale equity securities		(133)	(48)	(181)
Net deferred tax assets		<u>5,329</u>	<u>(1,682)</u>	<u>3,647</u>

	<u>Note</u>	<u>Balance as of January 1, 2011 RMB (restated)</u>	<u>Acquired from the Fifth Acquired Group RMB</u>	<u>Recognized in statement of comprehensive income RMB</u>	<u>Balance as of December 31, 2011 RMB</u>
<i>Current</i>					
Provisions and impairment losses, primarily for doubtful debts		1,047	—	(38)	1,009
<i>Non-current</i>					
Property, plant and equipment		2,348	5	(1,633)	720
Deferred revenues and installation costs		433	—	(81)	352
Land use rights	(i)	—	—	—	—
Available-for-sale equity securities		(181)	—	51	(130)
Net deferred tax assets		<u>3,647</u>	<u>5</u>	<u>(1,701)</u>	<u>1,951</u>

Note:

- (i) In connection with the Restructuring and the Acquisitions, the land use rights of the Predecessor Operations, the First Acquired Group and the Second Acquired Group were revalued as required by the relevant PRC rules and regulations. The tax bases of the land use rights were adjusted to conform to such revalued amounts. Prior to the adoption of the amendment to IFRS 1, the land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets were created with corresponding increases in other comprehensive income in previous years and accumulated in shareholders' equity under the caption of other reserves. As a result of the adoption of amendment to IFRS 1(Note 3), the revalued amounts of land use rights of the Predecessor Operations, the First Acquired Group and the Second Acquired Group were adopted as deemed costs. Therefore, the tax bases and the amounts for financial reporting purpose of the land use rights were the same, and accordingly the respective deferred tax assets were eliminated retrospectively.



**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)

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

Short-term debt comprises:

	December 31,	
	2010	2011
	RMB	RMB
Loans from banks – unsecured	11,578	8,123
Other loans – unsecured	80	244
Loans from China Telecom Group – unsecured	9,017	820
Total short-term debt	<u>20,675</u>	<u>9,187</u>

The weighted average interest rate of the Group's total short-term debt as of December 31, 2010 and 2011 was 4.3% and 5.9%, respectively. As of December 31, 2011, the loans from banks and other loans bear interest at rates ranging from 3.9% to 7.2% per annum and are repayable within one year; the loans from China Telecom Group bear interest at fixed rates ranging from 3.9% to 4.9% per annum and are repayable within one year.

Long-term debt comprises:

		December 31,	
		2010	2011
		RMB	RMB
<b>Bank loans – unsecured</b>			
Renminbi denominated	Interest rates ranging from 3.60% to 7.04% per annum with maturities through 2020	279	409
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060	733	648
Japanese Yen denominated	Interest rates ranging from 1.49% to 1.58% per annum with maturities through 2012	1,447	1,441
Euro denominated	Interest rates ranging from 2.30% to 4.75% per annum with maturities through 2032	559	485
Other currencies denominated		36	29
		<u>3,054</u>	<u>3,012</u>
<b>Other loans – unsecured</b>			
Renminbi denominated		1	1
Medium-term notes-unsecured (Note (i))		49,846	39,903
Total long-term debt		<u>52,901</u>	<u>42,916</u>
Less: Current portion		(10,352)	(11,766)
Non-current portion		<u>42,549</u>	<u>31,150</u>

**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)

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

Note:

- (i) On April 22, 2008, the Group issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 5.30% per annum. This medium-term note was repaid by the Company on April 23, 2011.  
 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.  
 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.

The aggregate maturities of the Group's long-term debt subsequent to December 31, 2011 are as follows:

	<b>RMB</b>
2012	11,766
2013	10,188
2014	20,049
2015	89
2016	89
Thereafter	735
	<u>42,916</u>

The Group's short-term and long-term debt do not contain any financial covenants. As of December 31, 2010 and 2011, the Group has unutilized committed credit facilities amounting to RMB98,576 and RMB118,970 respectively.

**16. ACCOUNTS PAYABLE**

Accounts payable are analyzed as follows:

	<b>December 31,</b>	
	<u>2010</u>	<u>2011</u>
	<b>RMB</b>	<b>RMB</b>
Third parties	30,838	34,748
China Telecom Group	8,571	8,911
Other telecommunications operators in the PRC	630	699
	<u>40,039</u>	<u>44,358</u>

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

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

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

**17. ACCRUED EXPENSES AND OTHER PAYABLES**

Accrued expenses and other payables represent:

	December 31,	
	2010	2011
	RMB	RMB
Amounts due to China Telecom Group	389	312
Amounts due to other telecommunications operators in the PRC	85	78
Accrued expenses	14,401	14,280
Customer deposits and receipts in advance	37,577	44,695
Dividend payable	433	7
	<u>52,885</u>	<u>59,372</u>

**18. DEFERRED REVENUES**

Deferred revenues represent the unearned portion of upfront connection fees and installation fees for wireline services received from customers and the unused portion of calling cards. Connection fees and installation fees are amortized over the expected customer relationship period of 10 years. Beginning July 1, 2001, connection fees were no longer collected from new customers.

	December 31,	
	2010	2011
	RMB	RMB
Balance at beginning of year	8,462	6,203
Additions for the year		
— installation fees	395	373
— calling cards	1,568	1,275
	<u>1,963</u>	<u>1,648</u>
Reductions for the year		
— amortization of connection fees	(497)	(98)
— amortization of installation fees	(2,021)	(1,660)
— usage of calling cards	(1,704)	(1,288)
Balance at end of year	<u>6,203</u>	<u>4,805</u>
Representing:		
— current portion	2,645	2,093
— non-current portion	3,558	2,712
	<u>6,203</u>	<u>4,805</u>

Included in other assets are primarily capitalized direct costs associated with the installation of wireline services. As of December 31, 2010 and 2011, the unamortized portion of these costs was RMB3,236 and RMB2,444 respectively.

**19. SHARE CAPITAL**

	December 31,	
	2010	2011
	RMB	RMB
<b>Registered, issued and fully paid</b>		
67,054,958,321 ordinary domestic shares of RMB1.00 each	67,055	67,055
13,877,410,000 overseas listed H shares of RMB1.00 each	13,877	13,877
	<u>80,932</u>	<u>80,932</u>

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

**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)

**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, 2009, as previously reported	(2,804)	10,746	11,410	56,085	2,586	(665)	54,746	132,104
Change in accounting policy (Note 3)	19,571	—	(11,410)	—	(2,547)	—	9,397	15,011
Balance as of January 1, 2009, as restated	16,767	10,746	—	56,085	39	(665)	64,143	147,115
Dividends (Note 26)	—	—	—	—	—	—	(6,067)	(6,067)
Appropriations (Note (iii))	—	—	—	4,521	—	—	(4,521)	—
Total comprehensive income for the year, as restated	—	—	—	—	343	(2)	13,983	14,324
Balance as of December 31, 2009, as restated	16,767	10,746	—	60,606	382	(667)	67,538	155,372
Acquisition of non-controlling interests	—	—	—	—	(3)	—	—	(3)
Dividends (Note 26)	—	—	—	—	—	—	(6,031)	(6,031)
Appropriations (Note (iii))	—	—	—	2,028	—	—	(2,028)	—
Total comprehensive income for the year, as restated	—	—	—	—	59	(48)	15,347	15,358
Balance as of December 31, 2010, as restated	16,767	10,746	—	62,634	438	(715)	74,826	164,696
Dividends (Note 26)	—	—	—	—	—	—	(5,763)	(5,763)
Acquisition of non-controlling interests	—	—	—	—	(1)	—	—	(1)
Acquisition of the Fifth Acquired Group (Note 1)	—	—	—	—	—	—	(19)	(19)
Appropriations (Note (iii))	—	—	—	1,682	—	—	(1,682)	—
Total comprehensive income for the year	—	—	—	—	(154)	(103)	16,502	16,245
Balance as of December 31, 2011	16,767	10,746	—	64,316	283	(818)	83,864	175,158

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, 2011, the Company transferred RMB1,572, being 10% of the year's net profit determined in accordance with IFRS, to this reserve. For the year ended December 31, 2010, the Company transferred RMB1,525, being 10% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises.  
According to the Company's Articles of Association, the Company transferred of RMB110 for the year ended December 31, 2011, being 0.7% of the year's net profit determined in accordance with IFRS, to the discretionary surplus reserve. The Company transferred RMB503 for the year ended December 31, 2010, being 3.3% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises.  
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.

**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)

**20. RESERVES (continued)**

Note: (continued)

- (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, 2010 and 2011, the amount of retained earnings available for distribution was RMB59,564 and RMB67,623 respectively, being the amount determined in accordance with IFRS. Final dividend of approximately RMB5,583 in respect of the financial year 2011 proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period (Note 26).

**21. OPERATING REVENUES**

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

	Note	Year ended December 31,		
		2009 RMB	2010 RMB	2011 RMB
Wireline voice	(i)	78,432	62,498	49,764
Mobile voice	(ii)	20,027	28,906	38,628
Internet	(iii)	51,567	63,985	74,992
Value-added services	(iv)	21,533	22,571	25,529
Integrated information application services	(v)	12,659	15,519	20,473
Managed data and leased line	(vi)	11,499	12,389	14,273
Others	(vii)	12,502	13,499	21,284
Upfront connection fees	(viii)	1,151	497	98
		<u>209,370</u>	<u>219,864</u>	<u>245,041</u>

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 amortized amount of upfront 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 system integration and consulting services and Best Tone information services, which comprise hotline enquiry and booking services.
- (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 repairs and maintenance of equipment.
- (viii) Represent the amortized amount of the upfront fees received for initial activation of wireline services.

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

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

**22. PERSONNEL EXPENSES**

Personnel expenses are attributable to the following functions:

	Year ended December 31,		
	2009	2010	2011
	RMB	RMB	RMB
Network operations and support	21,210	23,129	25,924
Selling, general and administrative	11,647	12,400	13,243
	<u>32,857</u>	<u>35,529</u>	<u>39,167</u>

**23. OTHER OPERATING EXPENSES**

Other operating expenses consist of:

	Note	Year ended December 31,		
		2009	2010	2011
		RMB	RMB	RMB
Interconnection charges	(i)	9,634	11,130	13,042
Cost of goods sold	(ii)	7,721	7,909	15,728
Donations		8	21	13
Others		86	46	85
		<u>17,449</u>	<u>19,106</u>	<u>28,868</u>

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.

**24 NET FINANCE COSTS**

Net finance costs comprise:

	Year ended December 31,		
	2009	2010	2011
	RMB	RMB	RMB
Interest expense incurred	5,051	4,057	3,023
Less: Interest expense capitalized*	(327)	(262)	(313)
Net interest expense	4,724	3,795	2,710
Interest income	(282)	(287)	(405)
Foreign exchange losses	108	178	48
Foreign exchange gains	(175)	(86)	(99)
	<u>4,375</u>	<u>3,600</u>	<u>2,254</u>

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

<u>2.5%- 6.9%</u>	<u>2.5%- 4.7%</u>	<u>2.5% - 5.6%</u>
-------------------	-------------------	--------------------

**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)

**25. INCOME TAX**

Income tax in the profit or loss comprises:

	Year ended December 31,		
	2009	2010	2011
	RMB	RMB	RMB
	(restated)	(restated)	
Provision for PRC income tax	3,105	3,165	3,635
Provision for income tax of other jurisdictions	37	47	29
Deferred taxation	1,240	1,634	1,752
	<u>4,382</u>	<u>4,846</u>	<u>5,416</u>

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

	Note	Year ended December 31,		
		2009	2010	2011
		RMB	RMB	RMB
		(restated)	(restated)	
Earnings before income tax		<u>18,569</u>	<u>20,311</u>	<u>22,014</u>
Expected PRC income tax expense at statutory tax rate of 25%	(i)	4,642	5,078	5,503
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(448)	(579)	(255)
Differential tax rate on other subsidiaries' income	(ii)	(17)	(11)	(3)
Non-deductible expenses	(iii)	1,013	832	489
Non-taxable income	(iv)	(776)	(444)	(291)
Other tax benefits		<u>(32)</u>	<u>(30)</u>	<u>(27)</u>
Actual income tax expense		<u>4,382</u>	<u>4,846</u>	<u>5,416</u>

Note:

- (i) Except for certain subsidiaries and branches which are taxed at preferential rates of 15% or 24%, 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 primarily represent miscellaneous income which are not subject to income tax.

**26. DIVIDENDS**

Pursuant to a resolution passed at the Directors' meeting on March 20, 2012, a final dividend of equivalent to HK\$0.085 per share totaling approximately RMB5,583 for the year ended December 31, 2011 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, 2011

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 approximately RMB5,763 in respect of the year ended December 31, 2010 was declared and paid on June 30, 2011.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 25, 2010, a final dividend of RMB0.074514 (equivalent to HK\$0.085) per share totaling RMB6,031 in respect of the year ended December 31, 2009 was declared and of which RMB5,608 were paid on June 30, 2010 and the remaining amounts were settled by June 2011.

**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)

**27. BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share for the years ended December 31, 2009, 2010 and 2011 is based on the profit attributable to equity holders of the Company of RMB13,983, RMB15,347 and RMB16,502 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.

**28. COMMITMENTS AND CONTINGENCIES**

*Operating lease commitments*

The Group leases business premises and equipment through non-cancellable operating leases. Other than the CDMA network lease arrangements as set out in Note 31(a), 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, 2011, the Group's future minimum lease payments under non-cancelable operating leases were as follows:

	<b>RMB</b>
2012	18,182
2013	782
2014	600
2015	413
2016	450
Thereafter	676
<b>Total minimum lease payments</b>	<b><u>21,103</u></b>

Total rental expense in respect of operating leases charged to profit or loss for the years ended December 31, 2009, 2010 and 2011 were RMB10,757, RMB16,332 and RMB22,536, respectively.

*Capital commitments*

As of December 31, 2011, the Group had capital commitments as follows:

	<b>RMB</b>
<b>Authorized and contracted for</b>	
- property	674
- telecommunications network plant and equipment	<u>5,695</u>
	<u>6,369</u>
<b>Authorized but not contracted for</b>	
- property	801
- telecommunications network plant and equipment	<u>5,927</u>
	<u>6,728</u>



**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)

**28. 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 transferred to the Group in connection with the Fifth Acquisition, 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 the Fifth Acquisition.
- (b) As of December 31, 2010 and 2011, 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.

**29. 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, 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 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 RMB822 and RMB617 as of December 31, 2010 and 2011 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.

**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)

**29. 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, having considered the foreign currency denomination of the debt, ranged from 1.0% to 7.51% (2010: 1.0% to 5.88%). As of December 31, 2010 and 2011, the carrying amounts and fair values of the Group's long-term debt were as follows:

	December 31, 2010		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB	RMB	RMB	RMB
Long-term debt	52,901	50,630	42,916	41,698

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 5.

(ii) *Liquidity risk*

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

**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)

**29. 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:

	<b>2010</b>					
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but less than 5 years</b>	<b>More than 5 years</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Short-term debt	20,675	(20,924)	(20,924)	—	—	—
Long-term debt	52,901	(59,560)	(12,802)	(13,261)	(32,556)	(941)
Accounts payable	40,039	(40,039)	(40,039)	—	—	—
Accrued expenses and other payables	52,885	(52,885)	(52,885)	—	—	—
	<u>166,500</u>	<u>(173,408)</u>	<u>(126,650)</u>	<u>(13,261)</u>	<u>(32,556)</u>	<u>(941)</u>

	<b>2011</b>					
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but less than 5 years</b>	<b>More than 5 years</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Short-term debt	9,187	(9,391)	(9,391)	—	—	—
Long-term debt	42,916	(47,087)	(13,513)	(11,592)	(21,211)	(771)
Accounts payable	44,358	(44,358)	(44,358)	—	—	—
Accrued expenses and other payables	59,372	(59,372)	(59,372)	—	—	—
	<u>155,833</u>	<u>(160,208)</u>	<u>(126,634)</u>	<u>(11,592)</u>	<u>(21,211)</u>	<u>(771)</u>

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 and long-term debts. 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 maintaining high level of fixed rate debts.

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

	<b>2010</b>		<b>2011</b>	
	<b>Effective interest rate</b>	<b>RMB</b>	<b>Effective interest rate</b>	<b>RMB</b>
	<b>%</b>		<b>%</b>	
<b>Fixed rate debt:</b>				
Short-term debt	4.2	19,842	5.8	7,471
Long-term debt	4.3	52,646	4.1	42,712
		<u>72,488</u>		<u>50,183</u>
<b>Variable rate debt:</b>				
Short-term debt	4.5	833	6.1	1,716
Long-term debt	4.9	255	1.5	204
Total debt		<u>73,576</u>		<u>52,103</u>
Fixed rate debt as a percentage of total debt		<u>98.5%</u>		<u>96.3%</u>

**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)

**29. FINANCIAL INSTRUMENTS (continued)**

(b) *Risks (continued)*

(iii) Interest rate risk (continued)

As of December 31, 2010 and 2011, 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 RMB8 and RMB14 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 2010.

(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 94.4% (2010: 91.2%) of the Group's cash and cash equivalents and 94.7% (2010: 96.0%) of the Group's short-term and long-term debt as of December 31, 2011 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 15.

**30. 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. As of December 31, 2010 and 2011, the Group's total debt-to-total assets ratio was 17.5% and 12.4% respectively, which is within the range of management's expectation.

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

**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)

**31. 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.

	Note	Year ended December 31,		
		2009	2010	2011
		RMB	RMB	RMB
Purchases of telecommunications equipment and materials	(i)	1,956	2,215	2,764
Sales of telecommunications equipment and materials	(i)	940	993	1,642
Construction and engineering services	(ii)	5,970	6,415	8,293
Provision of IT services	(iii)	249	295	365
Receiving IT services	(iii)	520	556	692
Receiving community services	(iv)	2,324	2,185	2,362
Receiving ancillary services	(v)	6,044	6,838	7,878
Operating lease expenses	(vi)	387	385	395
Net transaction amount of centralized services	(vii)	534	466	625
Interconnection revenues	(viii)	69	55	48
Interconnection charges	(viii)	667	571	498
Interest on loans from China Telecom Group	(ix)	2,933	896	208
CDMA network capacity lease fee	(x)	8,383	13,320	19,011
Reimbursement of capacity maintenance related costs of CDMA network	(xi)	1,163	1,755	3,151

Note:

- (i) Represents 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 service.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.

**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)

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

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

- (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.

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

	December 31,	
	2010	2011
	RMB	RMB
Accounts receivable	1,182	1,803
Prepayments and other current assets	1,044	1,091
<b>Total amounts due from China Telecom Group</b>	<b>2,226</b>	<b>2,894</b>
Accounts payable	8,571	8,911
Accrued expenses and other payables	389	312
Short-term debt	9,017	820
<b>Total amounts due to China Telecom Group</b>	<b>17,977</b>	<b>10,043</b>

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

As of December 31, 2010 and 2011, 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.

**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)

**31. 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,		
	2009	2010	2011
	RMB	RMB	RMB
	thousands	thousands	thousands
Short-term employee benefits	8,142	13,778	9,037
Post-employment benefits	726	802	696
Equity-based compensation benefits	—	5,351	8,959
	<u>8,868</u>	<u>19,931</u>	<u>18,692</u>

The above remuneration is included in personnel expenses.

**(c) Contributions to post-employment benefit plans**

The Group participates in various defined contribution post-employment benefits 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 32.

**(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 31(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.

**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)

**32. 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. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the year ended December 31, 2009, 2010 and 2011 were RMB2,933, RMB3,144 and RMB3,498 respectively.

The amount payable for contributions to defined contribution retirement plans as of December 31, 2010 and 2011 was RMB206 and RMB210 respectively.

**33. 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 March 2003, the Company's compensation committee 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 April 2005, the Company's compensation committee 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 January 2006, the Company's compensation committee 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.

During the years ended December 31, 2009, 2010 and 2011, 0.2 million, 483 million and 465 million stock appreciation right units were exercised respectively. For the year ended December 31, 2009, 2010 and 2011, compensation expense recognized by the Group in respect of stock appreciation rights were RMB56, RMB592 and RMB328 respectively.

As of December 31, 2010 and 2011, the carrying amount of the liability arising from stock appreciation rights was RMB412 and RMB28 respectively. As of December 31, 2011, all stock appreciation right units vested were exercised. As of December 31, 2010, 417 million stock appreciation right units vested but were not exercised and the carrying amount of the corresponding liability was RMB412.



**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)

**34. PRINCIPAL SUBSIDIARIES**

Details of the Company's principal subsidiaries as of December 31, 2011 are as follows:

<u>Name of Company</u>	<u>Type of legal entity</u>	<u>Date of incorporation</u>	<u>Place of incorporation and operation</u>	<u>Registered /issued capital (in RMB millions unless otherwise stated)</u>		<u>Principal activities</u>
China Telecom System Integration Co., Limited	Limited Company	September 13, 2001	PRC		392	Provision of system integration and consulting services
China Telecom (Hong Kong) International Limited	Limited Company	February 25, 2000	Hong Kong Special Administrative Region of the PRC	HK\$	10,000	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	MOP	60 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
Besttone E-commerce Co., Ltd	Limited Company	December 17, 2010	PRC		100	Provision of e-commerce and booking 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		250	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	AUD	1	Provision of international value-added network services

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company, all of the above subsidiaries are directly or indirectly wholly-owned by the Company.

**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)

**35. 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 2. Management believes the following significant accounting policies involve the most significant judgments and estimates used in the preparation of the consolidated financial statements.

**Revenue recognition for upfront connection and installation fees**

The Group defers the recognition of upfront fees for activation of wireline services and wireline installation fees and amortizes such fees over the expected customer relationship period of ten years. The related direct incremental customer acquisition costs (including direct costs of installation) are also deferred and amortized over the same expected customer relationship period. Management estimates the expected customer relationship period based on the historical customer retention experience with consideration of the expected level of future competition, the risk of technological or functional obsolescence of its services, technological innovation, and the expected changes in the regulatory and social environment. If management's estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of deferred revenue and deferred customer acquisition costs would change for future periods. There have been no changes to the estimated customer relationship period for the years presented.

**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 2(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.

**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)

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

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

For the years ended December 31 2009 and 2010, provision for impairment losses of RMB753 and RMB139 were made against the carrying value of property, plant and equipment. For the year ended December 31, 2011, 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.

**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)

**36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2011**

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, 2011:

	<u>Effective for accounting period beginning on or after</u>
Amendments to IFRS 1, “First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	July 1, 2011
Amendments to IFRS 7, “Financial instruments: Disclosures – Transfers of Financial Assets”	July 1, 2011
Amendments to IAS 12, “Income taxes – Deferred Tax: Recovery of Underlying Assets”	January 1, 2012
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 Interpretation 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
Amendments to IAS 32, “Financial instruments: Presentation – Offsetting financial assets and financial liabilities”	January 1, 2014
IFRS 9, “Financial Instruments”	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, 2011. 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.

**37. COMPARATIVE FIGURES**

As a result of the adoption of amendments to IFRS 1, certain comparative figures have been adjusted to conform to current year’s presentation. Further details of this development are disclosed in Note 3. In addition, certain comparative figures have been reclassified to conform to current year’s presentation.

**38. PARENT AND ULTIMATE HOLDING COMPANY**

The parent and ultimate holding company of the Group as of December 31, 2011 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.

---

---

ARTICLES OF ASSOCIATION  
OF  
CHINA TELECOM CORPORATION LIMITED

---

---

*(The Articles of Association was prepared in Chinese and the English translation is not an official version and for your reference only. In case of any inconsistencies and discrepancies between the Chinese and the English versions, the Chinese version shall prevail)*

(Inclusive of alterations made up to 20 May 2011)

## CONTENTS

CLAUSE	PAGE
CHAPTER 1: GENERAL PROVISIONS	1
CHAPTER 2: THE COMPANY'S OBJECTIVES AND SCOPE OF BUSINESS	3
CHAPTER 3: SHARES AND REGISTERED CAPITAL	4
CHAPTER 4: REDUCTION OF CAPITAL AND REPURCHASE OF SHARES	7
CHAPTER 5: FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES	10
CHAPTER 6: SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS	11
CHAPTER 7: SHAREHOLDERS' RIGHTS AND OBLIGATIONS	16
CHAPTER 8: SHAREHOLDERS' GENERAL MEETINGS	19
CHAPTER 9: SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS	28
CHAPTER 10: BOARD OF DIRECTORS	30
CHAPTER 11: SECRETARY OF THE BOARD OF DIRECTORS	36
CHAPTER 12: GENERAL MANAGER	39
CHAPTER 13: SUPERVISORY COMMITTEE	40
CHAPTER 14: THE QUALIFICATIONS AND DUTIES OF THE DIRECTORS, SUPERVISORS, GENERAL MANAGER AND OTHER SENIOR OFFICERS OF THE COMPANY	43
CHAPTER 15: FINANCIAL AND ACCOUNTING SYSTEMS AND PROFIT DISTRIBUTION	50
CHAPTER 16: APPOINTMENT OF ACCOUNTANCY FIRM	53
CHAPTER 17: MERGER AND DIVISION OF THE COMPANY	56
CHAPTER 18: DISSOLUTION AND LIQUIDATION	57
CHAPTER 19: PROCEDURES FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION	60
CHAPTER 20: NOTICES	61
CHAPTER 21: DISPUTE RESOLUTION	62
CHAPTER 22: SUPPLEMENTARY	63

ARTICLES OF ASSOCIATION OF  
CHINA TELECOM CORPORATION LIMITED

**CHAPTER 1: GENERAL PROVISIONS**

Article 1. China Telecom Corporation Limited (the “Company”) is a joint stock limited company established in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Shares (the “Special Regulations”) and other relevant laws and regulations of the State.

The Company was established by way of promotion with the approval of the State Economic and Trade Commission of the People’s Republic of China, as evidenced by approval document *Guo Jing Mao Qi Gai [2002]* no. 656. It is registered with and has obtained a business licence from the State Administration for Industry & Commerce of the People’s Republic of China on 10 September 2002. The Company’s business licence number is: 1000001003712.

The promoter of the Company is: China Telecommunications Corporation.

Article 2. The Company’s registered Chinese name is: 中国电信股份有限公司  
The Company’s registered English name is: China Telecom Corporation Limited.

Article 3. The Company’s address : 31 Jinrong Street  
Xicheng District  
Beijing  
China  
Postal code : 100032  
Telephone number : 6642-8166  
Facsimile number : 6641-5280

Article 4. The Company’s legal representative is the Chairman of the board of directors of the Company.

Article 5. The Company is a joint stock limited company which has perpetual existence.

The rights and liability of a shareholder of the Company is limited to his share in the share capital of the Company, while the Company undertakes all of its liabilities with all of its assets.

The Company is an independent corporate legal person, and is subject to the jurisdiction of and protected by the laws and regulations of the People's Republic of China.

Article 6. The Company's Articles of Association (the "Articles of Association" or "these Articles of Association") are enacted in accordance with the provisions of the Company Law, the Special Regulations and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") and relevant provisions under the other PRC laws and administrative regulations.

Article 7. The original Articles of Association took effect from the date of incorporation of the Company.

These Articles of Association shall take effect after being adopted by a special resolution at the Company's general meeting and upon approval by the authorities that are authorized by the State Council to examine and approve companies. After these Articles of Association come into effect, the original articles of association shall be superseded by these Articles of Association.

Article 8. From the date on which the Company's Articles of Association comes into effect, the Company's Articles of Association constitute the legally binding document that regulates the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders.

Article 9. The Company's Articles of Association are binding on the Company and its shareholders, directors, supervisors, general manager and other senior management personnel, all of whom may, according to the Company's Articles of Association, assert rights in respect of the affairs of the Company.

Subject to non-contradiction to Chapter 21 of these Articles of Association, a shareholder may sue and vice versa be sued by the Company pursuant to the Company's Articles of Association. A shareholder may also sue another shareholder, and may take action against the directors, supervisors, general manager and other senior officers of the Company pursuant to the Company's Articles of Association.

The suit referred to in the preceding paragraph include court proceedings and an application to an arbitration tribunal to commence arbitration proceedings.

Article 10. The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an invested company shall be limited to the amount of its capital contribution to the investee company.



The Company shall not be a shareholder with unlimited liabilities of any other organisations operating for profits.

The Company may, according to its operating and management needs, operate as a holding company in accordance with the law.

- Article 11. Subject to compliance with PRC laws and administrative regulations, the Company shall have the right to raise funds, including (but not limited to) loans and company bonds, etc and shall have the right to charge or pledge its assets.

## **CHAPTER 2: THE COMPANY'S OBJECTIVES AND SCOPE OF BUSINESS**

- Article 12. The Company's objectives are: comply with State laws and regulations, be market driven, actively adopt advanced communications technologies, and develop telecommunications and information businesses; strengthen management and increase service quality; provide fast, convenient and accurate communication services to society and satisfy the needs of society; improve enterprise efficiency, increase enterprise competitiveness and create profits for shareholders.

- Article 13. The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

Basic telecommunications businesses include: engage in second generation 800MHz CDMA digital cellular mobile communications business and third generation CDMA2000 digital cellular mobile communications business in the People's Republic of China; engage in local fixed telephone business (including local wireless ring circuit business), domestic fixed long-distance telephone business, international fixed long-distance telephone business, IP telephone (limited to Phone-to-Phone) business, satellite international private line business, Internet data transfer business, international data communications business, public telegraph and subscriber telegraph business, 26GHz wireless access business, domestic communications facilities servicing business in the twenty-one provinces, municipalities and autonomous regions of Beijing, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; engage in 3.5GHz wireless access business in Nanjing, Hefei, Kunming, Hubei, Hunan, Hainan, Sichuan, Guizhou and Gansu.

Value-added telecommunications businesses include: engage in Type 2 basic telecommunications businesses, namely, domestic Very Small Aperture Terminal (VSAT) communications business, domestic fixed data transfer business, wireless data transfer business, Customer Premises Network (CPN) business, network hosting business in the twenty-one provinces, municipalities and autonomous regions of Beijing, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; Type 1 value-added telecommunications businesses, namely, online data processing and transaction processing business, domestic Internet virtual private network business, Internet data center business; Type 2 value-added telecommunications businesses, namely, voice mailbox business, fax storage and forwarding business, X.400 email business, call centre business, Internet access services business and information services business (including fixed telephone information service business, Internet information service business and mobile information service business)

Information services business (limited to mobile information services) in the ten provinces, municipalities and autonomous regions of Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shandong, Henan and Tibet.

General businesses include: engage in system integration, technology development, technical services, technology training, technology consulting, information consulting, the manufacture, sale, installation, design and construction of equipment, computer hardware and software in connection with communications and information businesses; leasing of properties; leasing of communications facilities; design, construction and repair of safety technologies and security systems; advertising.

Article 14. The Company may, based on its business development needs, establish wholly-owned subsidiaries, controlled subsidiaries, branches, representative offices and other branch organisations.

Based on its business development needs and upon approval of the relevant governmental authorities, the Company may adjust its scope of business and manner of operation from time to time, and may establish branch organisations and/or representative offices (irrespective of whether controlled or owned by it) in the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan Region.

### **CHAPTER 3: SHARES AND REGISTERED CAPITAL**

Article 15. There must, at all times, be ordinary shares in the Company. The ordinary shares issued by the Company include domestic-invested shares and foreign-invested shares. Subject to the approval by the authorities that are authorised by the State Council to examine and approve companies, the Company may, according to its requirements, create different classes of shares.

- Article 16. The shares issued by the Company shall each have a par value of Renminbi one (1.00) yuan.  
“Renminbi” referred to in the previous paragraph means the legal currency of the PRC.
- Article 17. Subject to the approval of the securities authority of the State Council, the Company may issue shares to Domestic Investors and Foreign Investors.  
“Foreign Investors” referred to in the previous paragraph mean those investors who subscribe for the shares issued by the Company and who are located in foreign countries and in the regions of Hong Kong, Macau and Taiwan.  
“Domestic Investors” mean those investors who subscribe for the shares issued by the Company within the territory of the PRC who are located outside of the jurisdictions mentioned above.
- Article 18. Shares which the Company issues to Domestic Investors for subscription in Renminbi shall be referred to as “Domestic Shares”. Shares which the Company issues to Foreign Investors for subscription in foreign currencies shall be referred to as “Foreign-Invested Shares”. Foreign-Invested Shares which are listed overseas are called “Overseas-Listed Foreign-Invested Shares”. Both holders of Domestic Shares and holders of Overseas-Listed Foreign-Invested Shares are holders of ordinary shares, and have the same obligations and rights.  
“Foreign currencies” mean the legal currencies (other than the RMB) of countries or districts outside the PRC which are recognised by the foreign exchange authority of the State and which can be used to pay the share price to the Company.
- Article 19. Foreign-Invested Shares issued by the Company and which are listed in Hong Kong shall be referred to as “H Shares”. H Shares are shares which have been admitted for listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars.
- Article 20. By the approval of the authorities that are authorised by the State Council to examine and approve companies, the Company issue a total of 80,932,368,321 ordinary shares, of which 68,317,270,803 were issued to the promoter of the Company at the time when the Company was established, representing 84.41% of the issued ordinary share capital.
- Article 21. All the 12,615,097,518 ordinary shares issued by the Company after its incorporation are the overseas-listed foreign-invested shares (H Shares). Pursuant to the *Provisional Measures on the Administration of the Reduction of the State-Owned Shares for Raising Social Security Funds*, the number of overseas-listed foreign-invested shares (H Shares) converted from a reduction by holders of State-owned shares of their shareholdings of the State-owned shares amounted to 1,262,312,482 shares. The total number of the overseas-listed foreign-invested shares (H Shares) issued by the Company shall be 13,877,410,000 shares, representing 17.15% of the issued ordinary share capital of the Company.

The share capital structure of the Company is as follows: there are a total of 80,932,368,321 ordinary shares issued, of which 57,377,053,317 shares are held by the promoter, China Telecommunications Corporation, representing 70.89% of the total of the ordinary shares issued by the Company. The other holders of the domestic shares are Guangdong Rising Assets Management Co., Ltd., who holds a total of 5,614,082,653 shares representing 6.94% of the total ordinary shares issued by the Company, Jiangsu Guoxin Investment Group Co., Ltd., who holds a total of 957,031,543 shares representing 1.18% of the total ordinary shares issued by the Company, Zhejiang Financial Development Company, who holds a total of 2,137,473,626 shares representing 2.64% of the total ordinary shares issued by the Company and Fujian State-Owned Assets Investment Holdings Co., Ltd., who holds a total of 969,317,182 shares representing 1.20% of the total ordinary shares issued by the Company. A total of 13,877,410,000 shares are held by holders of Overseas-Listed Foreign-Invested Shares (H shares), representing 17.15% of the total ordinary shares issued by the Company.

Article 22. The Company's board of directors may take all necessary action for the issuance of Overseas-Listed Foreign-Invested Shares and Domestic Shares separately after proposals for issuance of the same have been approved by the securities authority of the State Council.

The Company may implement its proposal to separately issue Overseas-Listed Foreign-Invested Shares and Domestic Shares pursuant to the preceding paragraph within fifteen (15) months from the date of approval by the China Securities Regulatory Commission (the "CSRC").

Article 23. Where the total number of shares stated in the proposal for the separate issuance of shares includes Overseas-Listed Foreign-Invested Shares and Domestic Shares, such shares should be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for all at once due to special circumstances, the shares may, subject to the approval of the securities authority of the State Council, be issued in separate Offerings.

Article 24. The registered capital of the Company is RMB 80,932,368,321.

Article 25. The Company may, based on its operating and development needs, authorize the increase of its capital pursuant to the Company's Articles of Association.

The Company may increase its capital in the following ways:

- (1) by offering new shares for subscription by unspecified investors;
- (2) by issuing new shares to its existing shareholders;
- (3) by allotting bonus shares to its existing shareholders;
- (4) by any other means which is permitted by law and administrative regulations.

After the Company's increase of share capital by way of the issuance of new shares has been approved in accordance with the provisions of the Company's Articles of Association, the issuance thereof should be made in accordance with the procedures set out in the relevant State laws and administrative regulations.

Article 26. Except as otherwise provided for by law and administrative regulations, shares of the Company without lien on them shall be freely transferable.

#### **CHAPTER 4: REDUCTION OF CAPITAL AND REPURCHASE OF SHARES**

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

Article 28. The Company must prepare a balance sheet and an inventory of assets when it reduces its registered capital.

The Company shall notify its creditors within ten (10) days of the date of the Company's resolution for reduction of capital and shall publish an announcement in a newspaper at least three (3) times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receipt of the notice from the Company or, in the case of a creditor who does not receive such notice, within ninety (90) days of the date of the first public announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debt.

The Company's registered capital may not, after the reduction in capital, be less than the minimum amount prescribed by law.

Article 29. The Company may, in accordance with the procedures set out in the Company's Articles of Association and with the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the purposes of reducing its capital;

- (2) merging with another company that holds shares in the Company;
- (3) other circumstances permitted by laws and administrative regulations.

The Company's repurchase of its issued shares shall comply with the provisions of Articles 30 to 33.

Article 30. The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State:

- (1) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;
- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an agreement.

Article 31. The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in the Company's Articles of Association) before it can repurchase shares outside of the stock exchange by means of an agreement. The Company may, by obtaining the prior approval of the shareholders in a general meeting in the same manner as described above cancel, release, vary or waive its rights under an agreement which has been so entered into.

An agreement for the repurchase shares referred to in the preceding paragraph includes (but is not limited to) an agreement to become liable to repurchase shares or an agreement to acquire the right to repurchase shares.

The Company may not assign an agreement for the repurchase of its shares or any right contained in such an agreement.

Article 32. Shares which have been legally repurchased by the Company shall be cancelled within the period prescribed by law and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change in its registered capital and make a public announcement.

The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

Article 33. Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to the repurchase of its issued shares:

- (1) where the Company repurchases shares at par value, payment shall be made out of carrying amount of the distributable profits of the Company or out of proceeds of a new issue of shares made for that purpose;

- (2) where the Company repurchases shares of the Company at a premium to the par value of its shares payment up to the par value may be made out of the carrying amount of the distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
  - (i) if the shares being repurchased were issued at par value, payment shall be made out of the carrying amount of the distributable profits of the Company;
  - (ii) if the shares being repurchased were issued at a premium to their par value, payment shall be made out of the carrying amount of the distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by the Company on the issue of the shares repurchased nor shall it exceed the book value of the Company's capital common reserve fund account (including the premiums on the new issue of shares) at the time of the repurchase;
- (3) Funds used by the Company for the following purposes should be paid out of the Company's distributable profits:
  - (i) payment for the acquisition of the right to repurchase the Company's own shares;
  - (ii) payment for variation of any contract for the repurchase of the Company's shares;
  - (iii) payment for the release of the Company's obligation(s) under any contract for the repurchase of its shares;
- (4) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value of shares which have been repurchased shall be transferred to the Company's capital common reserve fund account.

## CHAPTER 5: FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES

Article 34. The Company or its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or intends to acquire shares in the Company. Such persons aforementioned shall include those who directly or indirectly incur any obligation as a result of the acquisition of shares in the Company (the “Obligor”).

At no time shall the Company or its subsidiaries provide any form of financial assistance to the Obligor aforementioned for the purposes of reducing or discharging the obligations assumed by him.

This Article shall not apply to the circumstances specified in Article 36 of this Chapter.

Article 35. For the purposes of this Chapter, “financial assistance” includes (without limitation) the following:

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of Obligor’s obligations), compensation (other than compensation payable by the Company’s due to its own default) or release or waiver of any rights;
- (3) provision of loans or entering into any agreement under which the obligations of the Company are to be performed prior to the obligations of another party, or the change in parties to, or the assignment of rights under, such loan or agreement;
- (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or where its net assets would thereby be reduced to a material extent.

For the purposes of this Chapter, “assumption of obligations” includes the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and irrespective of whether such obligation is to be borne solely by the Obligor or jointly with other persons), or by any other means which results in a change in his financial position.

Article 36. The following actions shall not be deemed to be activities prohibited by Article 34 of this Chapter:

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of such provision is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of certain projects of the Company;



- (2) the lawful distribution of the Company's assets by way of dividend;
- (3) the allotment of bonus shares as dividends;
- (4) a reduction of registered capital, a repurchase of shares of the Company or a reorganisation of the share capital structure of the Company effected in accordance with the Company's Articles of Association;
- (5) within its ordinary course of its business, where the lending of money is for the ordinary business activities of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- (6) contributions made by the Company to employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

## **CHAPTER 6: SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS**

Article 37. Share certificates of the Company shall be in registered form.

The share certificate of the Company shall contain following main particulars:

- (1) the name of the Company;
- (2) the date of incorporation of the Company;
- (3) the class of shares, par value and number of shares it represents;
- (4) the share certificate number;
- (5) other matters required to be stated therein by the Company Law, Special Regulations and the stock exchange(s) on which the Company's shares are listed.

Article 38. Share certificates of the Company may be assigned, given as a gift, inherited or charged in accordance with relevant provisions of laws, administrative regulations and these Articles of Association.

For assignment and transfer of shares, relevant registration of the share certificates shall be carried out with the share registration institution authorized by the Company.

Article 39. Share certificates of the Company shall be signed by the Chairman of the Company's board of directors. Where the stock exchange(s) on which the Company's shares are listed require other senior officer(s) of the Company to sign on the share certificates, the share certificates shall also be signed by such senior officer(s). The share certificates shall take effect after being imprinted with the seal of the Company (including the securities seal of the Company). The share certificate shall be imprinted with the seal of the Company or the securities seal of the Company under the authorization of the board of directors. The signatures of the Chairman of the board of directors or other senior officer (s) of the Company may be printed in mechanical form.

Article 40. The Company shall keep a register of shareholders, which shall contain the following particulars:

- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
- (2) the class and quantity of shares held by each shareholder;
- (3) the amount of capital paid-up on or agreed to be paid-up on the shares held by each shareholder;
- (4) the share certificate number(s) of the shares held by each shareholder;
- (5) the date on which each person was entered in the register as a shareholder;
- (6) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.

Article 41. The Company may, in accordance with the mutual understanding and agreements made between the securities authority of the State Council and overseas securities regulatory organisations, maintain the register of shareholders of Overseas-Listed Foreign-Invested Shares overseas and appoint overseas agent(s) to manage such register of shareholders. The original register for holders of Overseas-Listed Foreign-Invested Shares listed in Hong Kong shall be maintained in Hong Kong.

A duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares shall be maintained at the Company's registered address. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders at all times.

If there is any inconsistency between the original and the duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares, the original register of shareholders shall prevail.

Article 42. The Company shall have a complete register of shareholders which shall comprise the following parts:

- (1) the part of the register of shareholders which is maintained at the Company's registered address (other than those share registers which are described in sub-paragraphs (2) and (3) of this Article);
- (2) the part(s) of the register of shareholders in respect of the holders of Overseas-Listed Foreign-Invested Shares of the Company which are maintained in the same location as the overseas stock exchange on which the shares are listed; and
- (3) the part(s) of the register of shareholders which are maintained in such other location as the board of directors considers necessary for the purposes of the listing of the Company's shares.

Article 43. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with the Company's Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognise any instrument of transfer and would not need to provide any reason therefor:

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount agreed from time to time by the Stock Exchange for the registration of the instrument of transfer and other documents relating to or which affect the right of ownership of the shares;
- (2) the instrument of transfer only relates to Overseas-Listed Foreign-Invested Shares listed in Hong Kong;
- (3) the stamp duty which is chargeable on the instrument of transfer has been duly paid;
- (4) the relevant share certificate(s) and any other evidence which the board of directors may reasonably require to show that the transferor has the right to transfer the shares have been provided;
- (5) if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); and

(6) the Company does not have any lien on the relevant shares.

The transfer of Overseas-Listed Foreign Invested Shares in the Company listed in Hong Kong shall be in writing on normal or standard instruments of transfer or on a form acceptable to the Board of Directors; and such transfer instrument can be signed only by hand or, if the transferor or transferee is a securities clearing institution or its representative recognised in accordance with section 37 of the Securities and Futures Ordinance (Hong Kong Law Chapter 571), signed by hand or signed in printed mechanical form. All the transfer instruments shall be maintained in the legal address of the Company or other place the Board of Directors may designate from time to time.

Any change or correction to various parts of the register of shareholders shall be carried out in accordance with the law of the place where such parts of the register of shareholders are maintained.

Article 44. No change may be made to the register of shareholders as a result of a transfer of shares within thirty (30) days prior to the date of a shareholders' general meeting or within five (5) days before the record date for the Company's distribution of dividends.

Article 45. When the Company needs to determine the rights attaching to shares in the Company for the purposes of convening a shareholders' meeting, for dividend distribution, for liquidation or for any other purpose which requires such determination, the board of directors shall decide on a date for the determination of rights attaching to shares in the Company. The shareholders of the Company shall be such persons who appear in the register of shareholders at the close of such determination date.

Article 46. Any person aggrieved and claiming to be entitled to have his name (title) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

Article 47. Any person who is a registered shareholder or who claims to be entitled to have his name (title) entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares").

Application by a holder of Domestic Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with the requirements of the Company Law.

Application by a holder of Overseas-Listed Foreign Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of shareholders of holders of Overseas-Listed Foreign-Invested Shares is maintained, the rules of the stock exchange or other relevant regulations.

The issue of a replacement share certificate to a holder of H Shares, who has lost his share certificate, shall comply with the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration, stating the grounds upon which the application is made, the circumstances and evidence of the loss, and declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) The Company has not received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty (30) days within a period of ninety (90) consecutive days in such newspapers as may be prescribed by the board of directors.
- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the announcement to be published and may publish the announcement upon receipt of confirmation from such stock exchange that the announcement has been exhibited in the premises of the stock exchange. Such announcement shall be exhibited in the premises of the stock exchange for a period of ninety (90) days.

In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the announcement to be published.

- (5) If, by the expiration of the 90-day period referred to in paragraphs (3) and (4) of this Article, the Company has not received any objection from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.
- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.

- (7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant therefor.

Article 48. Where the Company issues a replacement share certificate pursuant to the Company's Articles of Association and a bona fide purchaser acquires such shares or where a shareholder subsequently becomes a registered shareholder of the Relevant Shares (and such shareholder being a bona fide purchaser), his name (title) shall not be removed from the register of shareholders.

Article 49. The Company shall not be liable for any damages sustained by any person by reason of the cancellation of the original share certificate or the issuance of the replacement share certificate unless the claimant is able to prove that the Company has acted in a deceitful manner.

#### **CHAPTER 7: SHAREHOLDERS' RIGHTS AND OBLIGATIONS**

Article 50. A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders.

A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

In the case of the joint shareholders, if one of the joint shareholders is deceased, only the other existing shareholders of the joint shareholders shall be deemed as the persons who have the ownership of the relevant shares. But the board of directors has the power to require them to provide a certificate of death acceptable to it for the purpose of modifying the register of shareholders. For joint shareholders of any shares, only the joint shareholder whose name appears first in the register of shareholders shall have the right to receive certificates of the relevant shares, receive notices of the Company, and attend and vote at shareholders' general meetings of the Company. Any notice which is delivered to the shareholder shall be considered as all the joint shareholders of the relevant shares who have been delivered.

Article 51. The holders of ordinary shares of the Company shall enjoy the following rights:

- (1) the right to receive dividends and other distributions in proportion to the number of shares held;

- (2) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (3) the right of supervisory management over the Company's business operations and the right to present proposals or to raise queries;
- (4) the right to transfer shares in accordance with laws, administrative regulations and provisions of the Company's Articles of Association;
- (5) the right to obtain relevant information in accordance with the provisions of the Company's Articles of Association, including:
  - (i) the right to obtain a copy of the Company's Articles of Association, subject to payment of costs;
  - (ii) the right to inspect and copy, subject to payment of a reasonable fee:
    - (a) all parts of the register of shareholders;
    - (b) personal particulars of each of the Company's directors, supervisors, general manager and other senior officers, including:
      - (aa) present and former name and alias;
      - (bb) principal address (place of residence);
      - (cc) nationality;
      - (dd) primary and all other part-time occupations and duties;
      - (ee) identification documents and the numbers thereof;
    - (c) report on the state of the Company's share capital;
    - (d) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
    - (e) minutes of shareholders' general meetings;

- (6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;
- (7) other rights conferred by laws, administrative regulations and the Company's Articles of Association.

Article 52. The ordinary shareholders of the Company shall assume the following obligations:

- (1) to comply with the Company's Articles of Association;
- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) other obligations imposed by laws, administrative regulations and the Company's Articles of Association.

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

Article 53. In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company:

- (1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including (but not limited to) opportunities which are beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (but not limited to) rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with the Company's Articles of Association).

Article 54. For the purpose of the above Article, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (1) a person who, acting alone or in concert with others, has the power to elect more than half of the board of directors;



- (2) a person who, acting alone or in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (3) a person who, acting alone or in concert with others, holds 30% or more of the issued and outstanding shares of the Company;
- (4) a person who, acting alone or in concert with others, has de facto control of the Company in any other way.

#### **CHAPTER 8: SHAREHOLDERS' GENERAL MEETINGS**

Article 55. The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with the law.

Article 56. The shareholders' general meeting shall have the following functions and powers:

- (1) to decide on the Company's operational policies and investment plans;
- (2) to elect and replace directors and to decide on matters relating to the remuneration of directors;
- (3) to elect and replace supervisors who represent the shareholders and to decide on matters relating to the remuneration of the relevant supervisors;
- (4) to examine and approve the board of directors' reports;
- (5) to examine and approve the supervisory committee's reports;
- (6) to examine and approve the Company's annual financial budgets and final accounts;
- (7) to examine and approve the Company's profit distribution plans and loss recovery plans;
- (8) to decide on the increase or reduction of the Company's registered capital;
- (9) to decide on matters such as merger, division, dissolution and liquidation of the Company;
- (10) to decide on the issue of debentures by the Company;

- (11) to decide on the appointment, dismissal and non-reappointment of the accountancy firms of the Company;
- (12) to amend the Company's Articles of Association;
- (13) to consider motions raised by shareholders who represent 5 % or more of the total number of voting shares of the Company;
- (14) to decide on other matters which, according to law, administrative regulation or the Company's Articles of Association, need to be approved by shareholders in general meetings;

The shareholders in a general meeting may authorize or delegate to the board of directors to carry out matters that are authorised by them or may delegate the implementation of such matters to the board of directors.

Article 57. The Company shall not, without the prior approval of shareholders in a general meeting, enter into any contract with any person (other than a director, supervisor, general manager and other senior officers) pursuant to which such person shall be responsible for the management and administration of the whole or the material part of the businesses of the Company.

Article 58. Shareholders' general meetings consist of annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the board of directors. Annual general meetings are held once every year and within six (6) months from the end of the preceding accounting year.

The board of directors shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events:

- (1) where the number of directors is fewer than the number required by the Company Law or less than two-thirds of the number of directors specified in the Company's Articles of Association;
- (2) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) where shareholder(s) holding 10% or more of the Company's issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting;
- (4) whenever the board of directors deems necessary or the supervisory committee so requests;
- (5) whenever two or more independent directors so request.

Article 59. When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting (inclusive of the day on which the meeting is held) to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting.

Article 60. When the Company convenes a shareholders' annual general meeting, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

Article 61. The Company shall, based on the written replies that it receives from the shareholders twenty (20) days before the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amounts to more than one-half of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall, within five (5) days, notify the shareholders by way of public announcement the matters to be considered at, and the place and date for, the meeting. The Company may then hold the meeting after publication of such announcement.

A shareholders' extraordinary general meeting shall not decide on any matter not stated in the notice for the meeting.

Article 62. A notice of a meeting of the shareholders of the Company shall satisfy the following criteria:

- (1) be in writing;
- (2) specify the place, date and time of the meeting;
- (3) state the matters to be discussed at the meeting;
- (4) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them. This principle shall apply to (but not limited to) situations where a proposal is made for the merger of the Company with another, to repurchase the shares of the Company, to reorganize the Company's share capital, or to restructure the Company in any other way. The specific terms of the proposed transaction must be provided together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;

- (5) contain a disclosure of the nature and extent, if any, of the material interests of any director, supervisor, general manager and other senior officers in the proposed transaction, and where the effect which the proposed transaction will have on such persons in their capacity as shareholders is different from the effect on the interests of shareholders of the same class, an explanation shall be given on such differences;
- (6) contain the full text of any special resolution to be proposed for adoption at the meeting;
- (7) contain a conspicuous statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one (1) or more proxies to attend and vote at such meeting on his behalf and that such proxy(ies) need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting.

Article 63. Notice of shareholders' general meetings shall be served on each shareholder (regardless of whether such shareholder is entitled to vote at the meeting), by personal delivery or prepaid airmail to the address of the shareholder as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may also be issued by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one (1) or more national newspapers designated by the securities authority of the State Council within the interval of forty-five (45) days to fifty (50) days before the date of the meeting; after the publication of such announcement, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

Article 64. The accidental omission to give notice of a meeting to, or the failure to receive the notice of a meeting by, any person entitled to receive such notice shall not invalidate the meeting and the resolutions adopted thereat.

Article 65. Any shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (such person(s) does not have to be a shareholder) as his proxy(ies) to attend and vote on his behalf, and a proxy(ies) so appointed shall be entitled to exercise the following rights in accordance with the authorization from that shareholder:

- (1) the shareholders' right to speak at the meeting;

- (2) the right to demand or join in demanding a poll;
- (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one (1) proxy may only vote on a poll.

Where any member, under the Listing Rules, is required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

Article 66. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity, such instrument shall be delivered either under seal or under the hand of a director or a duly authorized attorney. The letter of authorization shall contain the number of the shares to be represented by the proxy. If several persons are authorized as the proxies of the shareholder, the letter of authorization shall specify the number of shares to be represented by each proxy.

Article 67. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a duly notarized power of attorney for signing the proxy form or other documents evidencing such authority shall be deposited at the registered address of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before either the time for holding the meeting at which the proxy propose to vote or the time appointed for the voting of the resolution. The proxy form shall have on it the date of its execution.

If the appointer is a legal person, its legal representative or such person as is authorized by a resolution of its board of directors or other governing body may attend any meeting of shareholders of the Company as a representative of the appointer.

If the shareholder is a recognized clearing house (or its agent), such shareholder is entitled to appoint one or more persons as his proxies to attend on his behalf at a general meeting or at any class meeting as it sees fit, but, if one or more persons have such authority, the letter of authorization shall contain the number and class of the shares in connection with such authorization. Such person can exercise the right on behalf of the recognized clearing house (or its attorney) as if he is the individual shareholder of the Company.

Article 68. Any form issued to a shareholder by the directors for use by such shareholder for the appointment of a proxy to attend and vote at meetings of the Company shall be in a form that enables the shareholder to freely instruct the proxy to vote in favour of or against the motions, with such instructions being individually given in respect of each matter to be voted on at the meeting. Such a form shall contain a statement that, in the absence of specific instructions from the shareholder, the proxy may vote as he thinks fit.

- Article 69. A vote given in accordance with the terms of a proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or the authority under which the proxy was executed or the transfer of the shares in respect of which the proxy is given, provided that the Company did not receive any written notice in respect of such matters before the commencement of the relevant meeting.
- Article 70. A proxy attending a shareholder's general meeting shall present his proof of identity Save for shareholders who are recognized clearing houses (or its agent), if a shareholder as a legal person appoints its legal representative to attend a meeting, such legal representative shall present his proof of identity and a duly notarized copy of the resolutions of such shareholder's board of directors or other documents evidencing such authority in respect of the appointment of the proxy or any other copy certified in a manner acceptable to the Company.
- Article 71. Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.
- An ordinary resolution must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.
- A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.
- Shareholders (including proxies) shall expressly indicate whether they are in favour of or against any matter being voted on. Any abstention from voting or vote of abstention shall not be regarded as valid votes when the Company counts the votes in respect of the relevant matter.
- Article 72. A shareholder (including a proxy), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which he represents. Each share shall have one (1) vote.
- Article 73. At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded before or after a vote has been carried out by a show of hands:
- (1) by the chairman of the meeting;
  - (2) by at least two (2) shareholders present in person or by proxy entitled to vote thereat;

- (3) by one (1) or more shareholders (including proxies) representing 10 % or more of shares (held solely or in combination) carrying the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact that such resolution has been passed. There shall be no requirement in providing evidence of the number or proportion of votes in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.

Article 74. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and the meeting may proceed to any other business pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

Article 75. On a poll taken at a meeting, a shareholder (including a proxy) entitled to two (2) or more votes need not cast his votes either all for or all against the resolution.

Article 76. In the case of an equality of votes for and against a resolution, whether on a show of hands or on a poll, the chairman of the meeting shall have a casting vote.

Article 77. The following matters shall be resolved by ordinary resolutions at shareholders' general meetings:

- (1) work reports of the board of directors and the supervisory committee;
- (2) profit distribution plans and loss recovery plans formulated by the board of directors;
- (3) election or removal of members of the board of directors and members of the supervisory committee, remuneration and manner of payment of such members;
- (4) annual budgets and final accounts, balance sheets and profit and loss accounts and other financial statements of the Company;
- (5) matters other than those which are required by the laws and administrative regulations or by the Company's Articles of Association to be adopted by special resolution.

- Article 78. The following matters shall be resolved by a special resolution at a shareholders' general meeting:
- (1) the increase or reduction in share capital and the issue of shares of any class, warrants and other securities of a similar nature;
  - (2) the issue of debentures by the Company;
  - (3) the division, merger, dissolution and liquidation of the Company;
  - (4) amendment of the Company's Articles of Association;
  - (5) amendment to rights of shareholders of any class; and
  - (6) any other matter resolved by way of an ordinary resolution by shareholders in general meeting which the shareholders consider may have a material impact on the Company and should be adopted by a special resolution.

Article 79. Any resolution adopted by a shareholders' general meeting shall comply with relevant provisions of PRC laws, administrative regulations and these Articles of Association.

Article 80. Shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

- (1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more written requisitions in the same format and with the same content, stating the proposed matters to be discussed at the meeting, and requiring the board of directors to convene a shareholders' extraordinary general meeting or a class meeting thereof. The board of directors shall as soon as possible proceed to convene the extraordinary general meeting of shareholders or a class meeting thereof after receipt of such written requisition(s). The shareholdings of such shareholders referred to above shall be calculated as at the date of making the requisition(s).
- (2) If the board of directors fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the shareholders who make the requisitions(s) may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' meetings are convened by the board of directors) within four (4) months from the date of receipt of the requisition(s) by the board of directors.

Any reasonable expenses incurred by the shareholders who make the requisition(s) by reason of failure of the board of directors to duly convene a meeting shall be reimbursed by the Company and any sum so reimbursed shall be set-off against sums owed by the Company to the defaulting directors.



- Article 81 The Chairman of the board of directors shall convene and chair every shareholders' general meeting. If the Chairman is unable to attend the meeting for any reason, the vice-chairman of the board of directors shall convene and chair the meeting. If both the Chairman and the vice-chairman of the board of directors are unable to attend the meeting, then the board of directors may designate a director to convene and chair the meeting. If no chairman of the meeting has been so designated, shareholders present shall choose one (1) person to act as the chairman of the meeting. If for any reason the shareholders fail to elect a chairman, then the shareholder (including a proxy) holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.
- Article 82. The chairman of the meeting shall be responsible for determining whether a resolution has been passed. His decision, which shall be final and conclusive, shall be announced at the meeting and recorded in the minute book.
- Article 83. If the chairman of the meeting has any doubt as to the result of a resolution which has been put to vote at a shareholders' meeting, he may have the votes counted. If the chairman of the meeting has not counted the votes, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may, immediately after the declaration of the result, demand that the votes be counted and the chairman of the meeting shall count the votes immediately.
- Article 84. If votes are counted at a shareholders' general meeting, the result of the count shall be recorded in the minute book. The Company secretary shall prepare the record of the shareholders' general meeting, which shall be signed by directors attending the meeting. Resolutions adopted by a shareholders' general meeting shall be included in the minutes of the meeting. The record and minutes of the meeting shall be in Chinese. Such record and minutes, shareholders' attendance lists and proxy forms shall be kept at the Company's registered address.
- Article 85. Copies of the minutes of proceedings of any shareholders' meeting shall, during business hours of the Company, be open for inspection by any shareholder without charge. If a shareholder requests for a copy of such minutes from the Company, the Company shall send a copy of such minutes to him within seven (7) days after receipt of reasonable fees by the Company.

## **CHAPTER 9: SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS**

- Article 86. Class shareholders are those shareholders who hold different classes of shares.  
Class shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and the Company's Articles of Association.
- Article 87. Rights conferred on any class of shareholders may not be varied or abrogated save with the approval of a special resolution of shareholders in a general meeting and by holders of shares of that class at a separate meeting convened in accordance with Articles 89 to 93.
- Article 88. The following circumstances shall be deemed to be variation or abrogation of the rights attaching to a particular class of shares:
- (1) to increase or decrease the number of shares of that class, or to increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of shares of that class;
  - (2) to exchange all or part of the shares of that class for shares of another class, or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
  - (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of that class;
  - (4) to reduce or remove preferential rights attached to shares of that class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
  - (5) to add, remove or reduce conversion rights, election rights, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of that class;
  - (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of that class;
  - (7) to create a new class of shares having voting or equity rights or other privileges equal or superior to those of the shares of that class;
  - (8) to restrict the transfer or ownership of shares of that class or to increase the types of restrictions attaching thereto;

- (9) to allot and issue rights to subscribe for, or to convert the existing shares into, shares in the Company of that class or another class;
- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders;
- (12) to vary or abrogate the provisions of this Chapter.

Article 89. Shareholders of the affected class, regardless of whether having the right to vote or not at shareholders' general meetings, have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 88, but interested shareholder(s) shall not be entitled to vote at such class meetings.

“(An) interested shareholder(s)”, as such term is used in the preceding paragraph:

- (1) in the case of a repurchase of shares by way of a general offer to all shareholders of the Company in the same proportion for all shareholders or by way of public dealing on a stock exchange pursuant to Article 30, an “interested shareholder” refers to a controlling shareholder within the meaning of Article 54 herein;
- (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 30, an “interested shareholder” refers to a shareholder to whom the proposed agreement relates;
- (3) in the case of a restructuring of the Company, an “interested shareholder” refers to a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on shareholders of that class under the proposed restructuring or who has an interest in the proposed restructuring different from the general interests of the shareholders of that class.

Article 90. Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 89, are entitled to vote thereat.

Article 91. Written notice of a class meeting shall be despatched to all shareholders who are registered as holders of that class in the register of shareholders forty-five (45) days (inclusive of the day of the class meeting) before the date of the class meeting. Such notice shall give such shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply to the Company twenty (20) days before the date of the class meeting.

If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days give the shareholders further notice of the matters to be considered, the date and the place of the class meeting by way of public announcement. The Company may then hold the class meeting after such public announcement has been made.

Article 92. Notice of class meetings need only be served on shareholders entitled to vote thereat.

To the extent possible class meetings shall be conducted in a manner similar to shareholders' general meetings. The provisions of the Company's Articles of Association relating to the conduct of shareholders' general meetings shall also apply to class meetings.

Article 93. Apart from the holders of other classes of shares, the holders of the Domestic Shares and holders of Overseas-Listed Foreign-Invested Shares shall be deemed to be holders of different classes of shares.

The special procedures for approval by a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by special resolution of its shareholders in a general meeting once every twelve (12) months, either separately or concurrently, issue not more than 20% of each of its existing issued Domestic Shares and Overseas-Listed Foreign-Invested Shares that has been issued; or
- (2) where the Company's plan to issue Domestic Shares and Overseas-Listed Foreign-Invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the securities authority of the State Council.

#### **CHAPTER 10: BOARD OF DIRECTORS**

Article 94. The Company shall have a board of directors. The board of directors shall consist of fourteen (14) directors, of which five (5) shall be independent (non-executive) directors (meaning directors who are independent from the Company's shareholders and do not hold positions within the Company).

The board of directors shall have one (1) Chairman.

Where necessary, the board of directors may establish audit, remuneration, nomination and other specialised committees.

Article 95. Directors shall be elected at the shareholders' general meeting for a term of three (3) years. At the expiry of a director's term, the director may stand for re-election and reappointment for further term.

The minimum period during which written notice given to the Company of the intention to propose a person for election as a director, and during which written notice to the Company by such person of his willingness to be elected may be given, will be at least 7 days. Such period will commence no earlier than the day after the despatch of the notice of the meeting for the purpose of considering such election and shall end no later than 7 days prior to the date of such meeting.

Nine (9) members of the first session of the board of directors shall be nominated by the promoters of the Company and elected at the Company's inaugural meeting. The number of directors elected for each subsequent session of the board of directors shall not be less than that stipulated in Article 94 or more than the maximum determined at the shareholders' general meeting by an ordinary resolution. Where the number of directors elected by voting exceeds the maximum number of directors proposed, directors who are elected within the maximum number so determined shall be those who get the largest number of votes and appointed in the sequence starting with those with the largest number of votes.

Subject to compliance with all relevant laws and administrative regulations, the shareholders' general meeting may by ordinary resolution remove any director prior to the expiration of such director's term of office. However, such director's right to claim for damages pursuant to any contract due to his loss of office shall not be affected.

The Chairman shall be elected and removed by more than one-half of all of the members of the board of directors. The term of office of each of the Chairman is three (3) years. The Chairman may stand for re-election and may be elected for further term.

The external directors shall have sufficient time and necessary knowledge and ability to perform their duties. When an external director performs his duties, the Company must provide necessary information and independent (non-executive) directors may directly report to the shareholders' meeting, the securities regulatory authority under the State Council and other relevant departments.

The executive directors shall handle matters as authorized by the board of directors.

The directors shall not be required to hold shares in the Company.

Article 96.

The board of directors is accountable to the shareholders in general meeting and exercises the following functions and powers:

- (1) to be responsible for the convening of the shareholders' general meetings and to report on its work to the shareholders in general meeting;
- (2) to implement the resolutions passed by the shareholders in general meeting;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual financial budgets and final accounts;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to formulate the Company's debt and financial policies, proposals for the increase or reduction of the Company's registered capital and for the issuance of the Company's debentures;
- (7) to draw up the Company's material acquisition and disposal proposals and plans for the merger, division or dissolution of the Company;
- (8) to decide on the Company's internal management structure;
- (9) to appoint or remove the Company's general manager and to appoint or remove the deputy general managers, and financial deputy general manager of the Company based on the recommendations of the general manager; to appoint or remove the secretary of the board of directors, and to decide on their remuneration;
- (10) to decide on the establishment of the Company's branch organisations;
- (11) to formulate proposals for amendment of the Company's Articles of Association;
- (12) to formulate the basic management structure of the Company;
- (13) except matters that the Company Law and these Articles of Association require to be resolved by the shareholders in general meeting, to decide on other material and administrative matters of the Company and to execute other material agreements;

- (14) to perform any other functions or exercise any other powers conferred by the shareholders in general meeting or these Articles of Association.

Other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (11) of this Article, which shall be passed by the affirmative vote of more than two-thirds of all the directors, the board of directors' resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.

Resolutions made by the board of directors on the Company's connected transactions shall come into effect only after they are signed by the independent (non-executive) directors.

Article 97.

The board of directors shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33% of the value of the Company's fixed assets as shown in the latest balance sheet which was tabled at a shareholders' general meeting.

For the purposes of this Article, a "disposition" includes an act involving the transfer of an interest in assets but does not include the pledging of fixed assets as guarantee.

The validity of a disposition by the Company shall not be affected by any breach of the first paragraph of this Article.

Before the board of directors makes a decision on market development, merger and acquisition, investment in new areas, etc., in relation to projects involving an investment amount or asset value of the acquisition or merger amounting to more than 10% of the total assets of the Company, an independent consulting agency shall be engaged to provide its professional opinions which shall form an important basis of the decisions of the board of directors.

Article 98.

The Chairman of the board of directors shall exercise the following powers:

- (1) to preside over shareholders' general meetings and to convene and preside over meetings of the board of directors;
- (2) to organise the implementation of the duties of the board of directors and to check on the implementation status of resolutions passed by the board of directors at its meetings;

- (3) to sign the securities certificates issued by the Company;
- (4) to exercise other powers conferred by the board of directors.

When the Chairman is unable to exercise his powers, such powers shall be exercised by the executive director who has been designated by the Chairman to exercise such powers on his behalf.

Article 99. Meetings of the board of directors shall be held at least twice every year and shall be convened by the Chairman of the board of directors. All of the directors should be notified about the meeting ten (10) days beforehand. Where there is an urgent matter, an extraordinary meeting of the board of directors may be held if it is so requested by six (6) of the directors, the Chairman of the board of directors or the Company's general manager. Such extraordinary meeting shall not be subject to the provisions of Article 100 on notice of the meetings.

Article 100. Notice of meetings of the board of directors shall be delivered as follows:

- (1) For regular meetings of the board of directors of which the time and venue have been stipulated by the board of directors beforehand, no notice of the convening of such meetings will be needed.
- (2) For meetings of the board of directors of which the time and venue have not been decided by the board of directors beforehand, the Chairman of the board of directors shall notify the directors of the time and venue of such meeting 10 days in advance by telex, by telegram, by facsimile, by express courier service or by registered mail or in person, unless otherwise provided for in Article 99.
- (3) Notice of meetings may be served in Chinese, with an English translation attached thereto when necessary, and in each case accompanied by a meeting agenda. A director may waive his right to receive notice of a board meeting.

Article 101. In strict compliance with the required procedures, all executive and external directors must be notified about the material matters that must be decided by the board of directors within the time limit stipulated in Article 100, and sufficient materials must be provided at the same time. Directors may request for supplementary information. If more than one-fourth of the total number of directors or more than two external directors consider that the materials provided are not sufficient or the supporting arguments are not clear, they may jointly propose to postpone the meeting or postpone the discussion of certain matters on the agenda of the meeting and the board of directors shall accept such proposal.



Notice of a meeting shall be deemed to have been given to any director who attends the meeting and does not protest against, before or at its commencement, any lack of notice.

Any regular or extraordinary meeting of the board of directors may be held by way of telephone conferencing or with the assistance of similar communication equipment so long as all directors participating in the meeting can hear and communicate with each other clearly. All such directors shall be deemed to be present in person at the meeting.

Article 102. A board of directors meeting shall only be convened if more than half of the board of directors are present (including any directors appointed pursuant to Article 103 to attend the meeting as the representatives of other directors). Each director has one vote. All resolutions require the affirmative votes of more than half of all the board of directors in order to be passed. In the case of equal number of votes for and against a resolution the Chairman of the board of directors is entitled to a casting vote.

Article 103. Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the scope of the authorization.

A Director appointed as the representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a meeting of the board of directors and has not appointed the representative to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting.

Expenses incurred by a director for attending a meeting of the board of directors shall be paid by the Company. These expenses include the costs of transportation between the premises of the director and the venue of the meeting in different cities and accommodation expenses during the meeting. Rent of the meeting place, local transportation costs and other reasonable out-of-pocket expenses shall be paid by the Company.

Article 104. The board of directors may accept a written resolution in lieu of a board meeting provided that a draft of such written resolution shall be delivered to each director in person, by mail, by telegram or by facsimile. If the board of directors has delivered such proposed written resolution to all the directors and the directors who signed and approved such resolution have reached the required quorum, and the same has been delivered to the secretary of the board of directors, such resolution shall become a board resolution and a board meeting need not be convened.

Article 105. The board of directors shall keep minutes of matters considered and resolutions passed at meetings of the board of directors in Chinese. Opinions of the independent (non-executive) directors shall be clearly stated in the resolutions of the board of directors. The minutes of each board meeting shall be provided to all the directors promptly. Directors who wish to amend or supplement the minutes shall submit the proposed amendments to the Chairman in writing within one week after receipt of the meeting minutes. After the minutes have been finalized, they shall be signed by the directors present at the meeting and by the person who recorded the minutes. The minutes of board meetings shall be kept at the registered address of the Company in the PRC and a complete copy of the minutes shall be promptly sent to each director.

The directors shall be liable for the resolutions of the board of directors. If a resolution of the board of directors violates the laws, administrative regulations or the Company's Articles of Association and the Company suffers serious losses as a result, the directors who participated in the passing of such resolution are liable to compensate the Company therefore such losses. However, if it has been proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from such liability.

#### **CHAPTER 11: SECRETARY OF THE BOARD OF DIRECTORS**

Article 106. The Company shall have one (1) secretary of the board of directors. The secretary shall be a senior officer of the Company.

Where necessary, the board of directors may establish a secretarial office of the board of directors.

Article 107. The secretary of the Company's board of directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of directors.

The main tasks of the secretary of the board of directors include:

- (1) to assist the directors in the day-to-day work of the board of directors, to continuously provide the directors with, to remind the directors of and to ensure that the directors understand the regulations, policies and requirements of the foreign and domestic regulatory authorities on the operation of the Company, to assist the directors and the general manager to effectively implement relevant foreign and domestic laws, regulations, the Company's Articles of Association and other relevant regulations when carrying out their duties;

- (2) to be responsible for the organization and preparation of documents for board meetings and shareholders' meetings, to take proper meeting minutes, to ensure that the resolutions passed at the meetings comply with statutory procedures and to be knowledgeable about the implementation of the resolutions of the board of directors;
- (3) to be responsible for the organization and coordination of information disclosure, to coordinate the relationship with investors and to increase transparency of the Company;
- (4) to participate in the structuring of financing through the capital markets;
- (5) to deal with intermediaries, regulatory authorities and media, and to maintain good public relations.

Duties of the secretary of the board of directors include:

- (1) to organise and prepare for the board meetings and shareholders' meetings, to prepare documents for the meetings, to make relevant arrangements for the meetings, to be responsible for taking meeting minutes, to ensure the accuracy of the records, to keep meeting documents and minutes and to take proactive steps to become knowledgeable about the implementation of relevant resolutions; to report to and advise the board of directors on important issues during implementation of the resolutions.
- (2) to ensure that material decisions of the board of directors are implemented in strict compliance with the required procedures; upon request by the board of directors, to participate in, and to organize the consultation and analysis of matters to be decided by the board of directors and provide relevant advice and recommendations thereon; to carry out the day-to-day work of the board of directors and its relevant committees upon delegation.
- (3) to act as a contact point between the Company and securities regulatory authorities, to be responsible for the organisation of the preparation and timely submission of documents required by the regulatory authorities, responsible for carrying out the tasks given by the regulatory authorities and organising their accomplishment.

- (4) to be responsible for coordinating and organizing the Company's information disclosure, to set up a sound information disclosure system, to participate in all the meetings of the Company in relation to information disclosure, to timely obtain important business decisions and the relevant information.
- (5) to be responsible for keeping price sensitive information of the Company confidential and to formulate an effective system of maintaining confidentiality and related measures; to take necessary remedial actions in the event of the unintended disclosure for whatever reason of any price sensitive information of the Company; and to make prompt explanations and clarifications and notify the regulatory authority of the overseas listing place and CSRC thereof.
- (6) to be responsible for the coordination and organisation of market promotions, to coordinate visits to the Company, to deal with relationship with investors, to maintain communication with investors, intermediaries and media, to be responsible for coordinating and answering questions raised by the public, and to ensure that the investors promptly obtain the information disclosed by the Company; to organise and prepare for marketing and promotion activities outside and in the PRC, to draw up summary reports on market promotion activities and important visits to the Company and to organise the reporting of the same to CSRC.
- (7) to be responsible for administering and keeping the register of the members of the Company, the register of the directors of the Company, the shareholding of major shareholders and directors and list of the holders of the outstanding debentures of the Company in issue.
- (8) to assist the directors and the general manager in complying with foreign and domestic laws, regulations, the Company's Articles of Association and other relevant regulations in exercising their powers. After becoming aware that any resolutions made or likely to be made by the Company are in breach of relevant regulations, the secretary is obliged to give prompt warnings and shall have the right to report such facts to the CSRC and other regulatory authorities.
- (9) to coordinate the provision of necessary information required by the Company's supervisory committee and other examination body for their supervisory functions, and assist them in their investigation on the relevant financial officer, directors of the Company and general manager on whether they have satisfied their responsibility for trust-worthiness.

(10) to exercise other powers and duties authorized by the board of directors and other powers and duties required in the overseas listing jurisdiction.

Article 108. A director or other senior officer of the Company may also act as the secretary of the board of directors. Accountants of the accountancy firm which has been appointed by the Company to act as its auditors shall not act as the secretary of the board of directors.

Where the office of secretary is held concurrently by a director, and an act is required to be done by a director and a secretary separately, the person who holds the office of director and secretary may not perform the act in a dual capacity.

Article 109. The secretary of the board of directors shall diligently exercise his duties in accordance with the relevant provisions of these Articles of Association.

The secretary of the board of directors shall assist the Company in complying with the relevant PRC laws and the rules of the securities exchange on which the shares of the Company are listed.

## **CHAPTER 12: GENERAL MANAGER**

Article 110. The Company shall have a general manager who shall be appointed or dismissed by the board of directors.

The Company shall have several deputy general managers, and financial deputy general manager who shall assist the general manager. The deputy general managers and financial deputy general manager shall be nominated by the general manager and appointed or dismissed by the board of the directors.

A member of the board of directors may act concurrently as the general manager or deputy general manager.

Article 111. The general manager shall be accountable to the board of directors and shall exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management and to organise the implementation of the resolutions of the board of directors;
- (2) to organise the implementation of the Company's annual business plan and investment proposal;
- (3) to devise the establishment of the Company's internal management structure;

- (4) to draft plans for the establishment of the Company's branch organisations;
- (5) to devise the Company's basic management system;
- (6) to formulate basic rules and regulations of the Company;
- (7) to propose the appointment or dismissal of the deputy general managers and financial deputy general manager of the Company;
- (8) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors;
- (9) other powers conferred by the Company's Articles of Association and the board of directors.

Article 112. The general manager who is not a director shall be entitled to attend meetings of the board of directors and receive the notice of meeting and the relevant documents. The general manager who is not a director does not have any voting rights at board meetings.

Article 113. In performing their duties and exercising their powers, the general manager, the deputy general managers and the financial deputy general manager shall not depart from the resolutions of the shareholders' general meetings or the board of directors, or exceed their respective authority.

Article 114. In performing their duties and powers, the general manager, the deputy general managers and the financial deputy general manager shall act honestly and diligently and in accordance with laws, administrative regulations and the Company's Articles of Association.

Article 115. The general manager, the deputy general managers, the financial deputy general manager and other senior officers who wish to resign shall give a three-month written notice to the board of directors. Department managers who wish to resign shall give a two-month written notice to the general manager.

### **CHAPTER 13: SUPERVISORY COMMITTEE**

Article 116. The Company shall have a supervisory committee. The supervisory committee is a permanent supervisory body of the Company responsible for supervising the board of directors and its members, the general manager, deputy general managers, financial deputy general manager and other senior officers of the Company to prevent them from abusing their powers and infringing the legitimate rights and interests of the shareholders, the Company and its employees.

- Article 117. The supervisory committee shall compose of six (6) supervisors including two external supervisors (hereinafter meaning supervisors who do not hold office in the Company).
- The supervisory committee shall have one (1) chairman. Each supervisor shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.
- The election or removal of the chairman of the supervisory committee shall be determined by the affirmative votes of two-thirds or more of the members of the supervisory committee.
- The chairman of the supervisory committee shall organise the implementation of the duties of the supervisory committee.
- Article 118. The supervisory committee shall comprise five (5) supervisors who represent the shareholders (hereinafter including those qualified as external supervisors and independent supervisors) and one (1) supervisor who shall represent the employees. Supervisors who represent the shareholders shall be elected or removed by the shareholders in general meetings, and the supervisor who represents employees shall be elected or removed by the employees democratically.
- Where necessary, the supervisory committee may establish an office responsible for the day-to-day work of the supervisory committee.
- Article 119. The directors, the general manager, the deputy general managers and the financial deputy general manager of the Company shall not act concurrently as supervisors.
- Article 120. Meetings of the supervisory committee shall be held at least twice every year, and shall be convened by the chairman of the supervisory committee.
- Article 121. The supervisory committee shall be accountable to the shareholders in general meeting and shall exercise the following functions and powers in accordance with the law:
- (1) to review the Company's financial position;
  - (2) to supervise the directors, general manager, deputy general managers, financial controller and other senior officers to ensure that they do not act in contravention of any law, administrative regulation or the Company's Articles of Association;
  - (3) to require any director, general manager, deputy general manager, financial controller or other senior officer who acts in a manner which is harmful to the Company's interest to rectify such behaviour;

- (4) to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and to authorize, in the Company's name, publicly certified accountants and practising auditors to assist in the re-examination of such information should any doubt arise in respect thereof;
- (5) to propose to convene an extraordinary general meeting;
- (6) to represent the Company in negotiations with or in bringing actions against a director;
- (7) other functions and powers specified in the Company's Articles of Association.

The supervisory committee may provide its opinions on the appointment of accountancy firm by the Company, and may appoint another accountancy firm in the name of the Company when necessary to independently examine financial affairs of the Company, and may directly report relevant information to the securities supervisory and management authorities of the State Council and other relevant authorities.

External supervisors shall report independently to the shareholders' meeting on whether the senior officers have performed their duties honestly and diligently.

Supervisors shall attend meetings of the board of directors as observers.

- Article 122. Resolutions of the supervisory committee shall be passed by the affirmative vote of more than two-thirds of all of its members.
- Article 123. All reasonable fees incurred in respect of the employment of professionals (such as lawyers, certified public accountants and practising auditors) for the exercise of the supervisory committee's functions and powers shall be borne by the Company.
- Article 124. A supervisor shall carry out his duties honestly and faithfully in accordance with laws, administrative regulations and the Company's Articles of Association.



## **CHAPTER 14: THE QUALIFICATIONS AND DUTIES OF THE DIRECTORS, SUPERVISORS, GENERAL MANAGER AND OTHER SENIOR OFFICERS OF THE COMPANY**

Article 125. A person may not serve as a director, supervisor, general manager or any other senior officer of the Company if any of the following circumstances apply:

- (1) a person who does not have or who has limited capacity for civil conduct;
- (2) a person who has been sentenced for corruption, bribery, infringement of property rights or misappropriation of property or other crimes which disrupt the social economic order, where less than a term of five (5) years has lapsed since the sentence was fully served, or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was fully served;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has been dissolved or put into liquidation as a result of mismanagement and who was made personally liable for such dissolution or liquidation, and where less than three (3) years have lapsed since the date of completion of the insolvent liquidation of the company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise the business licence of which was revoked due to violation of law and who are personally liable therefor, where less than three (3) years have elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts which have become overdue;
- (6) a person who is currently undergoing investigation by judicial organs for violation of criminal law;
- (7) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;
- (8) a person other than a natural person;
- (9) a person who has been convicted by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, and where less than five (5) years have lapsed from the date of such conviction.

- Article 126. The validity of an act carried out by a director, the general manager, and other senior officers of the Company on behalf of the Company as against a bona fide third party acting in good faith, shall not be affected by any irregularity in his office, his election or any defect in his qualification.
- Article 127. In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's directors, supervisors, general manager and other senior officers owes a duty to each shareholder, in the exercise of the functions and powers entrusted to him by the Company:
- (1) not to cause the Company to exceed the scope of business stipulated in its business licence;
  - (2) to act honestly and in the best interests of the Company;
  - (3) not to expropriate the Company's property in any way, including (but not limited to) usurpation of opportunities which benefit the Company;
  - (4) not to expropriate the individual rights of shareholders, including (but not limited to) rights to distribution and voting rights, save and except pursuant to a restructuring of the Company which has been submitted to the shareholders for approval in accordance with the Company's Articles of Association.
- Article 128. Each of the Company's directors, supervisors, general manager and other senior officers owes a duty, in the exercise of his powers and in the discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- Article 129. Each of the Company's directors, supervisors, general manager and other senior officers shall exercise his powers or perform his duties in accordance with the fiduciary principle, and shall not put himself in a position where his duty borne and his personal interest may conflict. This principle shall mean (without limitation) discharging the following obligations:
- (1) to act honestly and in the best interests of the Company;
  - (2) to act within the scope of his powers and not to exceed such powers;

- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) unless otherwise provided for in the Company's Articles of Association or except with the informed consent of the shareholders given in a general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) not to use the Company's property for his own benefit unless with the informed consent of the shareholders given in a general meeting;
- (7) not to exploit his position by accepting bribes or other illegal income or expropriate the Company's property in any way, including (but not limited to) opportunities which benefit the Company;
- (8) not to accept commissions in connection with the Company's transactions unless with the informed consent of the shareholders given in a general meeting;
- (9) to comply with the Company's Articles of Association, to perform his official duties faithfully, to protect the Company's interests and not to exploit his position and power in the Company to advance his own interests;
- (10) not to compete with the Company in any way unless with the informed consent of the shareholders given in a general meeting;
- (11) not to misappropriate the Company's funds or to lend such funds to any other person, not to use the Company's assets to set up deposit accounts in his own name or in any other name or to use such assets to guarantee the debts of a shareholder of the Company or any other personal liabilities;
- (12) not to release any confidential information which he has obtained during his term of office unless with the informed consent of the shareholders in a general meeting; nor shall he use such information in any other way other than for the Company's benefit, save that disclosure of such information to the court or other governmental authorities is permitted if:
  - (i) disclosure is made under compulsion of law;

- (ii) public interests so warrants;
- (iii) the interests of the relevant director, supervisor, general manager or other senior officer so requires.

Article 130. Each director, supervisor, general manager and other senior officer of the Company shall not direct the following persons or institutions (“associates”) to act in a manner which he is prohibited from so acting:

- (1) the spouse or minor child of the director, supervisor, general manager or other senior officer;
- (2) the trustee of the director, supervisor, general manager or other senior officer or of any person described in sub-paragraph (1) above;
- (3) the partner of that director, supervisor, general manager or other senior officer or any person referred to in sub-paragraphs (1) and (2) of this Article;
- (4) a company in which that director, supervisor, general manager or other senior officer, whether alone or jointly with one (1) or more of the persons referred to in sub-paragraphs (1), (2) and (3) of this Article and other directors, supervisors, general manager and other senior officers, has de facto controlling interest;
- (5) the directors, supervisors, general manager and other senior officers of a company which is being controlled in the manner set out in sub-paragraph (4) above.

Article 131. The fiduciary duties of the directors, supervisors, general manager and other senior officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidentiality in respect of trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the circumstances and the terms under which the relationship between the relevant director, supervisor, general manager and other senior officer on the one hand and the Company on the other hand was terminated.

- Article 132. A director, supervisor, general manager or other senior officer of the Company may be relieved of his liability for specific breaches of his duty with the informed consent of the shareholders given at a general meeting, but this shall not apply for the matters set out in Article 53 of these Articles of Association.
- Article 133. Where a director, supervisor, general manager or other senior officer of the Company is in any way, either directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal is ordinarily subject to the approval of the board of directors.
- If a director or his associate (as defined in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited) has a material interest in any contract, transaction, arrangement or other matters that requires the approval of the board of directors, the relevant director shall not vote for the relevant matter at the meeting of the board of directors, and shall not be counted towards the quorum of the meeting.
- Unless the interested director, supervisor, general manager or other senior officer has disclosed his interests in accordance with the preceding sub-paragraph of this Article, and he has neither been counted as part of the quorum nor participated in voting for such matter the Company may annul such contract, transaction or arrangement, except as against a bona fide party thereto who does not have notice of the breach of duty by the interested director, supervisor, general manager or other senior officer.
- A director, supervisor, general manager or other senior officer of the Company is deemed to be interested in a contract, transaction or arrangement in which his associate is interested.
- Article 134. Where a director, supervisor, general manager or other senior officer of the Company gives to the board of directors a notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding Article to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such written notice is given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.
- Article 135. The Company shall not pay taxes for or on behalf of a director, supervisor, general manager or other senior officer in any manner.
- Article 136. The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager or other senior officer of the Company or of the Company's holding company or any of their respective associates.

The foregoing prohibition shall not apply to the following circumstances:

- (1) the provision by the Company of a loan or a guarantee in connection with the making of a loan to its subsidiary;
- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds available to any of its directors, supervisors, general manager and other senior officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in a general meeting;
- (3) if the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors, supervisors, general manager and other senior officers or their respective associates in the ordinary course of its business on normal commercial terms.

Article 137. Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding Article shall, irrespective of the terms of the loan, forthwith repay such funds.

Article 138. A guarantee for the repayment of a loan which has been provided by the Company acting in breach of Article 136(1) shall not be enforceable against the Company, save in respect of the following circumstances:

- (1) the guarantee was provided in connection with a loan which was made to an associate of any of the directors, supervisors, general manager and other senior officers of the Company or of the Company's holding company and the lender of such funds did not know of the relevant circumstances at the time of the making of the loan; or
- (2) the collateral which has been provided by the Company has already been lawfully disposed of by the lender to a bona fide purchaser.

Article 139. For the purposes of the foregoing provisions of this Chapter, a "guarantee" includes an undertaking of responsibility or property provided by the guarantor to secure the obligor's performance of his obligations.

- Article 140. In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor, general manager or other senior officer of the Company breaches the duties which he owes to the Company, the Company has the right:
- (1) to demand such director, supervisor, general manager or other senior officer to compensate it for losses sustained by it as a result of such breach;
  - (2) to rescind any contract or transaction which has been entered into between the Company and such director, supervisor, general manager or other senior officer or between the Company and a third party (where such third party knows or should have known that such director, supervisor, general manager other senior officer representing the Company has breached his duties owed to the Company);
  - (3) to demand such director, supervisor, general manager or other senior officer to account for profits made as result of the breach of his duties;
  - (4) to recover any monies which should have been received by the Company and which was received by such director, supervisor, general manager or other senior officer instead, including (without limitation) commissions; and
  - (5) to demand repayment of interest earned or which may have been earned by such director, supervisor, general manager or other senior officer on monies that should have been paid to the Company.

- Article 141. The Company shall, with the prior approval of shareholders in a general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. The aforesaid emoluments include:
- (1) emoluments in respect of his service as director, supervisor or senior officer of the Company;
  - (2) emoluments in respect of his service as director, supervisor or senior officer of any subsidiary of the Company;
  - (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
  - (4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

No proceedings may be brought by a director or supervisor against the Company for anything due to him in respect of the matters mentioned in this Article except pursuant to the contract mentioned above.

Article 142. The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event that the Company is being acquired, the Company's directors and supervisors shall, subject to the prior approval of shareholders in a general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purposes of this paragraph, the acquisition of the Company includes any of the following:

- (1) an offer made by any person to the all shareholders;
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning of Article 54 hereof.

If the relevant director or supervisor does not comply with this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing such sum on a pro rata basis amongst such persons shall be borne by the relevant director or supervisor and shall not be paid out of such sum.

#### **CHAPTER 15: FINANCIAL AND ACCOUNTING SYSTEMS AND PROFIT DISTRIBUTION**

Article 143. The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

Article 144. The fiscal year of the Company shall be on the basis of the Gregorian calendar beginning on 1 January and ending on 31 December of each year.

The Company shall use Renminbi as its standard unit of account. The accounts shall be prepared in Chinese.

At the end of each fiscal year, the Company shall prepare a financial report which shall be examined and verified in a manner prescribed by law.

Article 145. The board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports which the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities require the Company to prepare. Such reports must be verified and certified.

Article 146. The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.



The Company shall deliver or send to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders the said reports not later than twenty-one (21) days before the date of every annual general meeting of the shareholders.

- Article 147. The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be also prepared in accordance with either international accounting standards, or the accounting standard of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be specifically stated in the financial statements. In distributing its after-tax profits for the relevant fiscal year, the lower of the two amounts shown in the two financial statements shall be distributed.
- Article 148. Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or the accounting standard of the place overseas where the Company's shares are listed.
- Article 149. The Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year; the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year.
- Article 150. The Company shall not keep accounts other than those required by law.
- Article 151. When distributing its after-tax profits in a given year, the Company shall allocate 10% of such profits to the Company's statutory common reserve fund. Where the accumulated amount of the statutory common reserve fund reaches 50% or more of the registered capital of the Company, no further allocation is required.

Where the statutory common reserve fund is insufficient to make up for the losses of the Company in the previous year, before making contribution to the statutory common reserve fund, the profits made in the current year shall be used to make up for the losses first.

After making contribution to the statutory common reserve fund from its after-tax profits, the Company may, subject to resolutions adopted at a shareholders' general meeting, make contributions to discretionary common reserve fund.

After making up for the losses and making contributions to the common reserve fund, any remaining profits shall be distributed to the shareholders in proportion to their respective shareholdings.

- Article 152. The Company shall not allocate dividends or carry out other allocations in the form of bonuses before it has made up for its losses and made allocations to the statutory common reserve fund. Dividends paid by the Company shall not carry any interest except where the Company has failed to pay the dividends to the shareholders on the date on which such dividends become payable.
- Any amount paid up in advance of calls on any share shall carry interest, but shall not entitle the holder of the share to receive, by way of advance payment, the dividend declared and distributed thereafter.
- Article 153. Capital surplus reserve fund includes the following items:
- (1) premium on shares issued at a premium price;
  - (2) any other income designated for the capital surplus reserve fund by the regulations of the finance regulatory department of the State Council.
- Article 154. The common reserve funds of the Company shall be applied for making up for losses, expanding the Company's production and operation or capitalisation. However, the capital surplus reserve fund shall not be applied for making up losses of the Company.
- If a general meeting of the Company resolves to capitalise any common reserve fund, the Company shall issue new shares to the existing shareholders in proportion to their respective shareholdings or increase the par value of each share provided that when capitalising the statutory common reserve fund, the balance of such fund shall not be less than 25% of the registered capital.
- Article 155. The Company may distribute dividends in the form of:
- (1) cash;
  - (2) shares.
- Article 156. The Company shall declare and pay cash dividends and other amounts which are payable to holders of Domestic Shares in Renminbi. The Company shall calculate and declare cash dividends and other payments which are payable to holders of Overseas-Listed Foreign-Invested Shares in Renminbi, and shall pay such amounts in Hong Kong dollars. The foreign exchange required by the Company to pay cash dividends and other amounts to holders of Overseas-Listed Foreign-Invested Shares shall be obtained in accordance with the relevant foreign exchange administrative regulations of the State.

- Article 157. Unless otherwise provided for in relevant laws and administrative regulations, where cash dividends or other amounts are to be paid in Hong Kong dollars, the applicable exchange rate shall be the average offer rate for the relevant foreign currency announced by the Peoples' Bank of China during the calendar week prior to the declaration of payment of dividend and other amounts.
- Article 158. Subject to Article 56(2) and 96(14) of these Articles of Associations, the board of directors may decide to distribute interim or special dividends.
- Article 159. When distributing dividends to its shareholders, the Company shall withhold and pay on behalf of its shareholders the taxes levied on the dividends in accordance with the provisions of the PRC tax law.
- Article 160. The Company shall appoint receiving agents for holders of the Overseas-Listed Foreign-Invested Shares. Such receiving agents shall receive dividends which have been declared by the Company and all other amounts which the Company should pay to holders of Overseas-Listed Foreign-Invested Shares on such shareholders' behalf.
- The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the jurisdiction at which the Company's shares are listed or the relevant regulations of such stock exchange.
- The receiving agents appointed for holders of Overseas-Listed Foreign- Invested Shares listed in Hong Kong shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

#### **CHAPTER 16: APPOINTMENT OF ACCOUNTANCY FIRM**

- Article 161. The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit the Company's annual report and review the Company's other financial reports.
- The first auditors of the Company may be appointed before the first annual general meeting of the Company at the inaugural meeting. Auditors so appointed shall hold office until the conclusion of the first annual general meeting.
- If the inaugural meeting does not exercise the powers under the preceding paragraph, those powers shall be exercised by the board of directors.
- Article 162. The accountancy firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which they were appointed until the conclusion of the next annual general meeting of shareholders.

- Article 163. The accountancy firm appointed by the Company shall enjoy the following rights:
- (1) a right to review to the books, records and vouchers of the Company at any time, and the right to require the directors, general manager and other senior officers of the Company to supply relevant information and explanations;
  - (2) a right to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the discharge of its duties;
  - (3) a right to attend shareholders' general meetings and to receive all notices of, and other information relating to, any shareholders' general meeting which any shareholder is entitled to receive, and to speak at any shareholders' general meeting in relation to matters concerning its role as the Company's accountancy firm.
- Article 164. If there is a vacancy in the position of accountant of the Company, the board of directors may appoint an accountancy firm to fill such vacancy before the convening of the shareholders' general meeting. Any other incumbent accountancy firm which has been appointed by the Company may continue to act during the period where such vacancy subsists.
- Article 165. The shareholders in a general meeting may by ordinary resolution remove the Company's accountancy firm before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the Company's accountancy firm. However, the accountancy firm's right to claim for damages which arise from its removal shall not be affected.
- Article 166. The remuneration of an accountancy firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in a general meeting. The remuneration of an accountancy firm appointed by the board of directors shall be determined by the board of directors.
- Article 167. The Company's appointment, removal or non-renewal of appointment of an accountancy firm shall be resolved by the shareholders in a general meeting. Such resolution shall be filed with the securities authority of the State Council.
- Where a resolution at a general meeting of shareholders is passed to appoint an accountancy firm other than an incumbent accountancy firm to fill any casual vacancy in the office of accountancy firm, to re-appoint a retiring accountancy firm that was appointed by the board of directors to fill a casual vacancy, or to dismiss an accountancy firm before the expiration of its term of office, the following provisions shall apply:
- (1) A copy of the appointment or removal proposal shall be sent (before notice of meeting is given to the shareholders) to the accountancy firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).

- (2) If the accountancy firm leaving its post makes representations in writing and requests the Company to give the shareholders notice of such representations, the Company shall (unless the representations have been received too late) adopt the following measures:
  - (a) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
  - (b) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Company's Articles of Association.
- (3) If the Company fails to send out the accountancy firm's representations in the manner set out in sub-paragraph (2) above, such accountancy firm may require that the representations be read out at the meeting and may make further appeals to the meeting.
- (4) An accountancy firm which is leaving its post shall be entitled to attend the following shareholders' general meetings:
  - (a) the general meeting at which its term of office would otherwise have expired;
  - (b) the general meeting at which it is proposed to fill the vacancy caused by its removal; and
  - (c) the general meeting which is convened as a result of its resignation,and to receive all notices of, and other information relating to, any such meeting, and to speak at any such meeting which concerns it as a former accountancy firm of the Company.

Article 168. Prior notice should be given to the accountancy firm if the Company decides to remove such accountancy firm or not to renew its appointment. Such accountancy firm shall be entitled to make representations at the shareholders' general meeting. Where the accountancy firm resigns from its position, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accountancy firm may resign its office by depositing at the Company's registered address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(2) a statement of any of the foregoing circumstances.

The Company shall, within fourteen (14) days after receipt of the notice referred to in the preceding paragraph, send a copy of the notice to the relevant regulatory authority. If the notice contains a statement under the preceding subparagraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every shareholder of Overseas- Listed Foreign Shares at the address registered in the register of shareholders.

Where the accountancy firm's notice of resignation contains a statement in respect of the above, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

## **CHAPTER 17: MERGER AND DIVISION OF THE COMPANY**

Article 169. In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in the Company's Articles of Association. The Company shall then undertake the relevant approval process in a manner prescribed by law. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders' shareholding at a fair price.

The contents of the resolution of merger or division of the Company shall be compiled into special documents which shall be available for inspection by the shareholders of the Company. Such special documents shall be sent by post to holders of Overseas-Listed Foreign-Invested Shares.

Article 170. The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's resolution approving the merger and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's resolution approving the merger.

Upon the merger, receivables and indebtedness of each of the merger parties shall be assumed by the company which survives the merger or the newly established company.

Article 171. Where there is a division of the Company, its assets shall be divided up accordingly.

In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's resolution approving the division and shall publish a public announcement in a newspaper at least three (3) times within thirty (30) days of the date of the Company's resolution approving the division.

Debts of the Company prior to division shall be assumed by the companies which exist after the division in accordance with the agreement of the parties.

Article 172. The Company shall, in accordance with law, apply for change in its registration particulars with the companies registration authority where a change in any item in its registration arises as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration in accordance with law. Where a new company is established, that company shall apply for registration in accordance with the law.

### **CHAPTER 18: DISSOLUTION AND LIQUIDATION**

Article 173. The Company shall be dissolved and liquidated in accordance with the law upon the occurrence of any of the following events:

- (1) a resolution for dissolution is passed by shareholders at a general meeting;
- (2) dissolution is necessary due to a merger or division of the Company;
- (3) the Company is declared insolvent in accordance with the law due to its failure to repay debts as they become due; and
- (4) the Company is ordered to wind-up because of its violation of laws and administrative regulations.

Article 174. A liquidation committee shall be set up within fifteen (15) days of the Company being dissolved pursuant to subparagraph (1) of the preceding Article, and the composition of the liquidation committee of the Company shall be determined by an ordinary resolution of shareholders in a general meeting. If the Company fails to set up the liquidation committee within the above time limit, the creditors may apply to the People's Court for appointment of relevant persons to form a liquidation committee and conduct the liquidation.

Where the Company is dissolved under sub-paragraph (3) of the preceding Article, the People's Court shall in accordance with the provisions of relevant laws organise the shareholders, the relevant organisations and the relevant professional personnel to establish a liquidation committee to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (4) of the preceding Article, the relevant governing authorities shall organise the shareholders, the relevant organisations and professional personnel to establish a liquidation committee to carry out the liquidation.

Article 175. Where the board of directors proposes to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of directors is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in a general meeting for the liquidation of the Company, all functions and powers of the board of directors shall immediately cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation, and to present a final report to the shareholders' general meeting on completion of the liquidation.

Article 176. The liquidation committee shall, within ten (10) days of its establishment, send notices to the Company's creditors and shall, within sixty (60) days of its establishment, publish a public announcement in a newspaper at least three (3) times.

Article 177. During the liquidation period, the liquidation committee shall exercise the following functions and powers:

(1) to put in order the Company's assets and prepare a balance sheet and an inventory of assets respectively;



- (2) to notify the creditors or to publish public announcements;
- (3) to handle of and liquidate any outstanding businesses of the Company;
- (4) to pay all outstanding taxes;
- (5) to settle claims and debts;
- (6) to deal with the surplus assets remaining after the Company's debts have been repaid;
- (7) to represent the Company in any civil proceedings.

Article 178. After the liquidation committee has put in order the Company's assets and prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a shareholders' general meeting or to the relevant governing authority for confirmation.

After the payment of liquidation expenses with priority, the Company's assets shall be distributed in accordance with the following sequence: (i) salaries and labour insurance expenses of employees of the Company; (ii) outstanding taxes; (iii) bank loans, debentures of the company and other debts of the Company.

Any surplus assets of the Company remaining after payment referred to in the preceding paragraph shall be distributed to its shareholders according to the class of shares and the proportion of shares held in the following sequence:

- (1) In the case of preferential shares, distribution shall be made to holders of such preferential shares according to the par value thereof; if the surplus assets are not sufficient to repay the amount of preferential shares in full, the distribution shall be made to holders of such shares in proportion to their respective shareholdings.
- (2) In the case of ordinary shares, distribution shall be made to holders of such shares in proportion to their respective shareholdings.

During the liquidation period, the Company shall not commence any new business activities.

Article 179. If after putting the Company's assets in order and preparing a balance sheet and an inventory of assets in connection with the liquidation of the Company, the liquidation committee discovers that the Company's assets are insufficient to repay the Company's debts in full, the liquidation committee shall immediately apply to the People's Court for a declaration of insolvency.

After a Company is declared insolvent by a ruling of the People's Court, the liquidation committee shall transfer all matters arising from the liquidation to the People's Court.

Article 180. Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese registered accountant and submitted to the shareholders' general meeting or the relevant governing authority for confirmation.

The liquidation committee shall, within thirty (30) days after such confirmation, submit the documents referred to in the preceding paragraph to the companies registration authority and apply for cancellation of registration of the Company, and publish a public announcement relating to the termination of the Company.

#### **CHAPTER 19: PROCEDURES FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION**

Article 181. The Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Company's Articles of Association.

Article 182. Save as otherwise specified in Articles 60 and 80 of these Articles of Association, the following procedure shall be followed when amending the these Articles of Association:

- (1) The board of directors shall adopt a resolution thereon in accordance with these Articles of Associations and prepare a proposal for amendment of the Articles; or the shareholders may present a motion for amendment of the Articles;
- (2) The foregoing proposal shall be furnished to the shareholders and a shareholders' meeting shall be convened for voting on it;
- (3) The amendments presented to the shareholders' meeting shall be adopted through a special resolution.

Article 183. Amendment of the Company's Articles of Association which involves the contents of the Mandatory Provisions of Overseas-Listed Companies' Articles of Association shall become effective upon receipt of approvals by the authorities that are authorised by the State Council to examine and approve Companies.

Article 184. Where amendment of the Articles of Association involves the registered particulars of the Company, procedures for alteration of registration shall be handled in accordance with the law.

## CHAPTER 20: NOTICES

Article 185. Subject to the proper compliance of all the applicable laws, rules and regulations (including but not limited to the rules of the designated stock exchanges) and obtaining all the required consent (if any), any notice or document published by the Company (including but not limited to the “Corporate Communication” as defined by the rules of the designated stock exchanges) could be delivered by the following methods:

(1) by hand;

(2) by post;

(3) by sending it to the facsimile number or other number of electronic communication (including but not limited to email address) or website as provided by the addressee to the Company for the said purpose;

(4) by public announcement;

(5) by uploading the notice or document to the website of the Company or the Hong Kong Stock Exchange and issuing a notice to the addressee for notifying him/her on the availability of such notice or document on such website (the “Availability Notice”). The Company shall deliver the Availability Notice to the holders of overseas listed foreign shares by hand or by pre-paid post;

(6) by any other methods as agreed between the Company and the addressee or as accepted by the addressee after the notice is received; or

(7) by any other methods as authorized by the relevant regulatory body of the place of listing of the Company or as stipulated by the Articles of Association.

In case of joint holders of shares, all the notices or documents shall be delivered to the holder whose name stands first in the register of members and such notices or documents delivered thereby shall be deemed duly delivered to and received by all such joint holders.

Unless as otherwise provided for in these Articles of Association, all the notices, materials or written statements issued by the Company to holders of Overseas-Listed Foreign-Invested Shares shall be delivered by hand or by pre-paid post to the registered address of each holder of such shares.

Any notice or document shall be:

Article 186. (1) Deemed issued when the envelope containing such notice was put into post-box, and deemed duly received after 48 hours thereafter if it was delivered by post, provided that the address was clearly written, postage fee was pre-paid and the said notice was put inside such envelope.

(2) Deemed delivered on the receiving date (i.e. the sending date) if it was sent by facsimile, in such case the receiving date shall be the date shown on the facsimile transmission report. If it was sent as an electronic message, it shall be deemed delivered on the date when the message was transmitted from the server of the Company or its agent.

(3) Deemed delivered on the date when the availability notice is deemed delivered to the shareholder if the notice or document was uploaded onto the website of the Company.

(4) Deemed delivered on the date when the notice or document is published for the first time if it is published as a public announcement, provided that such announcement shall be published on newspaper provided for the relevant rules.

(5) Deemed delivered at the time it is delivered by hand or (as the case may be) at the time of such delivery is deemed delivered if the notice or document is sent or delivered by any other methods as stipulated in the Articles of Association.

Article 187. If the listing rules in the listing place require the Company to dispatch, mail, distribute, issue or otherwise provide the relevant document of the Company in English and in Chinese, the Company shall be allowed to deliver either the English or the Chinese version in accordance with the choice of the shareholder, provided that the Company has made appropriate arrangement to confirm whether the shareholders would like to receive either the English or the Chinese version and subject to and to the extent as permitted by the applicable laws and regulations.

## **CHAPTER 21: DISPUTE RESOLUTION**

Article 188. The Company shall abide by the following principles for dispute resolution:

(1) Whenever any disputes or claims arise between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's directors, supervisors, general manager or other senior officers; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic Shares, in respect of any rights or obligations arising from these Articles of Association, the Company Law or any rights or obligations conferred or imposed by the Company Law and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company, the Company's shareholders, directors, supervisors, general manager, or other senior officers of the Company, shall comply with the arbitration award. Disputes in respect of the definition of shareholders and disputes in relation to the register of shareholders need not be resolved by arbitration.

(2) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the jurisdiction of arbitral body elected by the claimant.

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

(3) If any disputes or claims of rights are arbitrated in accordance with sub-paragraph (1) of this Article, the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations.

(4) The award of an arbitral body shall be final and conclusive and binding on all parties.

## **CHAPTER 22: SUPPLEMENTARY**

Article 189. The newspapers required by these Articles of Association for the publication of announcements shall be those designated or required by the relevant State laws and administrative regulations. If it is necessary to make an announcement to holders of Overseas-Listed Foreign-Invested Shares as required by these Articles of Association, the relevant announcement shall at the same time be published in the newspapers designated by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in accordance with the provisions for "press announcements" set out therein.

- Article 190. The board of directors of the Company shall be responsible for the interpretation of these Articles of Association, and the shareholders in general meeting shall have the right to amend the Articles of Association.
- Article 191. These Articles of Association are written in Chinese. If there is any discrepancy between the Chinese version and any other translated versions, the Chinese version shall prevail.
- Article 192. In these Articles of Association, reference to “accountancy firm” shall have the same meaning as “auditor”.

## List of Subsidiaries

Name	Jurisdiction of Incorporation
China Telecom Group Yellow Pages Information Company Ltd.	People's Republic of China
China Telecom (Hong Kong) International Limited	Hong Kong Special Administrative Region of the PRC
China Telecom (Australia) Pty Ltd.	Australia
China Telecom (Singapore) Pte Limited	Singapore
China Telecom System Integration Co., Limited	People's Republic of China
China Telecom (Americas) Corporation	Delaware, United States of America
China Telecom Best Tone Information Service Co., Limited	People's Republic of China
China Telecom (Macau) Company Limited	Macau Special Administrative Region of the PRC
Tianyi Telecom Terminals Company Limited	People's Republic of China
E-surfing Pay Co., Ltd.	People's Republic of China
Besttone E-Commerce Co., Ltd. <sup>(1)</sup>	People's Republic of China
Esurfing Media Co., Ltd.	People's Republic of China
Shenzhen Shekou Telecommunications Company Limited	People's Republic of China

- (1) We have agreed to sell our 100% equity interest in this company to Satcom Guomai, pending completion. See "Item 4 – Information on the Company—A. History and Development of the Company—Our Proposed Sale of Besttone E-Commerce Co., Ltd."

**Certification**

I, Wang Xiaochu, certify that:

1. I have reviewed this annual report on Form 20-F of China Telecom Corporation Limited (the “Company”);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 30, 2012

/s/ Wang Xiaochu

Name: Wang Xiaochu

Title: Chief Executive Officer



**Certification**

I, Wu Andi, certify that:

1. I have reviewed this annual report on Form 20-F of China Telecom Corporation Limited (the “Company”);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 30, 2012

/s/ Wu Andi

Name: Wu Andi

Title: Chief Financial Officer

**Certification**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of China Telecom Corporation Limited (the “Company”), hereby certifies, to his knowledge, that the Company’s Annual Report on Form 20-F for the year ended December 31, 2011 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2012

/s/ Wang Xiaochu

Name: Wang Xiaochu

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

**Certification**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of China Telecom Corporation Limited (the “Company”), hereby certifies, to her knowledge, that the Company’s Annual Report on Form 20-F for the year ended December 31, 2011 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2012

/s/ Wu Andi

Name: Wu Andi

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.