

#1 INTERNATIONAL BESTSELLER

falling in love
with **CHANGE**



China Telecom Corporation Limited
HKEx Stock Code: 728
NYSE Stock Code: CHA

Annual Report 2013

About

CHINA TELECOM

China Telecom Corporation Limited (“China Telecom” or the “Company”, together with its subsidiaries, collectively the “Group”) is a full services integrated information service operator and the world’s largest wireline telecommunications, CDMA mobile network and broadband Internet services provider, providing basic telecommunications services such as wireline telecommunications services and mobile telecommunications services, and value-added telecommunications services such as Internet access services and information services in the PRC. As at the end of 2013, the Company has wireline access lines in service of about 156 million, wireline broadband subscribers of about 100 million and mobile subscribers of about 186 million. The Company’s H shares and American Depositary Shares (“ADSs”) are listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively.

#1 INTERNATIONAL BESTSELLER

#1 World's Largest
CDMA Mobile
Operator

> 180 million
mobile subscribers

#1 World's Largest
Fixed-line
Operator

> 150 million
access lines in service

#1 World's Largest
Wireline Broadband
Operator

> 100 million
wireline broadband subscribers

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Board of Directors

Executive Directors

Wang Xiaochu (Chairman)
Yang Jie
Wu Andi
Zhang Jiping
Yang Xiaowei
Sun Kangmin
Ke Ruiwen

Non-Executive Director

Xie Liang

Independent Non-Executive Directors

Wu Jichuan
Qin Xiao
Tse Hau Yin, Aloysius
Cha May Lung, Laura
Xu Erming

Company Secretary & Qualified Accountant

Yung Shun Loy, Jacky

Audit Committee

Tse Hau Yin, Aloysius (Chairman)
Wu Jichuan
Qin Xiao
Xu Erming

Remuneration Committee

Xu Erming (Chairman)
Wu Jichuan
Qin Xiao
Tse Hau Yin, Aloysius

Nomination Committee

Wu Jichuan (Chairman)
Tse Hau Yin, Aloysius
Cha May Lung, Laura
Xu Erming

Supervisory Committee

Shao Chunbao (Chairman)
Zhu Lihao (Independent Supervisor)
Tang Qi (Employee Representative)
Zhang Jianbin (Employee Representative)
Hu Jing
Du Zuguo

Legal Representative

Wang Xiaochu

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers

Jingtian & Gongcheng
Freshfields Bruckhaus Deringer
Sullivan & Cromwell LLP

Stock Code

HKEx: 728
NYSE: CHA

Company Website

www.chinatelecom-h.com

Financial Highlights

| | 2011 ⁵ (restated) | 2012 ⁵ (restated) | 2013 |
|--|---------------------------------|---------------------------------|----------------|
| Operating revenues (RMB millions) | 245,149 | 283,176 | 321,584 |
| EBITDA ¹ (RMB millions) | 75,362 | 70,874 | 96,551 |
| EBITDA margin ² | 32.6% | 27.4% | 34.0% |
| Net profit ³ (RMB millions) | 16,494 | 14,949 | 17,545 |
| Capital expenditure (RMB millions) | 49,584 | 53,748 | 79,992 |
| Total debt/Equity ⁴ | 20.3% | 37.6% | 39.7% |
| Earnings per share (RMB) | 0.2038 | 0.1847 | 0.2168 |
| Dividend per share (HK\$) | 0.085 | 0.085 | 0.095 |
| Net asset value per share ⁴ (RMB) | 3.165 | 3.276 | 3.432 |

1 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

2 EBITDA margin was calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

3 Net profit represented profit attributable to equity holders of the Company.

4 Equity and net asset value represented equity attributable to equity holders of the Company.

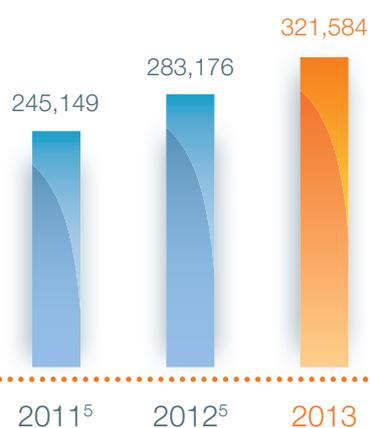
5 Certain prior years figures were retrospectively restated due to the acquisition of China Telecom (Europe) Limited. Please refer to note 1 to the audited financial statements in this annual report for details.



For further information,
please browse our website
at www.chinatelecom-h.com.

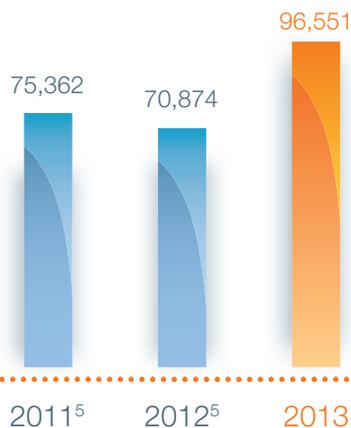
Operating Revenues

(RMB millions)



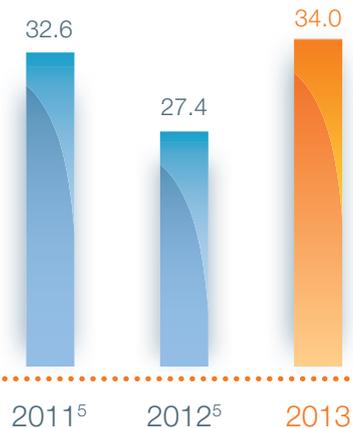
EBITDA¹

(RMB millions)



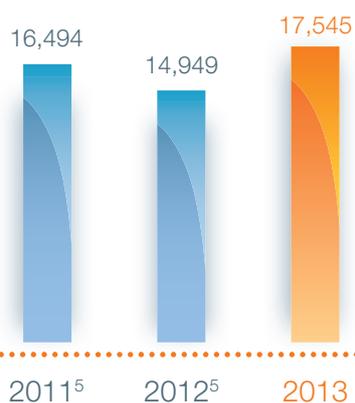
EBITDA Margin²

(%)



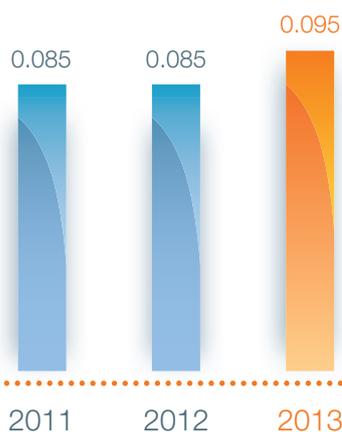
Net Profit³

(RMB millions)



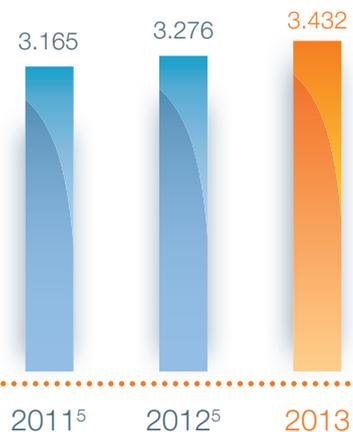
Dividend Per Share

(HK\$)



NAV Per Share⁴

(RMB)



COMMUNICATIONS &
INFORMATION
INDUSTRIES


Big

**Change
Development
Integration**



Mobile
Internet

OTT

FTTH

Cloud
Computing

Big
Data

leading
to

Big

Opportunities
as well as challenges



April ● A devastating earthquake of 7.0 magnitude hit Lushan county, Ya'an in Sichuan province. China Telecom quickly restored the communications in the disaster area, provided hotlines for missing families and video conference assurance for the government, vigorously supporting the disaster relief works

June ● China Telecom successfully accomplished the communications safety assurance of Shenzhou – 10 spacecraft

August ● China Telecom jointly launched “YiChat” with NetEase, Inc. to create the new mobile Internet portal. It marked a new stage of cooperation between a telecommunications operator and an Internet company on joint development and operation of mobile instant messaging products as well as capital collaboration

November ● China Telecom's 3G subscribers exceeded 100 million, accounting for more than 50% of total mobile subscribers

December ● China Telecom was granted the permit to operate the LTE/4G digital cellular mobile service (TD-LTE), officially embarking on the 4G mobile operation era

● China Telecom's wireline broadband subscribers exceeded 100 million



Chairman's Statement



Telecommunications industry is now undergoing Big Change, Big Integration and Big Development, generating new opportunities and challenges. Our people, instead of getting complacent with their past successes, proactively liberate their own mindsets. They are keen to embrace the changes and innovate for breakthroughs, striving to bring more compelling experience and delights to our customers. Seeing their dedication to the success of the company, I feel so encouraged and grateful. I also firmly believe that a vibrant, responsible and innovative China Telecom is emerging and will be a legend again!

In 2013, the Company accurately captured the development pattern of mobile Internet and the integration trend of the industry. Deepened transformation has enhanced its scale as well as profitability, with progressive strengthening in market position. Riding on the comprehensive implementation of the "Three New Roles"¹ strategy, the emerging businesses experienced rapid growth while the business structure optimisation has accelerated, steadily enhancing our corporate development capabilities. Adhering to the Internet's spirit of "openness, cooperation and innovation", the Company boldly explored and accelerated its evolution into a mode of operation that integrated deepened efficiently-centralised management and comprehensive subdivision of performance evaluation units, leading to pronounced improvement in corporate vitality and efficiency. The Company also established its grand blueprint of "creating a New China Telecom in five years". 4G licensing started a new era of mobile Internet, bringing vast potential for future corporate development.

Operating Results

In 2013, the Company continued to maintain its healthy and rapid growth momentum. The operating revenues amounted to RMB321.6 billion, representing an increase of 13.6% over last year. Excluding the mobile terminal sales, the operating revenues were RMB284.1 billion, representing an increase of 10.0% over last year, with revenue growth surpassing industry average and revenue market share further increased. Of which, mobile revenue accounted for approximately 50%, and the business structure continued to optimise. Profitability has been significantly enhanced with the profit attributable to the equity holders of the Company reaching RMB17.5 billion, increased by 17.4% over last year, and basic earnings per share were RMB0.22. EBITDA² was RMB96.6 billion, while EBITDA margin³ was 34.0%. Capital expenditure was RMB80.0 billion. Free cash flow⁴ reached RMB11.1 billion.

1 The "Three New Roles" refers to the Leader of Intelligent Pipeline, the Provider of Integrated Platforms and the Participant of Content & Application Development.

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

3 EBITDA margin is calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

4 Free cash flow is calculated from EBITDA minus capital expenditure and income tax.

Taking into account the return to shareholders, the Company's cash flow and its capital requirements for future development, the Board of Directors has decided to recommend at the forthcoming Annual General Meeting that a dividend being an equivalent of HK\$0.095 per share for the year 2013 be declared. Dividend per share increased by 11.8% compared to 2012.

Strong execution reinforcing corporate strength

Fundamental services continued its scale development

In 2013, the Company accelerated its scale expansion and significantly increased its market influence by fully leveraging the competitive strengths in network, brand recognition and services edges in mobile services and benefiting from the efficient unified operation of the network assets and mobile services as a whole. Persisting in a terminal-led approach and reinforcing terminal segmentation, the Company continuously expanded the variety of terminal models and optimised the structure of the Company's terminal device offerings. Through the deepening of channel distribution, the Company focused its strengths on enhancing the coverage and the portion of sales derived from open channels, which further improved the overall capability and strength of open channels. The Company's subscriber base and quality continued to enhance through initiatives such as strengthening application-driven development, continued improvement in functionalities and presentation of applications, and refining customer acquisition strategy. Mobile services revenue reached RMB113.8 billion this year, representing an increase of 23% over last year, which was the highest growth rate in the industry. The net addition of mobile subscribers was approximately 25 million, with total mobile subscribers reaching 186 million. 3G subscribers had a net addition of approximately 34 million, with a total exceeding 100 million. The number of 3G subscribers as a percentage of total mobile subscribers increased to 56%, further optimising the structure. The Company's fundamental market share was further strengthened, with its mobile subscriber market share surpassing 15%.

The Company persisted in profitable scale development and has seen a steady and healthy growth in its wireline broadband services with its high-speed fibre broadband services fully rolled-out. The Company has comprehensively stepped up its efforts in its

wireline broadband network maintenance and service quality enhancement, and has continued to promote bandwidth upgrade. The Company introduced the 100Mbps home fibre broadband product, which improved customer experience and network utilisation, resulting in the steady growth in return. The Company propelled the increase in its customer value by enriching its high-bandwidth products portfolio, accelerating the research, development and promotion of "Smart Family" products and strengthening the premium content and enriched value. The Company insisted on rational competition and gained customers' recognition through high price-to-performance factors, defending the value propositions of the industry, while reserving room for future growth. Wireline broadband revenue reached RMB70.8 billion this year, representing an increase of 6% over last year. The total number of wireline broadband subscribers exceeded 100 million, with a net addition of approximately 10 million. Among these subscribers, the number of Fibre-to-the-Home (FTTH) subscribers was close to 27 million, representing an increase of over 70% year-on-year. FTTH subscribers accounted for nearly 30% of the total number of wireline broadband subscribers and the subscriber structure has been further optimised.

Emerging businesses grew rapidly

In 2013, the Company prospected the industry landscape and accelerated the strategic restructuring of its business structure. Emerging businesses, including mobile data traffic, Internet applications and informatisation applications, experienced rapid growth of nearly 30%, accounting for close to a quarter of the total revenue. The new customer acquisition approach led by applications and services achieved remarkable results. The Company has duly implemented its deepened strategic transformation.

Continued optimisation of data traffic operation fostered the rapid growth in the scale and value of data traffic. The Company reinforced its efforts in targeted marketing and locked its sights on its targeted customer groups through its continuous efforts to reinforce its brand awareness and brand influence, and offering data-focused, flexible and self-designed packages to high value customers. By strengthening the promotion of smart terminals, enhancing the pre-installed applications and customer coaching and enhancing customer experiences, the Company cultivated and strengthened the customers' data usage habits. Relying on its intelligent pipeline and integrated platform, the Company fully exploited the

data-converging characteristics of its Internet portal-type applications such as "YiChat" and "Best Pay", to strengthen its product offerings focusing on dedicated-data traffic and data traffic backward monetisation operation. During the year, smartphones sales accounted for more than 80% of the total handset sales, while the total data traffic by 3G handsets increased by 142% over last year. The monthly average data traffic per 3G handset subscriber reached 190MB, representing an increase of 42% from last year. Internet access revenue by handsets increased by 88% from last year, while the 3G handset Internet access ARPU accounted for 33% of the 3G ARPU.

The accelerated promotion of Internet applications and industry-specific applications drove the robust scale development. With a rapid scale expansion of "Best Pay", the penetration of customers, entrepreneurs and financial system has progressively expanded. In 2013, the transaction amount of "Best Pay" reached RMB133.1 billion, representing a growth of 226% over the previous year. The Company also jointly launched "YiChat" with NetEase, Inc. to promote the development of product hosting channel and create a new type of mobile Internet portal. At present, the number of registered "YiChat" users is nearly 60 million. To actively develop the cloud computing applications, the Company proactively promoted the incorporation of the "cloud" element into its existing products and services to further enhance its product range. In order to reinforce its efficiently-centralised development, the Company completed the strategic planning of 16 application development centres covering eight industries to promote the continuous optimisation of the informatisation application system. Emphasising on the Smart Cities project and key industry customers expansion, the Company continued to strengthen its edge on strategic cooperation in informatisation applications. With a focus on customer experience, the Company placed an equal emphasis on product standardisation and differentiation. Through the improvement of the functionalities of informatisation applications and service quality, customer satisfaction has been enhanced which effectively increased the value of customers' contribution. During the year, there was a net addition of over 13 million mobile subscribers driven by industry-specific applications, up by 30% from last year, of which over 70% was generated from its six major applications including the "e-Surfing School" initiative.

Reform and innovation accelerating the creation of differentiated edges

Persistence in innovation and cooperation brought remarkable results in the "Three New Roles" strategy

The Company boldly created a new model of open cooperation for the development of the emerging businesses, and successfully introduced the essential elements of mobile Internet into the model, leading to a landmark breakthrough for the Company. With newly set segregated operating systems and mechanisms for the emerging businesses, the Company offered support to a highly-efficient "Internet-business type" operating environment and an effective incentive mechanism. By adhering to its market-oriented and capital-driven approach, the Company facilitated dynamic and flexible resources allocation and effectively strengthened its organic vibrancy. With the launch of "YiChat" as a breakthrough, the Company leveraged the Internet companies to rapidly power up its competitive strengths. The Company also leveraged the resources edges of the network, platform, customer services and marketing channels, and the enriched experiences in Internet-type product operation and online sales in the cooperation. The Company has effectively penetrated and integrated the current market influence and customer base of both parties to converge the strengths and opened up a new path for Internet-type services.

Conforming to the industry convergence trends and learning from the mobile Internet development experience, the Company constructed an "Internet-business type" model and accelerated the comprehensive commercial implementation of the "Three New Roles" strategy. The Company fully enhanced the data traffic control and billing capabilities based on customers and service identification. The Company strengthened the self-determined bandwidth upgrade-on-demand function for wireline broadband subscribers. With the promotion of "Big Data", the Company started to monetise from its intelligent pipeline by turning the edges of big volume of data into edges of valuable services. By strengthening the capabilities such as location-based services and unified account operation, the Company sped up the process of opening up its capabilities for cooperation and progressively implemented the integrated platform. The Company accelerated product development and promotion, initiated three business groups: digital entertainment, e-commerce and information services,

and enriched their contents and application systems progressively.

Focusing on efficiency and vitality to accelerate the evolution of corporate operation model

With our in-depth study and grasping the pattern, we set vitality and efficiency as our core objectives on developing a new operation model with the key features of reasonable sub-division of performance evaluation units and efficiently-centralised management operation, for accelerated preparation to adapt to mobile Internet development.

To promote the “market-driven” reform, the Company continued to sub-divide performance evaluation units to fully inspire employee vitality. With a perseverance to explore, the Company further implemented the sub-division of performance evaluation units in the whole company from bottom to top including sales outlets, rural sub-branches and investments units, which allowed better matching between operation responsibilities and authorities of resource allocation such as cost and investment resources in the frontline business units, and established a close and direct linkage between the employee remuneration and the integrated return of the frontline business unit. This resulted in high degree of alignment of the operating goals of the frontline business units with the overall corporate goal and highly aligned the interests of the employees with those of the Company. Over the past year, the operational efficiency and profitability of the frontline business units experienced a rapid growth.

Adapting to the development pattern of the mobile Internet business, the Company further stepped up its effort in efficiently-centralised management to strengthen its entire-network operation and management capabilities. The Company also accelerated its network upgrade, and steadily expanded its capabilities. Platform integration and consolidation was strengthened and cloud resources were deployed to further enhance the level of efficiently-centralised operation of the network. The Company further refined its package structure resulting in an increase in the proportion of the sales of efficiently-centralised packages. With a focus on the promotion of “Best Pay”, “YiChat” and all sorts of livelihood-related applications, the product management systems were continuously optimised. The Company strengthened the synergistic collaboration of channels, promoted the efficiently-centralised control and resources exchange

of open channels such as large chain stores and manufacturers, enhanced integrated operation and development of electronic channels at group level to further strengthen the overall capability in channel sales. To lower the management costs, the Company continuously improved its level of efficiently-centralised management on procurement, IT, finance and other areas. Through promoting the efficiently-centralised operations of overseas businesses, profitability was significantly enhanced. The Company recorded a 38% growth in the revenues from overseas during the year.

The Company adopted various initiatives to improve its operating efficiency and profitability. The Company implemented a market-oriented approach internally by focusing on the key evaluation metrics and optimising its resources allocation model while creating an internal competition mechanism for costs and investment resources to tilt the resources towards high growth and high returns areas. To adapt to a new operating model, the Company restructured its front-end organisation, and further strengthened the efficiently-centralised operation and co-ordination from a vertical perspective while enhancing the synergistic collaboration of various sales channels to enhance the efficiency of its front-end decision-making and execution. The Company also innovated services approach with customer experience as a core by launching multimedia customer services on Internet through handset application, “YiChat” and “Wechat” to achieve “one-point access for entire-network service”. The Company progressively promoted the mobility of service processing to further improve service efficiency. The Company strengthened precision management by actively enhancing the utilisation and consolidation of its existing assets, as well as increasing the level of capital centralisation, strengthening its control over investment and costs to increase the efficiency and return of the use of its capital and assets.

Corporate Governance and Social Responsibility

We continue to strive to maintain a high level of corporate governance, attaching great importance to risk management and control. We strive to enhance corporate value and transparency to ensure our healthy and orderly growth. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We were accredited with a number of awards and recognition, including being voted the “No. 1 Best Managed Company in Asia” by *FinanceAsia* for three

consecutive years, "No. 1 Most Honored Company in Asia" by *Institutional Investor*, and also "Overall Best Managed Company in Asia" by *Euromoney* five years in a row.

We persisted in operating with integrity and proactively fulfilled our corporate social responsibility while promoting a healthy and orderly development of our industry. Meanwhile, we enhanced the information security assurance for our nation and customers, while persistently maintaining a good network environment by actively promoting Internet interconnections and further strengthening energy conservation and emission reduction. We also helped proactively with fighting major natural disasters such as earthquakes and typhoons, and have accomplished telecommunications assurance services for significant events such as the China-Eurasia Expo and the launch of Shenzhou-10 spacecraft, receiving high recognition and appreciation from the society.

Outlook

At present, China's deepening reform and accelerating the adjustment and restructuring of the national economy, together with accelerating social informatisation process with the promotion of information consumption and implementation of "Broadband China" strategy, offers vast market potential. The mobile Internet business in China has undergone an explosive growth momentum. Coupled with the accelerated evolution of technology and industry chain, there is a rapid upgrade in smart terminals and data usage habits. 4G licensing opens up a brand new development space for mobile Internet, bringing in a valuable opportunity for a full scale transformation and upgrade in the information industry. Meanwhile, the global economy is still in a deep adjustment period. More industry reforms pushed by integrated development are emerging. "Customer flow, Data traffic flow and Capital flow" now become the new key value of the industry development. The value shifting in the industry is accelerated, while competition is further intensified in respect of its scope and magnitude with gradual roll-out of regulatory policies such as amendments to wireline broadband competition policies. As such, the Company will face new challenges.

With the 4G licensing, China Telecom embraces the best period of its full-services operations. We will grasp the opportunity for rapid development, proactively and appropriately tackle the challenges from regulatory and policy changes such as national tax reform, striving to create a New China Telecom. Based on the characteristics of its own resources, the Company will fully leverage the dual-technology strengths of wireline broadband and wireless broadband and continue to strengthen the wireline broadband network through the IPv6 evolution and fibre broadband. The Company will also actively apply for the permit of LTE FDD operation and will deploy LTE network appropriately with regard to the government policy and business development. A seamless high-speed mobile network built through the hybrid LTE network, coupled with highly efficient and coordinated development of 4G and 3G, will establish a full scene of network edge. The Company will deepen the reform to create incremental value, share the return with employees to fully unleash their vibrancy, and accelerate the evolution towards an Internet-business type operation model. Capitalising on reform and innovation, the Company will firmly persist in the implementation of the "Three New Roles" strategy. With quality and efficiency enhancement, the Company will promote dual enhancement in scale development and profitability with continual reinforcement in competitiveness. By proactively open cooperation based on complementary resources and edge, the Company will endeavour to achieve a win-win cooperation in the industry value chain and accelerate the strategic planning of emerging businesses. The Company will strive to expand the value creation areas and continue to be the forerunner in the mobile Internet era, while continuously creating new values for shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support, and my gratitude to all our employees for their hard work and their contribution to the Company.



Wang Xiaochu
Chairman and Chief Executive Officer
Beijing, China

19 March 2014

Directors, Supervisors and Senior Management



 **Mr. Wang Xiaochu**

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



 **Mr. Yang Jie**

Age 51, is an Executive Director, President and Chief Operating Officer of the Company. Mr. Yang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute 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 30 years of operational and managerial experience in the telecommunications industry in China.



Madam Wu Andi

Age 59, is an Executive Director, Executive Vice President and the Chief Financial Officer of the Company. She is responsible for the financial management of the Company. Madam Wu is a senior accountant. She graduated from the Beijing Institute of Economics with a bachelor 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. She studied in a master of business administration (MBA) program at the Guanghua School of Management at Peking University from 2002 to 2003 and received an executive master degree of business administration (EMBA). 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 Ministry of Information Industry ("MI"), Director General, Deputy Director General and Director of the Department of Finance of the Ministry of Posts and Telecommunications ("MPT"). She is also a Vice President of China Telecommunications Corporation. Madam Wu has 32 years of economic and financial management experience in the telecommunications industry in China.



Mr. Zhang Jiping

Age 58, is an Executive Director and Executive Vice President of the Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor 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 ("DGT") of the MPT, a Deputy Director General and Director of the Telecommunication Technology Centre of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has 32 years of experience in network operation and management in the telecommunications industry in China.



Mr. Yang Xiaowei

Age 50, is an Executive Director and Executive Vice President of the Company. Mr. Yang is a senior engineer. He received a bachelor's degree from the Computer Application Department of Chongqing University in 1998 and a master's degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director General and Deputy Director General of Chongqing Telecommunications Bureau, a Deputy Director General of the Chongqing Telecommunications Administration Bureau and a Director General of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the Unicom Group, Vice President of the Unicom Group, Director of the Unicom Group and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of China Unicom Corporation Limited and Chairman of Unicom Huasheng Telecommunications Technology Co. Ltd.. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and telecommunications industry.



Mr. Sun Kangmin

Age 56, is an Executive Director and Executive Vice President of the Company. Mr. Sun is a senior engineer. He holds a bachelor degree. Mr. Sun served as 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 Communication Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation. Mr. Sun has 30 years of operational and managerial experience in the telecommunications industry in China.



Mr. Ke Ruiwen

Age 50, is an Executive Director and 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 28 years of operational and managerial experience in the telecommunications industry in China.



Mr. Gao Tongqing

Age 50, is an Executive Vice President of the Company. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company, General Manager of China Telecom Jiangsu branch. He is also a Vice President of China Telecommunications Corporation. Mr. Gao has extensive experience in management and telecommunications industry.



Mr. Xie Liang

Age 50, is a Non-executive Director of the Company. Mr. Xie is a senior accountant and received an executive master degree of business administration (EMBA) from Jinan University. Mr. Xie is the Vice President of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company). Mr. Xie served as the Deputy Director of the Corporate Finance Division and the Corporate Audit Division of the Guangzhou Military District Back-end Operation Management Department and the Vice Minister, the Minister and the assistant to the President of Guangdong Rising Assets Management Co., Ltd.. Mr. Xie has over 20 years of experience in corporate management and extensive experience in corporate finance management.



Mr. Wu Jichuan

Age 76, is an Independent Non-executive Director of the Company. Mr. Wu is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Expert Committee for Telecommunication Economy of MIIT, Honorary Director General of the Chinese Institute of Electronics, and Honorary Director General of the Chinese Institute of Communications. Mr. Wu graduated from the 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 Ministry of Posts and Telecommunications, Deputy Director of the Committee of the Radio Management of China, Vice Leader of the Informatisation Leading Group of the State Council, Minister of Ministry of Information Industry, a member of the Eighth & the Tenth National People's Congress, a member of the Standing Committee of the Tenth National People's Congress and Vice Chairman of the Education, Science, Culture and Public Health Committee of the National People's Congress.



Dr. Qin Xiao

Age 66, is an Independent Non-executive Director of the Company. Dr. Qin obtained his Ph.D. in economics from University of Cambridge. He is the Independent Non-executive Director of HKR International Limited and AIA Group Limited and China World Trade Center Company Limited and the Non-executive Chairman of the Board of Amex Resources Limited. He is a part-time professor at the School of Economics and Management of Tsinghua University and PBC School of Finance, Tsinghua University, a non-official member of the Financial Services Development Council of Hong Kong. He served as the Chairman of China Merchants Bank Co., Ltd. and China Merchants Group Limited, President and Vice Chairman of China International Trust and Investment Corporation (CITIC), and Chairman of CITIC Industrial Bank. He was a deputy to the Ninth National People's Congress, a member of the Tenth and the Eleventh Chinese People's Political Consultative Conference, an advisor on the Foreign Currency Policy of the State Administration of Foreign Exchange, a part-time professor at the Graduate School of the People's Bank of China, and a member of Toyota International Advisory Board, he also served as Chairman of APEC Business Advisory Council (ABAC) for the Year 2001. His papers and books in economics, management and social transformation have been published in China and abroad.



Mr. Tse Hau Yin, Aloysius

Age 66, 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, SJM Holdings Limited. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board from 2004 to 2010. Mr. Tse was appointed as an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation in March 2013. He is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.



Madam Cha May Lung, Laura

Age 64, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the 12th National People's Congress, PRC, a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region and Chairman of the Financial Services Development Council, Government of the HKSAR. She is the Non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is a Non-executive Director. She is the Non-Executive Director of Unilever, PLC and Unilever, N.V, and the Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission ("CSRC"), a Member of the International Advisory Council of the China Banking Regulatory Commission. Mrs. Cha served as Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director and Deputy Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University of USA in 1982.



Professor Xu Erming

Age 64, is an Independent Non-executive Director of the Company. Professor Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, a member of the Third Session of the University Affairs Committee of the Renmin University of China, Associate Convener of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council and Vice Chairman of the Chinese Enterprise Management Research Association. He is also entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited (formerly known as Harbin Power Equipment Company Limited). Over the years, Professor Xu has conducted research in areas related to strategic management, organisational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Professor Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and the Hong Kong Polytechnic University.

Mr. Yung Shun Loy, Jacky

Age 51, is the Assistant Chief Financial Officer, Qualified Accountant and the Company Secretary of the 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 degree in laws and a bachelor degree in social sciences. Mr. Yung has over 20 years of experience in auditing, company secretary and senior financial management of listed companies.

Mr. Gao Jinxing

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

Supervisors

Mr. Shao Chunbao

Age 56, is the Chairman of the Supervisory Committee of the Company. Mr. Shao is currently the head of the Discipline Inspection Division of China Telecommunications Corporation. Mr. Shao received a doctorate degree from the Huazhong University of Science and Technology. He served as Deputy Office Director and Deputy Director of the Scientific Research Division of the Shanxi Taiyuan Municipal Party School, Director-grade Secretary in the General Office of CPC Committee of Shanxi Province, Director-grade investigator of the Organisation Department of the Central Committee of CPC, Director General-grade Deputy Director General of the Central Direct-owned Institutions Management Office, Deputy Secretary of the Municipal Party Committee of Jiujiang of Jiangxi Province, Deputy Secretary of the Discipline Commission and Director General of the Inspection Bureau of the State Owned Assets Supervision and Administration Commission of the State Council. Mr. Shao has extensive government work experience and management experience.

Madam Zhu Lihao

Age 73, is an Independent Supervisor of the Supervisory Committee of the Company. Madam 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. Madam Zhu served as a Deputy Director General, Director General, Deputy Director and Director of the Department of Industry and Communications of the National Audit Bureau of China, and the Director General of the Department of Foreign Affairs and Foreign-related Auditing of the Audit Bureau. Madam Zhu has over 40 years of experience in management and auditing.

Mr. Tang Qi

Age 55, is an Employee Representative Supervisor of the Supervisory Committee of the Company. Mr. Tang is currently the Vice Chairman of the Labour Union of China Telecommunications Corporation and China Telecom Corporation Limited. Mr. Tang received a doctorate degree in business administration (DBA) from the Hong Kong Polytechnic University. Mr. Tang served as the Director of the marketing department of the Posts and Telecommunications Administration of Shandong province, Manager of the marketing department of China Telecommunications Corporation, General Manager of China Telecom Shandong branch, General Manager of China Telecom Chongqing branch. Mr. Tang is a senior engineer and has extensive experience in operation and management in the telecommunications industry.

Mr. Zhang Jianbin

Age 48, is an Employee Representative Supervisor of the Supervisory Committee of the Company. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department). Mr. Zhang graduated from the Law School of Peking University in 1989 and received LLB and LLM degrees. He also had EMBA degree from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the Ministry of Posts and Telecommunications ("MPT") and the Directorate General of Telecommunications ("DGT") of the MPT. He served as Deputy Director of the General Office and Deputy Director of the Legal Affairs Division of the DGT of the MPT, Director of the Corporate Strategy Department (Legal Department) of the Company. Mr. Zhang is a senior economist with over 20 years of experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.

Mr. Hu Jing

Age 38, is a Supervisor of the Supervisory Committee of the Company. Mr. Hu is currently the Director in the audit department of the Company. Mr. Hu received a bachelor's degree in accounting from the Xi'an University of Finance and Economics in 1997 and a master's degree in business administration from the Northwest University in 2003. Mr. Hu served at various financial and auditing positions at Shaanxi Telecom Company and China Telecommunications Corporation. He is a member of the Chinese Institute of Certified Public Accountants and senior accountant with 16 years of experience in finance and auditing.

Mr. Du Zuguo

Age 51, is a Supervisor of the Supervisory Committee of the Company. Mr. Du is a senior economist. He is the General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of China Telecom Corporation Limited) and the Chairman and General Manager of Zhejiang Province Financial Holdings Company Limited. Mr. Du served as Director, Deputy Director General, Deputy Secretary to the CCP Committee, Director General and Secretary to the CCP Committee of Zhoushan Finance and Local Tax Bureau in Zhejiang province and now is a CCP Committee member of Zhejiang Provincial Department of Finance. Mr. Du has extensive experience in government's work and large-scale state-owned enterprise management.



One **STRONG
BELIEF**

De - Telecom

Breaking away from the constraints of traditional telecommunications operation mindset

A Dynamic Team:
Embracing **change**
Keen to **Advance**
Innovative



The following table sets out key operating data for 2011, 2012 and 2013:

| | Unit | 2011 | 2012 | 2013 | Rate of change over 2012 |
|-------------------------------------|------------------|---------|---------|----------------|--------------------------|
| Mobile subscribers | million | 126.47 | 160.62 | 185.58 | 15.5% |
| of which: 3G subscribers | million | 36.29 | 69.05 | 103.11 | 49.3% |
| Wireline broadband subscribers | million | 76.81 | 90.12 | 100.10 | 11.1% |
| Access lines in service | million | 169.59 | 163.00 | 155.80 | -4.4% |
| Mobile voice usage | million minutes | 407,765 | 509,229 | 603,616 | 18.5% |
| Mobile SMS usage | million messages | 49,941 | 55,789 | 64,235 | 15.1% |
| 3G handset data traffic | KTB | 23.60 | 72.30 | 175.10 | 142.2% |
| Mobile Colour Ring Tone subscribers | million | 75.38 | 92.19 | 102.02 | 10.7% |
| Wireline local voice usage | million pulses | 206,371 | 172,175 | 148,690 | -13.6% |



e-Surfing 3G Handset Fair & Mobile Internet Forum



In 2013, fully capitalising on the development opportunities brought forth by the rapid growth of 3G and the mobile Internet, the Company continued to deepen its strategic transformation, innovate development models and create competitive edges, leading to a continuous expansion of subscribers' scale, rapid growth of mobile services and steady growth of broadband services, and achieving remarkable increase in operating revenues, further optimising revenue structure and reinforcing its competitive edges in the market.

Key operating performance

Rapid growth in operating revenues, while business structure continued to optimise

In 2013, the Company's operating revenues increased by 13.6% to RMB321,584 million. Excluding revenues from mobile terminal sales, operating revenues were RMB284,149 million, representing an annual growth of 10.0%. The Company's revenue structure was further optimised, with mobile revenues accounting for 47.0% of operating revenues, and revenues from the mobile and wireline broadband services accounting for close to 70% of operating revenues.

Mobile revenues maintained rapid growth and subscribers' scale continued to expand, while customers' values were enhanced

In 2013, the Company persisted in the strategy that is terminal-led and application-driven and placed concurrent emphasis on integrated products and efficiently-centralised single products. The Company also strengthened cooperation with open channels and raised the sales capacities of channels, continuously expanding the mobile subscribers' scale. At the end of the year, the number of mobile subscribers reached 186 million, with a net addition of 24.96 million subscribers, and mobile service revenues increased by 22.6% to RMB113,751 million compared to last year.

Leveraging on the opportunity emerging from contact with our mobile customers, the Company offered customers coaching services on utilising mobile applications and launched promotional campaigns to raise the penetration and adoption of mobile applications, thereby increasing data traffic and enhancing customers' values. In 2013, mobile average revenue per user (ARPU) was RMB54.8, representing a year-on-year growth of 1.7%. 3G handset data traffic stood at 175.1KTB, up 142.2% year-on-year, and the monthly average data traffic per 3G handset subscriber came to 190MB.



China Telecom provides its customers with a wide variety of products and services

Wireline services maintained positive growth and wireline broadband service continued to develop steadily

In 2013, the Company deepened the implementation of wireline and mobile integration and stabilised the wireline revenues base. Revenues from wireline services were RMB170,398 million and up 3.1%, maintaining positive growth.

In the wireline broadband service, the Company reinforced its competitive edges by adopting the development strategy of “Emphasising quality on the high-end, significantly improving network speed for the mainstream market, and improving market share on the low-end”, with the deepened implementation of the “Lightening Fibre Residential Areas” initiative and “Broadband Excellence” programme, thereby further improving the broadband subscriber structure and achieving steady growth of subscribers’ scale and revenues. In 2013, revenues from wireline broadband services grew 6.1% to RMB70,821 million. The number of wireline broadband subscribers reached 100 million, with a net addition of 9.98 million subscribers, of which the number of fibre broadband service subscribers was close to 27 million, with subscribers of bandwidth of 4Mbps or above accounting for 80% of the total, up 7.0 percentage points compared with the beginning of 2013.



The iTV, ICT and IDC services became three key drivers of revenue growth of wireline value-added services (VAS) and integrated information services. In 2013, revenues from wireline VAS and integrated information services were RMB34,274 million, up 11.6% over last year. Riding on iTV, the Company promoted “Smart Family” to enhance customers’ experience by offering high-definition and intelligent products. By accelerating ICT development, the Company continued to provide customers with integrated information services that were convenient, differentiated and with high price-performance ratio. The deployment of six key Cloud data centres of the Company was in place.

In 2013, revenues from wireline voice service as a percentage of the Company’s operating revenues saw a further decline, signalling an effective alleviation of operational risks. Revenues from wireline voice service were RMB38,633 million, representing 12.0% of the operating revenues and a drop of 3.3 percentage points from the previous year.

Business operating strategies

In 2013, the Company adhered to the operating theme of “promoting dual enhancement in scale development and profitability through dual-leadership in innovation and service”, vigorously implemented the two key strategies of scale operation and data traffic operation, and carried out operational measures in “efficiently-centralised marketing, terminal-led approach, application-driven promotion, open channel expansion and excellent services provision”.

First, strengthened efficiently-centralised marketing intensity and raised sales efficiency

In 2013, the Company further refined package design to meet the customers’ demand, launching “e-Surfing Young” data-only and “DIY” mobile packages. At the same time, the Company optimised its package structure and centralised marketing resources and strategy that tilted towards high-valued clients and services. To actively adopt non-cost marketing model, the Company carried out various activities, including vigorous development of pre-paid subscribers and providing rebate to existing customers upon depositing of fees in advance. The Company further strengthened the centralised effort of marketing activities by organising four unified marketing campaigns during the year and substantially enhanced customer acquisition and terminal sales.

Second, strengthened terminal-led approach and optimised terminal portfolio structure

The Company continued to promote the “terminal-led” strategy that facilitated the continued prosperity of CDMA terminal industry value chain. For the whole year, a total of 334 CDMA handset models were newly launched, of which 270 were newly-launched 3G smartphone models. The smartphone sales volume accounted for 80.4% of the total sales volume, up 19 percentage points over last year. Through chipset upgrade, screen enlargement and other initiatives, the price-to-performance ratio of the smartphones priced around RMB1,000 was enhanced, strengthening the competitive edges of the market of smartphones priced around RMB1,000. The Company also successfully managed to participate in the global launches of various star handsets, such as Apple’s 5S/5C, Samsung’s S4 and NOTE3 and raised its market share in the high-end market. The Company also collaborated with upstream chipset manufacturers to launch low-end smartphones priced at RMB299, tackling the disadvantages of the lack of presence for CDMA network standard smartphones in the low-end market.

Third, the Company accelerated the promotion of applications to create differentiated competitive edges

The Company attached great importance to development and promotion of the industry applications for government and enterprise customers, and development of livelihood applications and mobile Internet applications. For industry application, the Company focused on promoting e-Surfing School, work unit e-Surfing RFID, field work assistant, integrated office, busy-shop assistant and campus e-Surfing RFID and the industry applications drove over 13 million of net addition of mobile subscribers. For livelihood application, the Company vigorously promoted applications for water, electricity and gas bills payment, gas refuel, traffic fines and public transport payments. For mobile Internet applications, the Company sped up the pace of corporatisation and equity restructuring of emerging services such as product centre businesses in order to establish competitive specialised corporates. China Telecom actively worked with mobile Internet companies and jointly launched “YiChat” with NetEase, Inc., serving as the mobile Internet portal.

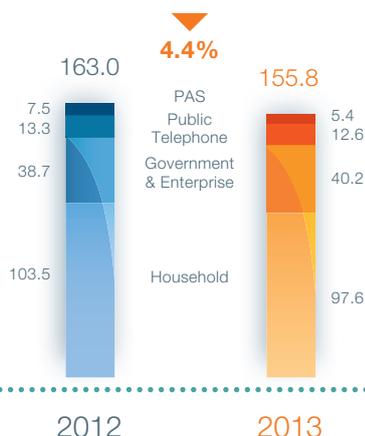
Mobile Subscribers

(million)



Access Lines in Service

(million)



Wireline Broadband Subscribers

(million)

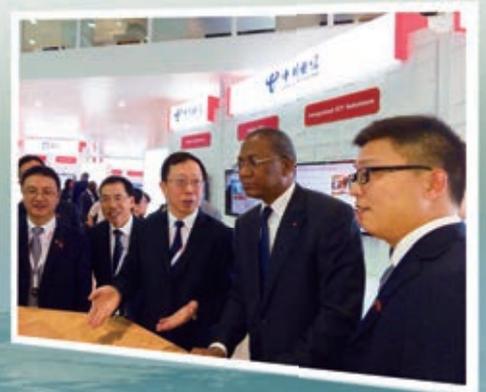


Fourth, the Company stepped up synergy of channels and improved sales capabilities of channels

The Company strengthened the collaboration of the three major channels, namely, direct sales, physical outlets and electronic channels, to converge the strengths and improve sales capabilities. For government and enterprises customers, the Company strengthened the training for direct sales managers and enhanced the capability to secure sizable contracts. At the same time, it adopted a synergistic marketing approach that combined “channel manager + agent + physical outlet” to enhance coverage of small to medium sized government and enterprise customers. For physical outlets, the Company continued to deepen

the implementation of “sub-division of performance evaluation units” in the self-operated outlets to motivate staff vitality and increase sales. The Company extensively cooperated with open channels, especially with chain stores and terminal manufacturers, as well as strengthened the direct supply of terminals and calling cards at the convenience outlets such as telephone booths and service outlets in rural areas. For electronic channels, the Company centralised its development and operation, established dedicated marketing policy and a B2B-focused distribution system, leading to improvement of the electronic channel’s ability to operate independently, and accelerating transformation to be an e-commerce operator as well as the closer cooperation with third party e-commerce companies.

The Company’s management attended customer activities and market studies



Fifth, the Company focused on customers' perception and improved customers' satisfaction

To improve customers' perception and enhance their satisfaction, the Company implemented the "Service of Excellence" strategy. Using service standard as a starting point, the Company promoted instant customer satisfaction feedback system in 10 pilot provinces, to evaluate services such as the physical outlets and broadband service installation and maintenance, strengthening the control over the service delivery to enhance customers' experience. With focus on key services, the Company enhanced 3G service standardisation, optimised data traffic queries, reminder service, credit control management and service cancellation process, strengthened the coaching of applications adoption and achieved EVDO network optimisation in urban areas. In addition, it provided customers of different tiers and clusters with differentiated broadband services, enhancing the efficiency of installation and maintenance, and effectively promoting customer access bandwidth upgrade. All these put the Company top in 3G and broadband satisfaction survey. To provide convenient

and fast service, the Company enriched its service channels by offering mobile "e-Surfing customer service", launching customer service platforms in "YiChat" and "WeChat".

Network and operation support

In 2013, the Company continued to uphold the "return-focused" investment principal, optimised investment structure, accelerated network upgrade and evolution and progressively expanded capacity, supporting business scale expansion and steadily enhancing resource utilisation.

First, the Company continued to enhance the core competitiveness of the mobile network. The Company appropriately implemented a "rapid and targeted" capacity expansion based on subscriber growth and network traffic loads in 2G/3G network to ensure the network quality and customers' satisfaction, raising the network utilisation by more than 2 percentage points. Leveraging on the 4G licensing, the Company promptly deployed LTE network in over 60 cities to provide network assurance for its 4G operation.



China Telecom announced the e-Surfing mobile wallet service

Second, the Company progressively promoted fibre network in cities and bandwidth upgrade. The Company focused on fibre network construction and upgrade in the urban areas based on customers' demand, enhancing the broadband network edges. More than 90% of the urban areas were covered with at least 20Mbps customer access bandwidth, with fibre access port utilisation reaching 40%, an improvement of 7.6 percentage points. In rural areas, the Company deployed wireline, wireless and other means subject to local conditions to meet the demand of new broadband users, with more than 91% coverage with at least 4Mbps customer access bandwidth.

Third, the Company accelerated Cloud-based development of open platforms and integrated information services expansion. The Company was in full efforts to promote its own platform integration and improve the efficiency of the platform, accelerating the construction of open integrated platforms and Cloud data centres for raising the operating and cooperative ability of Cloud resources. Riding on local government's implementation of "Smart Cities", the Company actively developed ICT services for government and enterprise customers while continued to expand the depth and breadth of ICT services.

Development measures and highlights for 2014

In 2014, 4G commercial launch, along with the rapid growth of the new Internet-based information consumption and e-commerce transactions, will bring new market opportunities and room for information consumption growth. The Company will accelerate the deployment of 4G services and plan to launch 4G products focusing on data traffic and multi-terminal sharing. The 4G services positioning will be targeted to mid-to-high-end users in mainly urban areas, while 3G will be positioned to mid-to-low-end users leveraging on the Company's superior 3G network coverage in rural areas with accelerated expansion of rural subscribers. The Company continues to enhance the utilisation of wireline broadband network through upgrade of customer access bandwidth and quality and iTV HD content enrichment to improve product competitiveness and maintain the market leadership in wireline broadband service. In addition, the Company continues to accelerate the coverage of its open channels, strengthen channels collaboration, and raise marketing capabilities and sales per store. The Company will actively expand in information services, accelerate the emerging business development, improve the data traffic product mechanism, cooperate with Internet companies to promote the adoption of heavy data traffic applications, such as video, and vigorously expand "data traffic backward monetisation". To speed up the expansion of Internet applications, the Company will strengthen the integrated platform as the fundamental, build the core capabilities on payment, location-based services and account operation and leverage on "YiChat" as portal for building Internet business system. The Company will reinforce traditional advantages in the integrated outsourcing, IDC and Cloud products, while nurturing new products in the areas of big data and Internet of thing, etc. We will also continue to optimise network resources, improve operating and maintenance efficiency, enhance service capabilities of full services and enhance customers' satisfaction to attain continuous growth in customer value and corporate value.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Summary

In 2013, the Group firmly adhered to the main theme of “promoting dual enhancement in scale and profitability through dual-leadership in innovation and service”, and further promoted the strategic transformation of “De-telecom”, “Market Orientation and Differentiation” and “Three New Roles”. The overall operating condition of the Company was stable and healthy. With the double-digit growth of both operating revenues and net profit, the business structure continued to be optimised and competitiveness continued to be enhanced. The Group's operating revenues in 2013 were RMB321,584 million, an increase of 13.6%¹ from 2012; operating expenses were RMB294,116 million, an increase of 12.3% from 2012; profit attributable to equity holders of the Company was RMB17,545 million, an increase of 17.4% from 2012; basic earnings per share were RMB0.22; EBITDA² was RMB96,551 million and the EBITDA margin³ was 34.0%.

Operating Revenues

In 2013, the Group continued to firmly seize the development opportunities, with the steady growth in its subscribers' scale, the operating revenues continued to maintain at a high double-digit growth rate, the Group's market share steadily increased and the revenue structure continued to be optimised. Operating revenues in 2013 were RMB321,584 million, an increase of 13.6% from 2012. Of this, the total mobile revenue was RMB151,186 million, an increase of 28.3% from 2012. The wireline services revenues were RMB170,398 million, an increase of 3.1% from 2012. The aggregate of mobile service revenue⁴, wireline broadband revenue, wireline value-added services and integrated information application services revenue accounted for 68.1% of the total operating revenues, an increase of 0.9 percentage points from 2012.

1 In 2013, the Group acquired China Telecom (Europe) Limited. As the transaction was recognised as a combination of entities under common control, the comparative figures of prior years have been restated accordingly. Please refer to note 1 to the audited financial statements in this annual report for details.

2 EBITDA was calculated from operating revenues minus operating expenses plus depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analysing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, debt raising ability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.

3 EBITDA margin was calculated from EBITDA divided by operating revenues excluding the revenue from mobile terminal sales.

4 Mobile service revenue represents total mobile revenue minus other mobile revenue. Of this, in 2013, other mobile revenue amounted to RMB37,435 million.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

The following table sets forth a breakdown of the operating revenues of the Group for 2012 and 2013, together with their respective rates of change:

| <i>(RMB millions, except percentage data)</i> | For the year ended 31 December | | Rates of change |
|--|-----------------------------------|--------------------|--------------------|
| | 2013 | 2012 (restated) | |
| Wireline voice | 38,633 | 43,369 | (10.9%) |
| Mobile voice | 58,217 | 49,166 | 18.4% |
| Internet | 99,394 | 87,662 | 13.4% |
| Value-added services | 36,230 | 31,137 | 16.4% |
| Integrated information application services | 25,233 | 23,181 | 8.9% |
| Telecommunications network resource services and lease of network equipment | 17,586 | 15,737 | 11.7% |
| Others | 46,291 | 32,924 | 40.6% |
| Total operating revenues | 321,584 | 283,176 | 13.6% |

Wireline Voice

Through measures of convergent packages and wireline monthly packages, the Group slowed down the loss of wireline voice revenue and the negative effect of wireline voice was further reduced. In 2013, revenue from wireline voice services was RMB38,633 million, a decrease of 10.9% from RMB43,369 million in 2012, accounting for 12.0% of our operating revenues.

Mobile Voice

In 2013, the Group continued to strengthen its effort on expanding the scale of mobile subscribers, and the mobile service has maintained rapid growth. In 2013, the net increase in the number of mobile subscribers was 24.96 million, reaching a total of 186 million. Revenue from mobile voice services was RMB58,217 million, an increase of 18.4% from RMB49,166 million in 2012, accounting for 18.1% of our operating revenues.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Internet

In 2013, revenue from Internet access services was RMB99,394 million, an increase of 13.4% from RMB87,662 million in 2012, accounting for 30.9% of our operating revenues. On one hand, the Group adopted the development strategy of “Emphasising quality on the high-end, significantly improving network speed for the mainstream market, and improving market share on the low-end”, and continued to deepen the implementation of the “Lightening Fibre Residential Areas” initiative, formulated the “Broadband Excellence” program and realised a quantum leap of broadband service speed, and promote the rapid development of broadband services. At the end of 2013, the number of wireline broadband subscribers reached 100 million, the wireline broadband revenue of the Group was RMB70,821 million, an increase of 6.1% from 2012. On the other hand, the Group fully leveraged its advantage in 3G network and services, and persisted in data traffic operation. Revenue from mobile Internet access services was RMB27,962 million, an increase of 40.7% from 2012.

Value-Added Services

In 2013, revenue from value-added services was RMB36,230 million, an increase of 16.4% from RMB31,137 million in 2012, accounting for 11.3% of our operating revenues. With the growth in the number of mobile subscribers, mobile value-added services such as SMS, MMS, and caller ID services developed rapidly. Revenue from mobile value-added services was RMB19,748 million, an increase of 17.2% from 2012. Due to the rapid growth of the Internet Data Centre services and iTV services, the revenue from wireline value-added services increased by 15.3% from 2012.

Integrated Information Application Services

In 2013, revenue from integrated information application services was RMB25,233 million, an increase of 8.9% from RMB23,181 million in 2012, accounting for 7.8% of our operating revenues. The increase in revenue was mainly due to the rapid development of Information and Communication Technology services. Revenue from mobile integrated information application services was RMB7,441 million, an increase of 10.3% from 2012.

Telecommunications Network Resource Services and Lease of Network Equipment

In 2013, revenue from telecommunications network resource services and lease of network equipment was RMB17,586 million, an increase of 11.7% from RMB15,737 million in 2012, accounting for 5.5% of our operating revenues. As the demand from government and enterprise customers for informatisation continued to increase, the revenue growth from domestic and international circuits services and lease of network equipment has increased quite rapidly. Revenue from lease of mobile network equipment was RMB383 million.

Others

In 2013, revenue from other services was RMB46,291 million, an increase of 40.6% from RMB32,924 million in 2012, accounting for 14.4% of our operating revenues. With the growth in the scale of mobile subscribers, the Group further increased the effort in the efficiently-centralised procurement and sales of mobile terminal equipment, especially “star” smartphones at different price levels. Revenue from sales of mobile terminal equipment was RMB37,435 million, an increase of 51.2% from 2012.

Operating Expenses

While reasonably coordinating our resources, the Group further strengthened our cost control efforts, and promoted profitable scale development of the enterprise. In 2013, operating expenses of the Group were RMB294,116 million, an increase of 12.3% compared with 2012, and the rate of growth of operating expenses was lower than the revenue growth rate. Operating expenses accounted for 91.5% of our operating revenues, a decrease of 1.0 percentage point from 2012.

The following table sets forth a breakdown of the operating expenses of the Group in 2012 and 2013 and their respective rates of change:

| <i>(RMB millions, except percentage data)</i> | For the year ended 31 December | | Rates of change |
|---|-----------------------------------|--------------------|--------------------|
| | 2013 | 2012 (restated) | |
| Depreciation and amortisation | 69,083 | 49,666 | 39.1% |
| Network operations and support expenses | 53,102 | 65,979 | (19.5%) |
| Selling, general and administrative expenses | 70,448 | 63,099 | 11.6% |
| Personnel expenses | 46,723 | 42,857 | 9.0% |
| Other operating expenses | 54,760 | 40,367 | 35.7% |
| Total operating expenses | 294,116 | 261,968 | 12.3% |

Depreciation and Amortisation

In 2013, depreciation and amortisation was RMB69,083 million, an increase of 39.1% from RMB49,666 million in 2012, accounting for 21.5% of our operating revenues. The increase in depreciation and amortisation was mainly due to the increase in depreciation as a result of the acquisition of mobile network assets at the end of 2012.

Network Operations and Support Expenses

In 2013, network operations and support expenses were RMB53,102 million, a decrease of 19.5% from RMB65,979 million in 2012, accounting for 16.5% of our operating revenues. The decline was mainly due to the fact that the Group no longer needs to pay to China Telecommunications Corporation the CDMA network capacity lease fee after the completion of the acquisition of mobile network assets.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Selling, General and Administrative Expenses

In 2013, selling, general and administrative expenses amounted to RMB70,448 million, an increase of 11.6% from RMB63,099 million in 2012, accounting for 21.9% of our operating revenues. The growth was mainly attributable to the Group's increased efforts to expand social channels and appropriately increased marketing initiatives. Commission and service expenses for third parties amounted to RMB25,519 million, an increase of 30.6% from 2012. Advertising and promotion expenses amounted to RMB36,490 million, an increase of 4.5% from 2012. The cost of terminal equipment offered to customers for free or at a nominal price amounted to RMB22,795 million in 2013, an increase of 4.8% from 2012. At the same time, the Group continued its prudent control on general and administrative expenses. Compared to last year, general and administrative expenses decreased by 2.5%.

Personnel Expenses

In 2013, personnel expenses were RMB46,723 million, an increase of 9.0% from RMB42,857 million in 2012, accounting for 14.6% of our operating revenues. The ratio of personnel expenses to operating revenues decreased by 0.5 percentage points when compared to 2012. While the Group strengthened the control on personnel expenses, it appropriately increased the remuneration for frontline staff to increase their passion and promote business development. For details of the number of employees, remuneration policies and training schemes, please refer to the Human Resources Development Report in this annual report.

Other Operating Expenses

In 2013, other operating expenses were RMB54,760 million, an increase of 35.7% from RMB40,367 million in 2012, accounting for 17.0% of our operating revenues. The increase was mainly attributable to the increase in the cost of mobile terminal equipment sold. The cost of mobile terminal equipment sold amounted to RMB35,227 million, an increase of 52.5% from 2012.

Net Finance Costs

In 2013, the Group's net finance costs were RMB5,153 million, an increase of 229.9% from RMB1,562 million in 2012. The increase was mainly due to the interest expenses arising from the deferred consideration of the mobile network assets acquisition and new short-term loans. Net exchange losses were RMB3 million in 2013.

Profitability Level

Income Tax

The Group's statutory income tax rate is 25%. In 2013, the Group's income tax expenses were RMB5,422 million with the effective income tax rate of 23.5%. The difference between the effective income tax rate and the statutory income tax rate was mainly due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of its branches with operations in the western region of China and some of its subsidiaries.

Profit Attributable To Equity Holders of the Company

In 2013, profit attributable to equity holders of the Company was RMB17,545 million, an increase of 17.4% from RMB14,949 million in 2012.

Capital Expenditure and Cash Flows

Capital Expenditure

In 2013, in order to seize the development opportunities of mobile services, reinforce the advantages of broadband networks and enhance the core-competitiveness of the network, the Group increased its capital expenditure but at the same time emphasised the optimisation of its investment

structure, with particular emphasis on investment in high growth services, while investment in traditional wireline services were strictly controlled. In 2013, capital expenditure of the Group was RMB79,992 million, an increase of 48.8% from RMB53,748 million in 2012. The increase in capital expenditure was mainly attributable to the Group's obligation to invest into the mobile network after completion of the mobile network assets acquisition at the end of 2012.

Cash Flows

In 2013, net decrease in cash and cash equivalents for the Group was RMB13,960 million, while the net increase in cash and cash equivalents was RMB2,625 million in 2012.

The following table sets forth the cash flow position of the Group in 2012 and 2013:

| <i>(RMB millions)</i> | For the year ended 31 December | |
|--|--------------------------------|--------------------|
| | 2013 | 2012 (restated) |
| Net cash flow from operating activities | 88,351 | 70,722 |
| Net cash used in investing activities | (107,948) | (48,295) |
| Net cash from/(used in) financing activities | 5,637 | (19,802) |
| Net (decrease)/increase in cash and cash equivalents | (13,960) | 2,625 |

Management's Discussion and Analysis of Financial Conditions and Results of Operations

In 2013, the net cash inflow from operating activities was RMB88,351 million, an increase of RMB17,629 million from RMB70,722 million in 2012. The increase was mainly due to the increase in operating revenues and that no CDMA network capacity lease fee was payable after the acquisition of mobile network assets.

In 2013, the net cash outflow used in investing activities was RMB107,948 million, an increase of RMB59,653 million from RMB48,295 million in 2012, mainly resulting from an increase in capital expenditures compared to 2012 and the payment of part of the consideration for the acquisition of mobile network assets.

In 2013, the net cash inflow from financing activities was RMB5,637 million. In 2012, the net cash outflow used in financing activities was RMB19,802 million. The reason of the fluctuation was mainly due to the increase in short-term loans.

Working Capital

The Group consistently upheld prudent financial principles and strict fund management policies. At the end of 2013, the Group's working capital (total current assets minus total current liabilities) deficit

was RMB147,315 million, an increase in deficit of RMB19,080 million from RMB128,235 million in 2012. The increase in deficit was mainly because medium-term notes amounting to RMB20,000 million will become mature in 2014, thus reclassified from non-current liabilities to current liabilities. As at 31 December 2013, the Group's unutilised credit facilities was RMB157,694 million (2012: RMB163,130 million). At the end of 2013, the Group's cash and cash equivalents amounted to RMB16,070 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 94.3% (2012: 97.2%).

Assets and Liabilities

In 2013, the Group continued to maintain a solid financial position. By the end of 2013, the total assets of the Group decreased to RMB543,239 million from RMB545,291 million at the end of 2012, while total indebtedness increased to RMB110,377 million from RMB99,808 million in 2012. The ratio of the Group's total indebtedness to total assets increased to 20.3% at the end of 2013 from 18.3% at the end of 2012, mainly resulting from the increase in short-term loans.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Indebtedness

The indebtedness analysis of the Group as of the end of 2012 and 2013 is as follows:

| (RMB millions) | For the year ended 31 December | |
|---|--------------------------------|--------|
| | 2013 | 2012 |
| Short-term debt | 27,687 | 6,523 |
| Long-term debt maturing within one year | 20,072 | 10,212 |
| Long-term debt and payable | 62,617 | 83,070 |
| Finance lease obligations (including current portion) | 1 | 3 |
| Total debt | 110,377 | 99,808 |

By the end of 2013, the total indebtedness of the Group was RMB110,377 million, an increase of RMB10,569 million from the end of 2012. This is mainly due to the increase in short-term loans. Of the total indebtedness of the Group, loans denominated in Renminbi, US Dollars and Euro accounted for 99.1% (2012: 98.9%), 0.5% (2012: 0.6%), and 0.4% (2012: 0.5%), respectively. 43.3% (2012: 37.5%) of this indebtedness are loans with fixed interest rates, while the remainders are loans with floating interest rates.

As at 31 December 2013, the Group did not pledge any assets as collateral for debt (2012: Nil).

Most of the Group's revenue receipts from and payments made for its business were denominated in Renminbi, therefore the Group did not have significant risk exposure to foreign exchange fluctuations.

Contractual Obligations

| (RMB millions) | Total | 1 January | Thereafter |
|-------------------------------|---------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------|
| | | 2014 - 31 December 2014 | 2015 - 31 December 2015 | 2016 - 31 December 2016 | 2017 - 31 December 2017 | 2018 - 31 December 2018 | |
| Short-term debt | 28,279 | 28,279 | - | - | - | - | - |
| Long-term debt and payable | 99,135 | 24,874 | 3,951 | 3,950 | 65,660 | 80 | 620 |
| Finance lease obligation | 1 | 1 | - | - | - | - | - |
| Operating lease commitments | 7,573 | 2,236 | 1,516 | 1,087 | 779 | 611 | 1,344 |
| Capital commitments | 7,738 | 7,738 | - | - | - | - | - |
| Total contractual obligations | 142,726 | 63,128 | 5,467 | 5,037 | 66,439 | 691 | 1,964 |

Note: Amounts of short-term debt, long-term debt and payable, and finance lease obligation include recognised and unrecognised interest payable, and are not discounted.

Report of the Directors

The Board of Directors (the “Board”) of China Telecom Corporation Limited (the “Company”) hereby presents its report together with the audited financial statements of the Company and its subsidiaries (collectively, the “Group”) prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013.

Principal Business

The principal business of the Company and the Group is the provision of basic communications services including comprehensive wireline telecommunications services, mobile telecommunications services, value-added services such as Internet access services, integrated information services and other related services within the service area of the Group.

Results

Results of the Group for the year ended 31 December 2013 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 110 to 185 of this annual report.

Dividend

The Board proposes a final dividend in the amount equivalent to HK\$0.095 per share (pre-tax), totalling approximately RMB6,098 million for the year ended 31 December 2013. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 29 May 2014. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average offer rate of Renminbi to Hong Kong dollars as announced by the People’s Bank of China for the week prior to the date of declaration of dividends at the Annual General Meeting. The proposed final dividends are expected to be paid on or about 18 July 2014 upon approval at the Annual General Meeting.

Pursuant to the Enterprise Income Tax Law of the People’s Republic of China and the Implementation Rules of the Enterprise Income Tax Law of the People’s Republic of China in 2008, the Company shall be obliged to withhold and pay 10% enterprise income tax when it distributes the proposed 2013 final dividends to non-resident enterprise shareholders of overseas H shares (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations) whose names appear on the Company’s H share register of members on 11 June 2014.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No.348) and relevant laws and regulations, if the individual H share shareholders are Hong Kong or Macau residents and those whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual H share shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H share shareholders.

The Company will determine the country of domicile of the individual H share shareholders based on the registered address as recorded in the register of members of the Company on 11 June 2014 (the "Registered Address"). If the country of domicile of an individual H share shareholder is not the same as the Registered Address or if the individual H share shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H share shareholder shall notify and provide relevant supporting documents to the Company on or before 5 June 2014. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H share shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaties notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

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

Directors and Senior Management of the Company

The following table sets out certain information of the Directors and senior management of the Company as at the date of this Report:

| Name | Age | Position in the Company | Date of Appointment |
|-----------------------|-----|---|---------------------|
| Wang Xiaochu | 55 | Chairman and Chief Executive Officer | 20 December 2004 |
| Yang Jie | 51 | Executive Director, President and Chief Operating Officer | 20 October 2004 |
| Wu Andi | 59 | Executive Director, Executive Vice President and Chief Financial Officer | 10 September 2002 |
| Zhang Jiping | 58 | Executive Director and Executive Vice President | 10 September 2002 |
| Yang Xiaowei | 50 | Executive Director and Executive Vice President | 9 September 2008 |
| Sun Kangmin | 56 | Executive Director and Executive Vice President | 20 October 2004 |
| Ke Ruiwen | 50 | Executive Director and Executive Vice President | 30 May 2012 |
| Gao Tongqing | 50 | Executive Vice President | 21 June 2013 |
| Xie Liang | 50 | Non-executive Director | 29 May 2013 |
| Wu Jichuan | 76 | Independent Non-executive Director | 9 September 2008 |
| Qin Xiao | 66 | Independent Non-executive Director | 9 September 2008 |
| Tse Hau Yin, Aloysius | 66 | Independent Non-executive Director | 9 September 2005 |
| Cha May Lung, Laura | 64 | Independent Non-executive Director | 9 September 2008 |
| Xu Erming | 64 | Independent Non-executive Director | 9 September 2005 |
| Yung Shun Loy, Jacky | 51 | Assistant Chief Financial Officer, Qualified Accountant and Company Secretary | 1 February 2005 |
| Gao Jinxing | 50 | Financial Controller | 1 February 2012 |

On 20 March 2013, Mr. Chen Liangxian resigned as Non-executive Director of the Company due to change in work arrangement. On the same date, the Board proposed to appoint Mr. Xie Liang as Non-executive Director of the Company. The proposed appointment of Mr. Xie Liang as Non-executive Director of the Company was approved by the Annual General Meeting held on 29 May 2013. On 21 June 2013, Mr. Li Ping resigned as Executive Vice President of the Company due to

change in work arrangement. On the same day, the Board appointed Mr. Gao Tongqing as Executive Vice President of the Company.

Supervisors of the Company

The following table sets out certain information of the Supervisors of the Company as at the date of this Report:

| Name | Age | Position in the Company | Date of Appointment |
|---------------|-----|---------------------------------------|---------------------|
| Shao Chunbao | 56 | Chairman of the Supervisory Committee | 16 October 2012 |
| Zhu Lihao | 73 | Independent Supervisor | 10 September 2002 |
| Tang Qi | 55 | Supervisor (Employee Representative) | 19 August 2013 |
| Zhang Jianbin | 48 | Supervisor (Employee Representative) | 16 October 2012 |
| Hu Jing | 38 | Supervisor | 16 October 2012 |
| Du Zuguo | 51 | Supervisor | 20 May 2011 |

On 19 August 2013, Mr. Mao Shejun, an Employee Representative Supervisor of the Supervisory Committee, retired from his position as a Supervisor of the Company due to his age, and on the same day, Mr. Tang Qi was elected by the employees of the Company democratically as an Employee Representative Supervisor of the Company.

Share Capital

The share capital of the Company as at 31 December 2013 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2013, the share capital of the Company comprised:

| Share category | Number of shares as at 31 December 2013 | Percentage of the total number of shares in issue as at 31 December 2013 (%) |
|--|---|--|
| Domestic shares (total): | 67,054,958,321 | 82.85 |
| Domestic shares held by: | | |
| China Telecommunications Corporation | 57,377,053,317 | 70.89 |
| Guangdong Rising Assets Management Co., Ltd. | 5,614,082,653 | 6.94 |
| Zhejiang Financial Development Company | 2,137,473,626 | 2.64 |
| Fujian Investment & Development Group Co., Ltd | 969,317,182 | 1.20 |
| Jiangsu Guoxin Investment Group Co., Ltd. | 957,031,543 | 1.18 |
| Total number of H shares (including ADSs) | 13,877,410,000 | 17.15 |
| Total | 80,932,368,321 | 100.00 |

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

As at 31 December 2013, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the

Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (the "SFO") are as follows:

| Name of shareholders | Number of shares | Type of shares | Percentage of the respective type of shares | Percentage of the total number of shares in issue | Capacity |
|--|---|-----------------|---|---|---|
| China Telecommunications Corporation | 57,377,053,317 (Long Position) | Domestic shares | 85.57% | 70.89% | Beneficial owner |
| Guangdong Rising Assets Management Co., Ltd. | 5,614,082,653 (Long Position) | Domestic shares | 8.37% | 6.94% | Beneficial owner |
| Commonwealth Bank of Australia | 2,080,867,924 (Long Position) | H shares | 14.99% | 2.57% | Interest of controlled corporation |
| JPMorgan Chase & Co. | 1,536,081,879 (Long Position) | H shares | 11.07% | 1.90% | 135,957,249 shares as beneficial owner; 242,674,000 shares as investment manager; and 1,157,450,630 shares as custodian corporation/ approved lending agent |
| | 32,826,934 (Short Position) | H shares | 0.24% | 0.04% | Beneficial owner |
| | 1,157,450,630 (Shares available for lending) | H shares | 8.34% | 1.43% | Custodian corporation/ approved lending agent |
| Blackrock, Inc. | 1,301,821,443 (Long Position) | H shares | 9.38% | 1.61% | Interest of controlled corporation |
| | 8,676,000 (Short Position) | H shares | 0.06% | 0.01% | Interest of controlled corporation |

Save as stated above, as at 31 December 2013, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any

interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

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

As at 31 December 2013, none of the Directors and Supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at 31 December 2013, the Company had not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right.

Directors' and Supervisors' Interests in Contracts

For the year ended 31 December 2013, none of the Directors and Supervisors of the Company had any material interest, whether directly or indirectly, in any of the contracts of significance entered into by the Company, any of its holding companies or subsidiaries or subsidiaries of the Company's holding company, apart from their service contracts. None of the Directors and Supervisors of the Company has entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Emoluments of the Directors and Supervisors

Please refer to note 29 of the audited financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2013.

Purchase, Sale and Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

Public Float

As at the date of this Report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules and as agreed with The Stock Exchange of Hong Kong Limited.

Summary of Financial Information

Please refer to pages 186 to 187 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2013.

Bank Loans and Other Borrowings

Please refer to note 16 of the audited financial statements for details of bank loans and other borrowings of the Group.

Capitalised Interest

Please refer to note 27 of the audited financial statements for details of the Group's capitalised interest for the year ended 31 December 2013.

Fixed Assets

Please refer to note 4 of the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2013.

Reserves

Pursuant to Article 147 of the Company's articles of association (the "Articles of Association"), where the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and regulations, materially differ from those prepared in accordance with either the International Financial Reporting Standards, or accounting standards at a place outside the PRC where the Company's shares are listed, the distributable profit for the relevant accounting period shall be deemed to be the lesser of the amounts shown in those respective financial statements. Distributable reserves of the Company as at 31 December 2013, calculated on the above basis and before deducting the proposed final dividends for 2013, amounted to RMB84,341 million.

Please refer to note 21 of the audited financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2013.

Donations

For the year ended 31 December 2013, the Group made charitable and other donations with a total amount of RMB11 million.

Subsidiaries and Associated Companies

Please refer to note 8 and note 9 of the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2013.

Changes in Equity

Please refer to the consolidated statement of changes in equity as contained in the audited financial statements of this year (page 115 of this annual report).

Retirement Benefits

Please refer to note 38 of the audited financial statements for details of the retirement benefits provided by the Group.

Stock Appreciation Rights

Please refer to note 39 of the audited financial statements for details of the stock appreciation rights offered by the Company.

Pre-Emptive Rights

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

Major Customers and Suppliers

For the year ended 31 December 2013, sales to the five largest customers of the Group accounted for an amount no more than 30% of the operating revenues of the Group.

For the year ended 31 December 2013, purchases from the five largest suppliers of the Group accounted for approximately 42.3% of the total annual purchases of the Group.

For the year ended 31 December 2013, purchases from the Group's largest supplier accounted for approximately 13.5% of the total annual purchases of the Group. The amount of the Group's annual purchases mainly includes terminals purchases, equipment purchases and investments in infrastructure.

To the knowledge of the Board, no Director of the Company, their associates, or any person holding more than 5% of the issued share capital in the Company has any interests in such suppliers.

Connected transactions

Disposal of 80% of the share capital in E-surfing Media Co., Ltd. ("E-surfing Media")

The Company and the controlling shareholder of the Company, China Telecommunications Corporation, entered into an agreement on 26 April 2013, pursuant to which the Company has agreed to sell and China Telecommunications Corporation has agreed to purchase 80% of the share capital in E-surfing Media, a subsidiary of the Company. Pursuant to the agreement, the initial consideration for the disposal of the E-surfing Media Shares was RMB1,195 million. The relevant consideration was adjusted in accordance with the relevant clauses in the agreement and was settled by cash. Please refer to note 1 to the audited financial statements for details.

E-surfing Media is primarily engaged in the provision of video media services. Upon the completion of the disposal, the Company realised a gain of approximately RMB670 million. Meanwhile, the Company continues

to maintain close cooperation with E-surfing Media to promote the data traffic operation and the development of mobile Internet service of the Company, so as to enhance the value of the Company.

Acquisition of 100% of the share capital in China Telecom (Europe) Limited ("China Telecom Europe")

China Telecom Global Limited, the wholly-owned subsidiary of the Company, and the controlling shareholder of the Company, China Telecommunications Corporation, entered into an agreement on 16 December 2013, pursuant to which China Telecommunications Corporation has agreed to sell and China Telecom Global Limited has agreed to purchase 100% of the share capital in China Telecom Europe, a wholly-owned subsidiary of China Telecommunications Corporation. Pursuant to the acquisition agreement, the initial consideration was RMB261 million. The relevant consideration was adjusted in accordance with the relevant clauses in the agreement and was settled by cash. Please refer to note 1 to the audited financial statements for details.

China Telecom Europe is primarily engaged in providing international leased line service, Internet service, voice wholesale service and other value-added telecommunications services in Europe, the Middle East and Africa. On completion, China Telecom Europe has become a wholly-owned subsidiary of China Telecom Global Limited and an indirect wholly-owned subsidiary of the Company. At present, the overseas business of the Company, primarily including Asia-Pacific region and the Americas, is operated by China Telecom Global Limited. As a result of the acquisition, the Company will further strengthen its competitive position in the overseas telecommunications market, improve and integrate the operation of its overseas business, take full advantage of the synergy benefits, expand its service regions and increase its profitability.

Continuing Connected Transactions

The following table sets out the amounts of continuing connected transactions between the Group and China Telecommunications Corporation for the year ended 31 December 2013:

| Transactions | Transaction Amounts (RMB millions) | Annual monetary cap for continuing connected transactions (RMB millions) |
|---|---------------------------------------|---|
| Net transaction amount of centralised services | 616 | 800 |
| Net expenses for interconnection settlement | 350 | 1,000 |
| Mutual leasing of properties | 719 | 800 |
| Provision of IT services by China Telecommunications Corporation and its subsidiaries (except for the Group) (the "China Telecom Group") ¹ | 1,136 | 1,300 |
| Provision of IT services by the Group | 192 | 500 |
| Provision of supplies procurement services by China Telecom Group | 3,563 | 4,500 |
| Provision of supplies procurement services by the Group | 3,885 | 4,500 |
| Provision of engineering services by China Telecom Group | 14,543 | 16,000 |
| Provision of community services by China Telecom Group | 2,826 | 3,500 |
| Provision of ancillary telecommunications services by China Telecom Group | 11,208 | 14,000 |

¹ China Telecommunications Corporation is a controlling shareholder of the Company. Each of China Telecommunications Corporation and its subsidiaries (except for the Group) constitutes a connected person of the Company under the Listing Rules.

Centralised Services Agreement

Pursuant to the centralised services agreement signed between the Company and China Telecommunications Corporation on 10 September 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Centralised Services Agreement”), centralised services include centralised business management and operational services provided by the Group to China Telecommunications Corporation in relation to key corporate customers, its network management centre and business support centre. Centralised services also include the provision of certain premises by China Telecommunications Corporation to the Group and the common use of international telecommunications facilities by both parties. In accordance with the Centralised Services Agreement, the aggregate costs incurred by the Group and China Telecommunications Corporation for the provision of management and operation services will be apportioned between the Group and China Telecommunications Corporation on a pro rata basis according to the revenues generated by each party. Where the Group uses the premises provided by China Telecommunications Corporation, the Group will pay premises usage fees to China Telecommunications Corporation on a pro rata basis according to the apportioned actual area allocated to the Group. The premises usage fees shall be determined through negotiation between the two parties based on comparable market rates. When both parties use international telecommunications facilities provided by third parties and accept services by such third parties

(for example, restoration maintenance costs, the annual utilisation fee and related service costs) and when both parties use the international telecommunications facilities of China Telecommunications Corporation, the associated costs shall be shared on a pro rata basis according to volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from each party divided by the proportion of the aggregate volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from both parties. When the two parties use international telecommunications facilities provided by a third party and accept restoration maintenance costs, such fees shall be determined according to the actual utilisation fee each year. The utilisation fee associated with the shared use of the international telecommunications facilities provided by China Telecommunications Corporation shall be determined through negotiation between the two parties based on market rates.

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

Interconnection Settlement Agreement

Pursuant to the interconnection settlement agreement signed between the Company and China Telecommunications Corporation on 10 September 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Interconnection Settlement Agreement”), the telephone operator connecting a telephone call made to its local access network shall be entitled to receive from the operator from which the telephone call originated a fee prescribed by the 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 Group to China Telecommunications Corporation. The settlement regions include Beijing Municipality, Tianjin Municipality, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shanxi Province, Henan Province, Shandong Province, Inner Mongolia Autonomous Region and Xizang Autonomous Region.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Interconnection Settlement Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. No later than 30 days prior to the expiry of the Interconnection Settlement Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Interconnection Settlement Agreement, and the parties shall consult and decide on matters relating to such renewal. In addition, the Company and China Telecommunications Corporation have agreed that interconnection settlement charges will be calculated according to the rules and regulations

of the relevant telecommunications regulators. If the telecommunications regulators amend existing, or promulgate new rules or regulations in respect of the 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 30 August 2006 and the related supplemental agreement subsequently entered into between the two parties (collectively, the “Property Leasing Framework Agreement”), the Group and China Telecommunications Corporation and/or its associates can lease properties from the other party for use as business premises, offices, equipment storage facilities and sites for network equipment. The rental charges under the Property Leasing Framework Agreement shall be determined according to market rates with reference to the standards set forth by local pricing authorities. The rental charges are subject to review every three years.

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

IT Services Framework Agreement

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

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

Community Services Framework Agreement

Pursuant to the community services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 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 Group 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 but there are government-guided prices, the government-guided prices;
- (3) where there are neither government-prescribed prices nor government-guided prices, the market prices. Market prices shall mean 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 agreed on 22 August 2012 to renew the Community Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. No later than 30 days prior to the expiry of the Community Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Community Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Supplies Procurement Services Framework Agreement

Pursuant to the supplies procurement services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 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 Group provide each other with supplies procurement services, including comprehensive procurement services, the sale of proprietary telecommunications equipment, resale of third-party equipment, management of tenders, verification of technical specifications, storage, transportation and installation services.

Where the procurement services are provided on an agency basis, the maximum commission for such procurement services shall be calculated at:

- (1) not more than 1% of the contract value for procurement of imported telecommunications supplies; or
- (2) not more than 3% of the contract value for the procurement of domestic telecommunications supplies and domestic non-telecommunications supplies.

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

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

Engineering Framework Agreement

Pursuant to the engineering framework agreement signed between the Company and China Telecommunications Corporation on 30 August 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 Group services such as construction, design, equipment installation and testing and/or engineering project supervision services. The charges payable for such engineering services shall be determined by reference to market rates. The charges payable for the design or supervision of engineering projects with a value of over RMB500,000 or engineering construction projects with a value of over RMB2 million shall be determined by the tender award price.

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

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

Ancillary Telecommunications Services Framework Agreement

Pursuant to the ancillary telecommunications services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 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 Group with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services. The pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

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

Internet Applications Channel Services Framework Agreement

Pursuant to the Internet Applications Channel Services Framework Agreement signed between the Company and China Telecommunications Corporation on 16 December 2013, the Company agreed to provide Internet applications channel services to China Telecommunications Corporation and/or its associates. The channel services mainly include the provision of telecommunications channel and applications support platform, provision of billing and deduction services, coordination of sales promotion and development of customers services, etc.

The charges payable for the services under the Internet Applications Channel Services Framework Agreement are calculated on the following basis:

- (1) the government-prescribed prices (if any);
- (2) where there are no government-prescribed prices but there are government-guided prices, the government-guided prices;
- (3) where there are neither government-prescribed prices nor government-guided prices, the market prices. Market prices shall mean 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 Internet Applications Channel Services Framework Agreement became effective from 1 January 2014 and will expire on 31 December 2015. No later than 30 days prior to the expiry of the Internet Applications Channel Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Internet Applications Channel Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

The Company’s auditor was engaged to report on the Group’s continuing connected transactions for the year ended 31 December 2013 in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants.

The Independent Non-executive Directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2013 to which the Group was a party:

1. had been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of business;
2. had been entered into either:
 - (i) on normal commercial terms; or
 - (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or (if applicable) from independent third parties; and
3. had been entered into in accordance with the relevant terms that are fair and reasonable and in the overall interests of the shareholders of the Company as a whole.

The Independent Non-executive Directors have further confirmed that:

The values of continuing connected transactions for the year ended 31 December 2013 entered into between the

Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

The auditors of the Group have reviewed the continuing connected transactions of the Group for the year ended 31 December 2013 and have confirmed to the Board that the transactions:

1. have received the approval of the Board;
2. have been entered into in accordance with the pricing policies as stated in the relevant agreements; and
3. have been entered into in accordance with the terms of the agreements governing such transactions; and the values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

Compliance with the Corporate Governance Code

Please refer to the “Corporate Governance Report” set out on page 64 of this 2013 annual report of the Company for details of our compliance with the Corporate Governance Code.

Material Legal Proceedings

As at 31 December 2013, the Company was not involved in any material litigation or arbitration, and as far as the Company is aware, no material litigation or claims were pending or threatened or made against the Company.

Auditors

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the international and domestic auditors of the Company, respectively for the year ended 31 December 2013. Deloitte Touche Tohmatsu has audited the accompanying financial statements, which have been prepared in accordance with the International Financial Reporting Standards. The Company has appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP since 29 May 2013. The relevant re-appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's international and domestic auditors, respectively for the year ending 31 December 2014 will be proposed to the Annual General Meeting of the Company to be held on 29 May 2014.

By Order of the Board

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

19 March 2014

Report of the Supervisory Committee

During the reporting period, all members of the Supervisory Committee acted in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company, followed the principles of integrity and diligently carried out their supervisory function to safeguard the interests of shareholders, the Company and the employees.

The work status of the Supervisory Committee of the Company

During the reporting period, the Supervisory Committee held two meetings. At the fifth meeting of the Fourth Session of the Supervisory Committee held on 13 March 2013, the Supervisory Committee reviewed and approved five agenda items, including the financial statements for the year 2012, the independent auditor's report, the profit distribution and dividend proposal, the Supervisory Committee's report for the year 2012, the working plan of the Supervisory Committee for the year 2013, and passed the relevant resolutions. Regarding major adjusted items, internal control assessment within the organisation, establishment and implementation of a system of accountability, change in related party transactions, audit and supervision of the subsidiaries by internal audit, the Supervisory Committee has communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. At the sixth meeting of the Fourth Session of the Supervisory Committee held on 19 August 2013, the Supervisory Committee reviewed and approved the interim financial statements and the independent auditor's review report for the six months ended 30 June 2013. Regarding changes in major figures in the reports, review of interim financial statements, control of related party transactions, development and control of mobile service, the Supervisory Committee has communicated with the Finance Department, Internal Audit Department, external auditors and raised certain recommendations. During the reporting period, members of the Supervisory Committee supervised the major decision-making process of the Company and the performance of duties by the members of the Board and the senior management through their attendance at the relevant meetings such as Board meetings and meetings

of the Audit Committee. Led by the Chairman of the Supervisory Committee, Mr. Shao Chunbao, Supervisors including Madam Zhu Lihao, Mr. Tang Qi, Mr. Zhang Jianbin and Mr. Hu Jing visited provincial branches for exchange of ideas in August 2013. Throughout the trip, they had a deeper understanding of the effectiveness of corporate development, listened to the difficulties and problems faced by the frontline employees, explored the relevant questions which need to be addressed by the Supervisory Committee and fostered the self-development of the Supervisory Committee.

The overall assessment of the operation management and performance during the reporting period

The Supervisory Committee believes that during the reporting period, all members of the Board and members of senior management have complied with rules and regulations, upheld the principles of diligence and integrity, safeguarded the interests of shareholders, fulfilled their responsibilities fully in accordance with the Articles of Association of the Company, diligently implemented the resolutions of the Shareholders' General Meetings and the Board meetings, and strictly complied with the relevant regulations for listed companies. The Supervisory Committee has not observed any behaviours that breached the laws, rules, and Articles of Association of the Company, or damaged the interests of shareholders.

During the reporting period, the Company persisted in deepening its transformation, firmly adhered to the main theme of "promoting scale development through dual-leadership in innovation and service", pragmatically fostered "De-telecom", "Market Orientation and Differentiation" and "Three New Roles". New emerging services realised a rapid growth with accelerated adjustment in business structure, resulting in significant achievement in scale development. In 2013, the operating revenues of the Company reached RMB321,584 million, an increase of 13.6% from last year. Excluding mobile terminal sales, the operating revenues reached RMB284,149 million, an increase of 10.0% over last year, which exceeded the industry average in the

mainland. Mobile revenues accounted for approximately 50% of the total revenues, with further optimisation in business structure. EBITDA was RMB96,551 million, an increase of 36.2% over last year. Profit attributable to equity holders of the Company reached RMB17,545 million, representing an increase of 17.4% from last year. Free cash flows amounted to RMB11,137 million. In summary, the Company accurately grasped the trends in mobile Internet development and industry value chain integrated development. The profitability was enhanced significantly, with rapid improvement in operational efficiency. The core competitiveness had been remarkably strengthened and the corporate development is full of vitality. Meanwhile, while conscientiously fulfilling its responsibility to shareholders, the Company voluntarily committed itself to the sustainable economic, social and environmental development and excelled in fulfilling its own corporate responsibilities, responsibilities towards customers, responsibilities towards employees, environmental responsibilities and public welfare responsibilities.

The independent opinion on the relevant matters during the reporting period

The opinion raised by the Supervisory Committee on the compliance of the operation of the Company with laws and regulations

Pursuant to the relevant laws and regulations of the PRC, the Supervisory Committee monitored the convening procedures and resolutions of the meetings of the Board, the implementation by the Board of the resolutions approved by the Shareholders' General Meetings, the performance of duties by the Company's senior management, and the Company's management policies. The Supervisory Committee is of the view that the Directors and the senior management, in performing their duties, strictly complied with the relevant rules and regulations, safeguarded the lawful interests of the Company and the shareholders as a whole and especially those of the minority shareholders, actively procured the regulated operations of the Company, enhanced the level of governance of the Company, followed lawful procedures in their decision-making, implemented resolutions of the Shareholders' General Meetings, and the Supervisory Committee was not aware of any

behaviours of the Directors or the senior management which violated the laws, regulations, the Articles of Association of the Company or were detrimental to the interests of the Company.

The opinion raised by the Supervisory Committee on the financial implementations of the Company

Through the supervision and inspection of the Company's financial policies and financial condition, the Supervisory Committee is of the view that the Company is able to strictly comply with the regulatory requirements such as section 404 of the US Sarbanes-Oxley Act and to continue to enhance its internal controls over financial reporting, while effectively controlling and managing the Company in accordance with rules and regulations. Upon the review of the unqualified financial statements for the year 2013 and other relevant information, which were prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards as audited by PRC certified accountants and international auditors of the Company, the Supervisory Committee is of the opinion that the financial statements truly and fairly reflect the Company's financial position, operating results and cash flows.

In 2014, the Supervisory Committee will continue to strictly adhere to the Articles of Association of the Company and relevant regulations, assume its responsibility to protect the interests of the shareholders and the Company, monitor the Company to fulfill its commitment to its shareholders, firmly grasp the three key points including reform and innovation, open cooperation and quality and efficiency enhancement, further broaden the planning of the work of the Supervisory Committee and strengthen its efforts in monitoring to protect the interests of all investors.

By Order of the Supervisory Committee
Shao Chunbao
Chairman of the Supervisory Committee

Beijing, PRC
19 March 2014

Recognition & Awards



1. The Company was awarded the “No. 1 Best Managed Company in Asia” by FinanceAsia in the Asia’s Best Companies Poll 2013.
2. Mr. Wang Xiaochu, Chairman and CEO, was awarded the “Best CEO in China” by FinanceAsia in the Asia’s Best Companies Poll 2013.
3. Madam Wu Andi, Executive Vice President and CFO, was awarded the “Best CFO in China” by FinanceAsia in the Asia’s Best Companies Poll 2013.
4. The Company has been voted by investors the “Overall Best Managed Company in Asia” across all industries in the “Best Managed and Governed Companies – Asia Poll 2013” by Euromoney.
5. The Company has been voted by investors the “Best Managed Company in Asia’s Telecommunications Sector” in the “Asia Best Managed Companies 2013” by Euromoney.
6. The Company has been voted by professional investors as the “No.1 Most Honored Company in Asia” in 2013 All-Asia-Executive-Team ranking organised by Institutional Investor.
7. Mr. Wang Xiaochu, Chairman and CEO, was voted by professional investors as “Asia’s Best CEO in Telecommunications Sector” in 2013 All-Asia-Executive-Team ranking organised by Institutional Investor.
8. Madam Wu Andi, Executive Vice President and CFO, was voted by professional investors as “Asia’s Best CFO in Telecommunications Sector” in 2013 All-Asia-Executive-Team ranking organised by Institutional Investor.
9. The Company has been voted by professional investors as “Asia’s Best Investor Relations Company in Telecommunications Sector” in 2013 All-Asia-Executive-Team ranking organised by Institutional Investor.
10. The Company was awarded the “Platinum Award for All-Round Excellence” in 2013 The Asset Corporate Awards.
11. The Company was awarded “The Best of Asia-Icon on Corporate Governance” by Corporate Governance Asia’s Annual Recognition Awards 2013.
12. Mr. Wang Xiaochu, Chairman and CEO, was honoured with “Asian Corporate Director Recognition Awards 2013” by Corporate Governance Asia.
13. The Company was honoured with the “No. 5 in The Global Top 50”, in “IR Magazine’s annual surveys of investors and analysts 2013”.
14. The Company was honoured with the “Grand Prix for Best Overall Investor Relations for Large-cap Companies”, at the IR Magazine Awards – Greater China 2013.
15. The Company’s 2012 annual report won gold awards in the “2013 International ARC Awards” and the “Vision Awards” Annual Report Competition by The League of American Communications Professionals LLC (LACP).

Corporate Governance Report

An Overview of Corporate Governance

The Company strives to maintain a high level of corporate governance and has inherited an excellent, prudent and efficient corporate governance style and continuously improves its corporate governance methodology, regulates its operations, improves its internal control mechanism, implements sound corporate governance and disclosure measures, and ensures that the Company's operations are in line with the long-term interests of the Company and its shareholders as a whole. In 2013, the Shareholders' General Meeting, the Board and the Supervisory Committee maintained efficient operations in accordance with the operating specifications, and the Company continued to optimise the organisation structure and has achieved a breakthrough in its mechanism innovation, which well supported the Company's strategic transformation to the Three New Roles – "a Leader of Intelligent Pipeline, a Provider of Integrated Platforms, and a Participant of Content and Application Development". The Company further optimised its internal control and integrated comprehensive risk management into its operational practice. The sustained enhancement of the Company's corporate governance ensured alignment with the long-term best interest of shareholders and firmly protected the interests of shareholders.

As a company incorporated in the PRC, the Company adopts the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company dual-listed in Hong Kong and the United States, the current Articles of Association are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and the regulatory requirements for non-US companies listed in the United States, and these rules serve as guidances for the Company to improve the foundation of its corporate governance. The Company

has regularly published statements relating to its internal control in accordance with the US Sarbanes-Oxley Act and the regulatory requirements of the U.S. Securities and Exchange Commission (SEC) and the New York Stock Exchange to confirm its compliance with related financial reporting, information disclosure and corporate internal control requirements.

For the financial year ended 31 December 2013, save that the roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, the Company has been in compliance with all the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. In the Company's opinion, through supervision by the Board and the Independent Non-executive Directors, and effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and execution and effectively capturing business opportunities. Many leading international corporations also have similar arrangements.

In 2013, the Company's continuous efforts in corporate governance gained wide recognition from the capital markets and the Company was accredited with a number of awards. The Company was voted the "Overall Best Managed Company in Asia" by *Euromoney* for five consecutive years, while at the same time being ranked as the "No. 1 Best Corporate Governance in Asia", the "No. 1 Most Convincing and Coherent Strategy in Asia" and the "No. 1 Most Transparent Accounts in Asia" in the individual categories. The Company was accredited by the investors as the "No. 1 Best Managed Company in Asia", the "No. 1 Best Managed Company in China" and the "No. 1 Best Investor Relations in China" for three consecutive years in the Asia's Best Companies Poll 2013 organised by *FinanceAsia*. The Company was voted by investors as the "No.1 Most Honored Company in Asia" and "Asia's Best Investor Relations Company in

telecommunications sector” in 2013 All-Asia-Executive-Team ranking organised by *Institutional Investor*. In addition, Mr. Wang Xiaochu, Chairman and CEO, was voted as “Asia’s Best CEO in telecommunications sector” and Madam Wu Andi, Executive Vice President and CFO was voted as “Asia’s Best CFO in telecommunications sector”. The Company swept several top awards including the “Grand Prix for Best Overall Investor Relations for Large-cap Companies” and the “Best Investor Relations by a mainland Chinese company” for two consecutive years at the *IR Magazine Awards – Greater China 2013*. In addition, based on *IR Magazine’s* annual surveys of investors and analysts for its awards in the US, Canada, Europe, Greater China, South East Asia and Brazil, the Company was ranked No.5 in The Global Top 50 and was the only Asian company among the top 10 companies. The Company was accredited the “Platinum Award for All-Round Excellence” in the poll of Corporate Awards 2013 by the *Asset* for five consecutive years. In addition, the Company was awarded the “The Best of Asia – Icon on Corporate Governance” by *Corporate Governance Asia* and Mr. Wang Xiaochu, Chairman and CEO of

the Company, was awarded “Asian Corporate Director Recognition Awards 2013” by *Corporate Governance Asia* for four consecutive years.

Overall Structure of the Corporate Governance

A double-tier structure has been adopted as the overall structure for corporate governance: the Board and the Supervisory Committee are established under the Shareholders’ General Meeting. The Audit Committee, Remuneration Committee and Nomination Committee were established under the Board. The Board is authorised by the Articles of Association to make major decisions on the Company’s operation and to oversee the daily management and operations of the senior management. The Supervisory Committee is mainly responsible for the supervision of the performance of duties by the Board and the senior management. Each of the Board and the Supervisory Committee is independently accountable to the Shareholders’ General Meeting.



Shareholders' General Meeting

In 2013, the Company convened one Shareholders' General Meeting, the Annual General Meeting ("AGM") for the year 2012. The AGM held on 29 May 2013 reviewed and approved numerous resolutions such as the financial statements for the year 2012, Report of the Independent International Auditor, proposal for profit and dividends distribution, authorisation to the Board for the formulation of a budget for 2013, appointment and remuneration of auditors, authorisation to the Board to issue debentures and appointment of a director.

Since the Company's listing in 2002, at each of the Shareholders' General Meetings a separate shareholders' resolution was proposed by the Company in respect of each independent item. The circulars to shareholders also provided details about the resolutions. All votes on resolutions tabled at the Shareholders' General Meetings of the Company were already conducted by poll and all voting results were published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The Company attaches great importance to the

Shareholders' General Meetings and the communication between Directors and shareholders. The Directors provided detailed and complete answers to the questions raised by shareholders at the Shareholders' General Meetings. The Board adopted the shareholders communication policy to ensure that the shareholders are provided with comprehensive, equal, understandable and publicised information of the Company on a timely basis and to strengthen the communication between the Company, and the shareholders and investors.

Board of Directors

As at 31 December 2013, the Board comprises 13 Directors with seven Executive Directors, one Non-executive Director and five Independent Non-executive Directors. The Audit Committee, Remuneration Committee and Nomination Committee under the Board all consist solely of Independent Non-executive Directors, which ensure that the committees are able to provide sufficient review and check and balance and make effective judgments to protect the interests of shareholders and the Company as a whole. The number of Independent Non-executive Directors constitutes more

The below sets out the analysis of the composition of the Board as at the date of this report:



than one-third of the members of the Board. Mr. Tse Hau Yin, Aloysius, the Chairman of the Audit Committee, is an internationally renowned financial expert with expertise in accounting and financial management. The term of office for the fourth session of the Board lasts for three years, starting from May 2011 until the day of the Company's Annual General Meeting in 2014, upon which the fifth session of the Board will be elected.

In August 2013, the Company adopted the Board diversity policy. The Company believes that Board diversity will contribute significantly to the enhancement of the level of performance of the Company. In order to achieve a sustainable and balanced development, the Company views the increasing Board diversity as a key element for supporting its strategic goals and maintaining sustainable development. In determining the composition of the Board, the Company takes into account diversity of the Board from a number of perspectives, including but not limited to gender, age, education background or professional experience, skills, knowledge, duration of service, etc. All appointments made or to be made by the Board are merit-based, and candidates are selected based on objective criteria, giving full consideration to the benefits in terms of Board diversity. Final decisions are based on each candidate's attributes and the contributions to be made to the Board. The Nomination Committee oversees the implementation of policies, reviews existing policies as and when appropriate, and recommends proposals for revisions for the Board's approval. Biographical details of existing Directors are set out in the "Directors, Supervisors and Senior Management" section of this Annual Report. The Company believes that the Board currently comprises experts from diversified professions such as telecommunications, finance, economics, law and management, and is diversified in terms of gender, age, duration of service, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

The Company strictly complies with the Corporate Governance Code under the Listing Rules to rigorously regulate the operating procedures of the Board and its committees, and to ensure that the procedures of Board meetings are in compliance with related rules in terms of organisation, regulations and personnel. The Board responsibly and effectively supervises the preparation of financial statements for each financial period, so that such financial statements truly and fairly reflect the operational condition, the operating results and cash flows of the Company for such period. In preparing the financial statements for the year ended 31 December 2013, the Directors adopted appropriate accounting policies and made prudent, fair and reasonable judgments and estimates, and prepared the financial statements on a going concern basis.

The Articles of Association of the Company provide that the Board is accountable to the Shareholders' General Meetings, and its duties mainly include the execution of resolutions, formulation of major operational decisions, financial proposals and policies, formulation of the Company's basic management system, and the appointment of managers and other senior management personnel of the Company. The Articles of Association also clearly define the respective duties of the Board and the management. The management is responsible for the operation and management of the Company, the implementation of the Board resolutions and the annual operation plans and investment proposals of the Company, formulating the proposal of the Company's internal administrative organisations and sub-organisations, and performing other duties as authorised by the Articles of Association and the Board. In order to maintain highly efficient operations, as well as flexibility and swiftness in operational decision-making, the Board may delegate its management and administrative powers to the management when necessary, and shall provide clear guidance regarding such delegation so as to avoid seriously impeding or undermining the capabilities of the Board when exercising its powers as a whole.

All members of the Board/Committees are informed of the meeting schedule for the Board/Committees for the year at the beginning of each year. In addition, all Directors will receive a meeting notification at least 14 days prior to the meeting under normal circumstances. The Company Secretary is responsible for ensuring that the Board meetings comply with all procedures, related rules and regulations while all Directors can make inquiries to the Company Secretary for details to ensure that they have received sufficient information on various matters set out in the meeting agenda.

The Board meets at least four times a year. Additional Board meetings will be held as necessary. In 2013, the Board played a pivotal role in the Company's operation, budgeting, decision-making, supervision, internal control, organisational restructuring and corporate governance. The Company convened four Board meetings, four Audit Committee meetings, one Nomination Committee meeting and several board and committee written resolutions were passed in this year.

At the Board meetings, the Board reviewed significant matters including the Company's annual, interim and quarterly financial statements, annual operational, financial and investment budgets, internal control implementation and assessment report, annual proposal for profit distribution, annual report, interim report and quarterly reports, connected transactions, continuing connected transactions and the annual caps applicable thereto and appointment and remuneration of auditors. All directors performed their fiduciary duties and devoted sufficient time and attention to the affairs of the Company.

The Company determines the Directors' remuneration with reference to factors such as their respective responsibilities and duties in the Company, as well as their experiences and market conditions at the relevant time.

The Board should develop and review the Company's policies and practices on corporate governance; review and monitor the training and continuous professional development of directors and senior management; review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; develop, review and monitor the code of conducts for employees; review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Directors' training and continuous professional development

The Company also arranges induction activities including the duties and continuing obligations of directors, relevant laws and regulations, the operation and business of the Company, so that all newly appointed Directors are provided with updated data on industry development. To ensure that the Directors are familiar with the Company's latest operations for decision-making, the Company arranges for key financial data and operational data to be provided to the Directors on a monthly basis since 2009. Through regular Board meetings and reports from management, the Directors are able to clearly understand the operations, business strategy and latest development of the Company and the industry. In addition, the Company reminds the Directors of their functions and responsibilities by continuously providing them with information about the latest development of the Listing Rules and other applicable regulations. The Directors also pay regular visits to our provincial branches to exchange ideas and to study so as to achieve a better understanding of the latest business developments and to share their valuable experiences. The Directors actively participate in training and continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Company.

In 2013, the Directors have participated in training and continuous professional development activities and the summary is as follows:

| Directors | Training categories |
|--|---------------------|
| Executive Directors | |
| Wang Xiaochu | A, B |
| Yang Jie | A, B |
| Wu Andi | A, B |
| Zhang Jiping | A, B |
| Yang Xiaowei | A, B |
| Sun Kangmin | A, B |
| Ke Ruiwen | A, B |
| Non-Executive Director | |
| Chen Liangxian (resigned on 20 March 2013) | B |
| Xie Liang (appointed on 29 May 2013) | A, B |
| Independent Non-executive Directors | |
| Wu Jichuan | A, B |
| Qin Xiao | A, B |
| Tse Hau Yin, Aloysius | A, B |
| Cha May Lung, Laura | A, B |
| Xu Erming | A, B |

A: attending relevant seminars and/or conferences and/or forums; delivering speeches at relevant seminars and/or conferences and/or forums

B: reading or writing relevant newspapers, journals and articles relating to general economy, general business, telecommunications, corporate governance or directors' duties

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to govern securities transactions by the Directors and Supervisors. Based on the written confirmation from the Directors and Supervisors, all of the Company's Directors and Supervisors have strictly complied with the Model Code for Securities Transactions by Directors of Listed

Issuers in Appendix 10 to the Listing Rules regarding the requirements in conducting securities transactions. The Company has received annual independence confirmations from each of the Independent Non-executive Directors, and considers them to be independent.

Audit Committee

The Audit Committee comprises four Independent Non-executive Directors, Mr. Tse Hau Yin, Aloysius as the chairman and Mr. Wu Jichuan, Dr. Qin Xiao and

Mr. Xu Erming as the members. The Charter of the Audit Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Audit Committee. The Audit Committee's principal duties include the supervision of the truthfulness and completeness of the Company's financial statements, the effectiveness and completeness of the Company's internal control and risk management systems as well as the work of the Company's internal audit department. It is also responsible for the supervision and review of the qualifications, selection and appointment, independence and services of external independent auditors. The Audit Committee ensures that the management has discharged its duty to establish and maintain an effective internal control system including the adequacy of resources, qualifications and experience of staff fulfilling the accounting and financial reporting function of the Company together with the adequacy of the staff's training programmes and the related budget. The Audit Committee also has the authority to set up a reporting system to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company's accounting, internal control and audit matters. The Audit Committee is responsible to and regularly reports its work to the Board.

In 2013, pursuant to the requirements of the governing laws and regulations of the places of listing and the Charter of the Audit Committee, the Audit Committee fully assumed its responsibilities within the scope of the clear mandate from the Board. The Audit Committee proposed a number of practical and professional recommendations for improvement based on the Company's actual circumstances in order to

promote the continuous improvement and perfection of corporate management. The Audit Committee has provided important support to the Board and played a significant role in protecting the interests of independent shareholders.

In 2013, the Audit Committee convened four meetings, in which it reviewed important matters related to the Company's annual, interim and quarterly financial statements, assessment of the qualifications, independence and performance of the external auditors and their appointments, effectiveness of internal control, internal audit and connected transactions. The Audit Committee received quarterly reports in relation to the internal audit and connected transactions and provided guidance to the internal audit department. Additionally, the Audit Committee reviewed the internal control assessment report and the attestation report, followed up with the implementation procedures of the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the auditors twice a year.

Remuneration Committee

The Remuneration Committee comprises four Independent Non-executive Directors. Mr. Xu Erming as the chairman and Mr. Wu Jichuan, Dr. Qin Xiao and Mr. Tse Hau Yin, Aloysius as the members. The Charter of the Remuneration Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Remuneration Committee. The Remuneration Committee assists the Company's Board to formulate overall remuneration policy and structure for the Company's Directors and senior management personnel, and to

establish related procedures that are standardised and transparent. The Remuneration Committee's principal duties include supervising the compliance of the Company's remuneration system with legal requirements, presenting the evaluation report on the Company's remuneration system to the Board, giving recommendations to the Board in respect of the overall remuneration policy and structure for the Company's Directors and senior management personnel and the establishment of a formal and transparent procedure for developing remuneration policy, and determining, with delegated responsibility by the Board, the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment). Its responsibilities comply with the requirements of the Corporate Governance Code. The Remuneration Committee is responsible to and regularly reports its work to the Board. No meeting was held by the Remuneration Committee in year 2013.

Nomination Committee

The Company's Nomination Committee comprises four Independent Non-executive Directors, Mr. Wu Jichuan as the chairman and Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura and Mr. Xu Erming as the members.

The Charter of the Nomination Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Nomination Committee, and it specifically requires that the Nomination Committee members shall have no significant connection to the Company, and comply with the regulatory requirements related to "independence". The Nomination Committee assists the Board to formulate standardised, prudent and transparent procedures for the appointment and succession plans of Directors, and to further optimise the composition of the Board. The principal duties of the Nomination Committee include regularly reviewing the structure, number of members, composition and diversity of the Board; identifying candidates and advising the Board with the appropriate qualifications for the position of Directors; reviewing the Board Diversity Policy as appropriate to ensure its effectiveness; evaluating the independence of Independent Non-executive Directors; advising the Board on matters regarding the appointment or re-appointment of Directors and succession plans for the Directors. The Nomination Committee is accountable to and regularly reports its work to the Board. One meeting was held by the Nomination Committee in 2013, and it performed a review of the structure and operations of the Board and discussed the appointment of the Non-executive Director.

The Company will identify suitable candidates through multiple channels such as internal recruitment and recruiting from the labour market. The criteria of identifying candidates include, but are not limited to, their gender, age, educational background or professional experience, skills, knowledge and length of service and capability to commit to the affairs of the Company and, in case of Independent Non-executive Director, the candidates should fulfill the independence requirements set out in the Listing Rules from time to time. Upon the Nomination Committee and the Board reviewed and resolved to appoint the appropriate candidate, the relevant proposal will be put forward to the Shareholders' General Meeting in writing for approval.

Directors shall be elected at the Shareholders' General Meeting for a term of three years. At the expiry of a Director's term, the Director may stand for re-election and re-appointment. According to the Articles of Association, before the convening of the Annual General Meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions (such as election of directors) in writing, and the Company shall place such proposed motions on the agenda for such Annual General Meeting

if there are matters falling within the functions and powers of shareholders in general meetings. According to the Articles of Association, shareholders can also request for the convening of extraordinary general meeting provided that the shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held and they shall sign one or more written requisitions in the same format and with the same content, requiring the Board to convene an extraordinary general meeting and stating the resolutions of meeting (such as election of directors). The Board shall convene an extraordinary general meeting within two months. 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 seven 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 seven days prior to the date of such meeting. The ordinary resolution to approve the appointment of Directors shall be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

The number of attendance/meetings of the members of the Board and committees in year 2013

| | Board | Audit Committee | Nomination Committee | Annual General Meeting |
|--|-------|-----------------|----------------------|------------------------|
| Executive Directors | | | | |
| Wang Xiaochu (Chairman) | 4/4 | N/A | N/A | 1/1 |
| Yang Jie | 4/4 | N/A | N/A | 0/1 |
| Wu Andi | 4/4 | N/A | N/A | 1/1 |
| Zhang Jiping | 2/4 | N/A | N/A | 0/1 |
| Yang Xiaowei | 3/4 | N/A | N/A | 1/1 |
| Sun Kangmin | 4/4 | N/A | N/A | 0/1 |
| Ke Ruiwen | 2/4 | N/A | N/A | 1/1 |
| Non-Executive Directors | | | | |
| Chen Liangxian* | N/A | N/A | N/A | N/A |
| Xie Liang* | 2/2 | N/A | N/A | N/A |
| Independent Non-Executive Directors | | | | |
| Wu Jichuan | 3/4 | 3/4 | 1/1 | 1/1 |
| Qin Xiao | 3/4 | 3/4 | N/A | 1/1 |
| Tse Hau Yin, Aloysius | 4/4 | 4/4 | 1/1 | 1/1 |
| Cha May Lung, Laura | 4/4 | N/A | 1/1 | 0/1 |
| Xu Erming | 4/4 | 3/4 | 1/1 | 1/1 |

Note: Certain Executive Directors and Independent Non-executive Directors did not attend the Annual General Meeting and some of the meetings of the Board and the Committees due to other business commitments or being overseas.

* Mr. Chen Liangxian resigned as the Non-executive Director of the Company due to change in work arrangement on 20 March 2013. The appointment of Mr. Xie Liang as the Non-executive Director of the Company was approved at the Annual General Meeting held on 29 May 2013.

Supervisory Committee

The Company's Supervisory Committee comprises six Supervisors, with one External Independent Supervisor and two Employee Representative Supervisors. On 19 August 2013, Mr. Mao Shejun retired as the Employee Representative Supervisor due to his age. On the same date, Mr. Tang Qi has been elected by the employees of the Company democratically as an Employee Representative Supervisor.

The principal duties of the Supervisory Committee include supervising, in accordance with the law, the Company's financials and performance of its Directors, managers and other senior management so as to prevent them from abusing their powers. The Supervisory Committee is a standing supervisory organisation within the Company, which is accountable to and reports to all shareholders. The Supervisory Committee holds meetings at least once or twice a year.

The number of attendance/meetings of members of the Supervisory Committee in year 2013

Number of Supervisors

6

Number of meetings in 2013

2

| Supervisors | Number of Attendance/Meetings |
|--|-------------------------------|
| Shao Chunbao (Chairman of the Supervisory Committee) | 2/2 |
| Zhu Lihao (Independent Supervisor) | 2/2 |
| Mao Shejun (Employee Representative Supervisor, retired on 19 August 2013) | 2/2 |
| Tang Qi (Employee Representative Supervisor, appointed on 19 August 2013) | N/A |
| Zhang Jianbin (Employee Representative Supervisor) | 2/2 |
| Hu Jing | 2/2 |
| Du Zuguo | 2/2 |

External Auditors

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively. In order to maintain their independence, the non-audit services provided by the external auditors did

not contravene the requirements of the US Sarbanes-Oxley Act of 2002.

A breakdown of the remuneration received by the external auditors for audit and non-audit services provided to the Company for the year ended 31 December 2013 is as follows:

| Service item | Fee (RMB millions) |
|---|-----------------------|
| Audit services | 59.8 |
| Non-audit services (mainly include internal control advisory and other advisory services) | 1.4 |
| Total | 61.2 |

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The statements by the external auditors of the Company, Deloitte Touche Tohmatsu, regarding their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditors' Report on page 109.

The service term of KPMG and KPMG Huazhen (Special General Partnership), the international and domestic auditors of the Company for 2012, expired at the Annual General Meeting for 2012 (29 May 2013). The appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors for the financial year 2013 has been approved at the Annual General Meeting for year 2012. The Audit Committee and the Board have resolved to re-appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors for the financial year 2014, subject to the approval at the 2013 Annual General Meeting.

Internal Control

Internal Control System

The Board attaches great importance to the construction and perfection of the internal control system, and takes effective approaches to supervise the implementation of related control measures, whilst enhancing operation efficiency and effectiveness, and enhancing corporate governance, risk assessment, risk management and internal control so as to protect shareholders' investment and ensure the safety of the Company's assets. In this way, the Company can achieve long-term development goals. The Company's management is responsible for the construction, optimisation and implementation of the internal control system. The internal control system of the Company is built on clear organisational structure and management duties, an effective delegation and accountability system, definite targets, policies and procedures, comprehensive risk assessment and management, a sound financial accounting system, and continuing analysis and supervision of operational performance. It covers all services and transactions of the Company. The Company has formulated a code of conduct for the senior management and employees which ensures their ethical value and competency. The Company has formulated its internal reporting system, which encourages anonymous reporting of situations where employees, especially Directors and senior management personnel, breach the rules.

Since the year 2003, based on the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework (1992), and with the assistance of KPMG Advisory (China) Limited (Beijing office) and other advisory institutions, the Company has formulated manuals, implementation rules and related rules in relation to internal control, and has developed the Policies on Internal Control Management and Internal

Control Accountability Management to ensure the effective implementation of the above systems. Over more than ten years, the Company has continuously revised and improved the manuals and implementation rules in view of the ever changing internal and external operation environment as well as the requirements of business development. In particular, the Company has further strengthened the control over key business processes based on the distinguishing features of mobile services since the commencement of the full services operation. While continuing to improve the internal control related policies, the Company has also been strengthening its IT internal control capabilities, which has improved the efficiency and effectiveness of internal control, enhancing the safety of the Company's information system so that the integrity, timeliness and reliability of data and information are maintained.

In 2013, the Group further enhanced the construction of its internal control system, made additional efforts in its implementation, and strengthened risk control in key areas. With a focus on supporting the development of emerging services and pursuing ways to promptly address market needs and solve new problems arising in the course of innovations in business, operations and cooperation, the Company made revisions to the internal control manuals during the year. We also established and enhanced our internal control on the three emerging services, namely data traffic, Internet applications and ICT, and regulated the business processes in e-Surfing broadband WIFI management, e-channels management, "Best Pay" service management and IDC business management. Internal control for key businesses and key scopes of risks were strengthened, while the risk control on certain key aspects such as business cooperation, agency management and supplies procurement was reinforced. At the same time, critical control points were further refined and internal control processes were

optimised to improve the operational efficiency of the Company. We also organised the implementation of a project for setting up an internal support system, which would become the Group's first efficiently-centralised system under its MSS project, and achieved a unified platform for the provincial branches' internal control supporting system, the physical centralisation of system hardware and centralisation of the work processes, and further strengthened and regulated the internal control system construction. We supported the establishment and enhancement of the implementation rules for internal control applicable to new business units, organised the review of implementation rules for internal control in respect of new business units, thoroughly organised and reviewed the risk areas in respect of emerging businesses, conducted annual assessment of the internal control of newly-established companies, and supervised the timely rectifications of problems that had been identified, thereby effectively guarding ourselves against operational risks.

Comprehensive Risk Management

The Company views comprehensive risk management as an important task within the Company's daily operation. Pursuant to regulatory requirements in capital markets of the United States and Hong Kong, the Company has formulated a unique five-step risk management approach based on risk management theory and practice, including risk identification, risk assessment, key risk analysis, risk reaction and risk management assessment. The Company has also designed a risk management template, established and refined the centralised risk directories and case studies database of the Company, continued to strengthen the level of risk management informatisation, and solidified a standardised risk management procedure so that risk management terminology is unified across all levels of the Company and the effectiveness of risk management

was improved. Following the efforts made over the past years, China Telecom has established a comprehensive risk management system and has gradually perfected its comprehensive risk monitoring and prevention mechanism.

In 2013, pursuant to the requirement of provision C2 of the Corporate Governance Code promulgated by The Stock Exchange of Hong Kong Limited, the Company further incorporated comprehensive risk management into its daily operation. The Company continued to strengthen the level-oriented, category-oriented and centralised risk management, with resources concentrated on the prevention of two types of major potential risks, including the external environment risk and operational risk, and has achieved satisfactory results. In 2013, the Company was not confronted with any major risk event.

After rigorous risk identification, assessment and analysis, the Company has conducted a preliminary assessment of potential major risks to the Company in 2014, such as the external environmental risk and operational risk, and has put forward detailed response plans. Through strict and appropriate risk management procedures, the Company will ensure the impact from the above risks to the Company are limited to and within an expected range.

Annual Internal Control Evaluation

The Company has been continuously improving its internal control system. In order to meet the regulatory requirements of its places of listing, including the United States and Hong Kong, and strengthen its internal control while guarding against operational risk, the Company's internal audit department is responsible for coordinating the supervision and assessment of internal control.

The Company has adopted the COSO Internal Control Framework (1992) as the standard for the internal control assessment. With the management's internal control testing guidelines and the Audit Standard No. 5 that were issued by PCAOB as its directives, the Company's internal control assessment is composed of the self-assessment conducted by the persons responsible for internal control together with the independent assessment conducted by the internal audit department. In order to evaluate the nature of internal control deficiencies and reach a conclusion as to the effectiveness of the internal control system, the Company adopts the following four major steps of assessment: (1) analyse and identify areas which require assessment, (2) assess the effectiveness of the design of internal control, (3) assess the effectiveness of the execution of internal control, (4) analyse the impact of deficiencies in internal control. At the same time, the Company rectifies any deficiencies found during the assessment. By formulating "Interim Measures for the Internal Control Assessment", "Manual for the Self-Assessment of Internal Control", "Manual for the Independent Assessment of Internal Control" and other documents, the Company has ensured the assessment procedures are in compliance with related rules and regulations.

In 2013, the Company's internal audit department initiated and coordinated the assessment of internal control at the Company level, and reported the results to the Audit Committee and the Board.

Self-assessment of internal control adopts a top-down approach which reinforces assessment in respect of control points at the Company level and control points

corresponding to major accounting items. The Company insisted on risk-oriented principles and, on the basis of comprehensive assessment, identified key control areas and control points for major assessment through risk analysis. In 2013, the Company, on the basis of a comprehensive self-evaluation, launched a special self-assessment work organised and led by the operational department and conducted specific self-assessment based on two selected hot issues in relation to risk management which have certain impact on the operation of the Company. Meanwhile, we further enhanced the function of the internal control seminars and emphasised on solving the difficult issues on the cross-departmental and cross-processing internal control. The above measures effectively promoted the participation by various departments and units and ensured the self-assessment work covering 100% of the Company, while timely detected and rectified internal control deficiencies so as to effectively control and eliminate potential risks. The Company also worked towards perfecting the systems and deepening its governance measures, while continuously improving the quality and effectiveness of its internal control self-assessment.

Under the risk-guided independent assessment of the Company's internal control, we consolidated audit resources, worked around key areas and major business processes and conducted assessments. At the same time, we focused on new services and new units including mobile Internet to select two units upon which we embarked upon our internal control construction. Thorough assessment was conducted to help guard us against risks associated with the

new business areas. In 2013, in accordance with the Company's assessment principles and arrangements, all units launched a proactive independent assessment, timely identified potential risks and oversaw the process to rectify the problems. This achieved positive results. Through independent assessment, the Company not only grasped the overall situation of internal control, but also developed key tests for its high-risk processes. In addition, the Company inspected the related units in respect of their rectification of internal control deficiencies and focused on the key issues in order to ensure the depth and quality of assessment.

Furthermore, the Company organised the internal control assessment team and other relevant departments to closely coordinate with the external auditors' internal control audit related to financial statements. The internal control audit covered the Company and all its subsidiaries as well as the key processes and control points in relation to major accounting items. The external auditors regularly communicated with the management in respect of the audit results.

All levels of the Company have been attaching great importance to rectifying internal control deficiencies. The Company pushes all units to carry out rectification in relation to deficiencies identified through self-assessment, independent assessment and the internal control audit. The Company also highlighted the participation of professional departments whilst exploring the establishment of an internal control mechanism with

long-term efficiency. To ensure effective rectification, the Company also strengthened the verification and supervision of the rectification of internal control deficiencies. Pursuant to requests from the Company, all provincial branches launched rectification on any deficiencies identified from the assessment (including the internal control audit) in a positive manner.

Through self-assessments and independent assessments conducted by branches at different levels, the Company carried out multi-layered and full-dimensional reviews of its internal control system, and put its utmost efforts into rectifying the problems which were identified. Through this method, the Company was able to ensure the effectiveness of its internal control and successfully passed the year-end attestation undertaken by the external auditors.

The Board, through the Audit Committee, reviewed the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2013, which covered its controls on financial reporting, operation and compliance, as well as its risk management functions. The Board is of the view that the Company's internal control system is solid, well-established and effective. The annual review also considers the adequacy of resources relating to the Company's accounting and financial reporting functions, the sufficiency of the qualifications and experience of staff, together with the adequacy of the staff's training programmes and the relevant budget.

Investor Relations and Transparent Information Disclosure Mechanism

The Company establishes an Investor Relations Department which is responsible for providing shareholders and investors with the necessary information, data and services in a timely manner. It also maintains proactive communications with shareholders, investors and other capital market participants so as to allow them to fully understand the operation and development of the Company. The Company's senior management presents the annual results and interim results in Hong Kong every year. Through various activities such as analyst meetings, press conferences, global investor telephone conferences and investors road shows, the senior management provides the capital markets and the media with important information and responds to key questions which are of prime concerns to the investors. This has helped reinforce the understanding of the Company's business and the overall development of the telecommunications industry in China. Since 2004, the Company has been holding

the Annual General Meetings in Hong Kong to provide convenience and encourage its shareholders, especially public shareholders, to actively participate in the Company's Annual General Meetings and to promote the direct communication and exchange of ideas between the Board and shareholders.

With an aim of strengthening communications with the capital market and enhancing the transparency of information disclosure, the Company has provided the quarterly disclosure of revenue, operating expenses, EBITDA, net profit figures and other key operational data, and the monthly announcements of the number of access lines in service, mobile subscribers (including 3G subscribers) and wireline broadband subscribers. The Company attaches great importance to maintaining daily communication with shareholders, investors and analysts. In 2013, the Company has participated in a number of investors conferences held by a number of major international investment banks in order to maintain active communication with institutional investors.



In 2013, the Company attended the following investors conferences held by major international investment banks:

| Date | Name of Conference |
|----------------|--|
| January 2013 | Deutsche Bank Access China Conference 2013 |
| January 2013 | UBS Greater China Conference 2013 |
| March 2013 | Credit Suisse Asian Investment Conference 2013 |
| May 2013 | Macquarie Greater China Conference 2013 |
| May 2013 | CLSA China Forum 2013 |
| May 2013 | Morgan Stanley Hong Kong Investor Summit 2013 |
| May 2013 | BNP Paribas Asia Pacific TMT Conference 2013 |
| May 2013 | Deutsche Bank Access Asia Conference 2013 |
| May 2013 | Goldman Sachs Telecom & Internet Corporate Day 2013 |
| June 2013 | J.P. Morgan China Summit 2013 |
| June 2013 | Societe Generale/Ji Asia London Conference 2013 |
| June 2013 | Bank of America Merrill Lynch Global Telecom & Media Conference 2013 |
| June 2013 | CIMB 11th Annual Asia Pacific Leaders' Conference |
| June 2013 | Nomura Asia Equity Forum 2013 |
| July 2013 | Macquarie Non-Deal Roadshow (Australia) 2013 |
| September 2013 | CICC 1st London Conference |
| September 2013 | CLSA Hong Kong Investors' Forum 2013 |
| September 2013 | UOB Kay Hian Non-Deal Roadshow (Taiwan) 2013 |
| October 2013 | Macquarie China Corporate Day 2013 & Non-Deal Roadshow (Europe) |
| November 2013 | Credit Suisse China Investment Conference 2013 |
| November 2013 | Goldman Sachs Greater China Summit 2013 |
| November 2013 | Bank of America Merrill Lynch China Conference 2013 |
| November 2013 | Citi Greater China Investor Conference 2013 |
| November 2013 | Morgan Stanley Asia Pacific Summit 2013 |
| November 2013 | HSBC Asia Investor Forum 2013 & Non-Deal Roadshow (US) |
| November 2013 | J.P. Morgan Global TMT Conference 2013 |
| November 2013 | Daiwa Investment Conference Hong Kong 2013 |
| December 2013 | CICC Investment Forum 2013 |
| December 2013 | Barclays Asia TMT Conference 2013 |
| December 2013 | Societe Generale/Ji Asia Pan Asian Conference 2013 |
| December 2013 | BOCI Mobile Internet Outlook 2014 Corporate Day |

The Company's investor relations website (www.chinatelecom-h.com) not only serves as an important channel for the Company to disseminate press releases and corporate information to investors and the capital market, but also plays a significant role in the Company's valuation and our compliance with regulatory requirements for information disclosure. The Company's website is equipped with a number of useful functions including interactive stock quote, interactive KPI, interactive FAQs, auto email alerts to investors, downloading to excel, RSS Feeds, self-selected items in investors briefcase, html version annual report, financial highlights, investor toolbar, website information which other users are also interested in, etc. In 2013, the Company has revamped the website using a leading technology, HTML 5 and a number of new functions and contents were added to further enhance the functions of the website and the level of transparency of the Company's information disclosure, so as to meet the international best practices. In addition, a mobile version of the Company's website was also offered, which allows the investors, shareholders, media and the general public to easily and promptly browse the updated information on the Company's website through mobile devices at any time and any place. The Company's website was accredited a number of awards in *IR Global Rankings*, *W3*, *iNova*, *Euromoney*, indicating that the Company's website is highly recognised

by professionals. The Company also actively seeks recommendations on how to improve the Company's annual report from shareholders through survey, and in accordance with its shareholders' recommendations prepared and distributed the annual report in a more environmentally friendly and cost-saving manner. The shareholders can ascertain their choice of receiving the annual reports and communications by electronic means, or receiving English version only, Chinese version only or both English and Chinese versions.

The Company has always maintained a good information disclosure mechanism. While keeping highly transparent communications with media, analysts and investors, we attach great importance to the handling of inside information. In general, the authorised speaker only makes clarification and explanation on the data available on the market, and avoid providing or divulging any unpublished inside information either by an individual or by a team. Before conducting any external interview, if the authorised speaker has any doubt about the data to be disclosed, he/she would seek verification from the relevant person or the person-in-charge of the relevant department, so as to determine if such data is accurate. In addition, discussions on the Company's key financial data or other financial indicators are avoided during the black-out period.

Shareholder Rights

According to the Articles of Association, shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

Two 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 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 to convene a shareholders' extraordinary general meeting or a class meeting thereof. If the board of directors fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisitions, the shareholders who make the requisitions 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 months from the date of receipt of the requisitions by the board of directors.

When the Company convenes an annual general meeting, shareholders 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.

Process of forwarding shareholders' enquiries to the Board:

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary and the Investor Relations Department. The contact details of the Company Secretary are as follows:

The Company Secretary
China Telecom Corporation Limited
38th Floor, Dah Sing Financial Center
108 Gloucester Road, Wanchai
Hong Kong
Email: ir@chinatelecom-h.com
Tel No.: (852) 2877 9777
Fax No.: (852) 2877 0988

A dedicated "Investor" section is available on the Company's website (www.chinatelecom-h.com). There is a FAQ function in the "Investor" section designated to enable timely, effective and interactive communication between the Company, shareholders and investors. Company Secretary and the Investor Relations Department of the Company handle both telephone and written enquiries from shareholders of the Company from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or the relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions. Information on the Company's website is updated regularly.

Significant Differences Between the Corporate Governance Practices followed by the Company and those followed by NYSE-Listed U.S. Companies

The Company was established in the PRC and is currently listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange (“NYSE”). As a foreign private issuer in respect of its listing on the NYSE, the Company is not required to comply with all the corporate governance rules of Section 303A of the NYSE Listed Company Manual. However, the Company is required to disclose the significant differences between the Corporate Governance Practices followed by the Company and the listing standards followed by NYSE-listed U.S. companies.

Pursuant to the requirements of the NYSE Listed Company Manual, the board of directors of all NYSE-listed U.S. companies must be made up by a majority of independent directors. Under currently applicable PRC and Hong Kong laws and regulations, the Board of the Company is not required to be formed with a majority of independent directors. As a listed company on The Stock Exchange of Hong Kong Limited, the Company needs to comply with the Listing Rules. These rules require that at least one-third of the

board of directors of a listed company in Hong Kong be independent non-executive directors. The Board of the Company currently comprises 13 Directors, of which 5 are Independent Directors, making the number of Independent Directors exceed one-third of the total number of Directors on the Board, in compliance with the requirements of the Corporate Governance Code of the Listing Rules. These Independent Directors also satisfy the requirements on “independence” under the Listing Rules. However, the related standard set out in the Listing Rules is different from the requirements in Section 303A.02 of the NYSE Listed Company Manual.

Pursuant to the requirements of the NYSE Listed Company Manual, companies shall formulate separate corporate governance rules. Under the currently applicable PRC and Hong Kong laws and regulations, the Company is not required to formulate any rules for corporate governance; therefore, the Company has not formulated any separate corporate governance rules. However, the Company has implemented the code provisions under the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the financial year ended 31 December 2013.

Continuous Evolution of Corporate Governance

The Company continuously analyses the corporate governance development of international advanced enterprises and the investors' desires, constantly examines and strengthens the corporate governance measures and practice, and improves the current practices at the appropriate time; we strongly believe that by adhering to good corporate governance principles, and improving the transparency, independence and the establishment of the effective accountability system, we can ensure the long-term stable development of the Company and to seek sustainable returns for the shareholders and investors.





Two

STRATEGIC
INITIATIVES

Market - Orientation
& Differentiation



Market Oriented Mechanism

to Enhance Vitality



Differentiation

to Strengthen
Competitiveness



Human Resources Development Report

In 2013, in accordance with the overall strategy of “De-telecom”, “Market-orientation and Differentiation” and “Three New Roles”, we firmly adhered to the principle of “supporting development and serving our employees”, and grasped the overall idea of laying down a strong foundation of team building and constructing a mechanism for promoting further development. Leveraging on the human resources planning, the Company further enhanced its building of teams of management, professional technicians and innovative talents and increased its efforts in mechanism innovation for human resources management, which have pragmatically protected the rights of its employees and effectively supported its business development.

Firstly, the Company built a value-based human resource planning system. Modelled on the supply value chain concept, a value model of China Telecom human resources was built to include key performance indicators for enhancing the value of its human resources management, and to establish strategic, operating and supporting systems for human resources management. As such, the Company has formulated the key performance indicators, major tasks and key measures in relation to human resources management from 2013 to 2016, which have effectively improved the vision and rationality of the human resources management of the Company.

Secondly, the Company improved the management of our executives and strengthened our senior management team building. The Company initiated a consolidated performance assessment for management in a move to enhance the appraisal system. The enhanced appraisal system further strengthened the use of the evaluation results in the selection, appointment and training of management personnel. We also sped up outstanding young leaders’ promotion and improved the selection and appointment process by promoting a total of 33 employees to leadership positions in a higher rank through the elections and open recruitment organised by the Company during the year, which further optimised the age mix of our management team. In addition, the Company proactively promoted a job exchange program among executives to enhance their leadership skills and all-round capabilities through a multi-job training. In 2013, 20 executives participated in the program.

Thirdly, the Company strengthened its efforts in building a team with innovative talents. To foster the building of a team with innovative talents, the Company created an incubation centre and introduced a creative management and operating system with a market-oriented approach, so as to create an incubation environment for new business development teams and an incubation system that would clear the way for their corporatisation. Over the last two years,

Three New Roles

-  Leader of Intelligent Pipeline
-  Provider of Integrated Platforms
-  Participant of Content & Application Development

the Company has separately selected 68 innovative projects in four batches for further development at the incubation centre. Under the promotion of this “professional incubation + entrepreneurial guidance + angel investment” incubation model, the Company has currently realised the corporatisation of 18 innovative projects, with the number of employees in the new business development teams reaching 276.

Fourthly, the Company promoted innovative human resources management to support our services development. We increased our efforts in developing pilot schemes for the transformation of our human resources management. Through the pilot schemes, the Company enhanced the efficiency of its human resources management through optimising the employee structure, controlling the total number of employees and creating a differentiated remuneration distribution mechanism. For the development of its emerging services, the Company has set up a program for gathering and nurturing talents for its emerging services while actively exploring the human resources management practices for the mobile Internet services.



The management expressed greetings to employees

Lastly, the Company actively implemented the new Labour Contract Law of the People's Republic of China which regulated the use of labour force by enterprises. The Company carried out a comprehensive research on the new Labour Contract Law of the People's Republic of China, set up guidelines for its service operation model, proposed structural adjustment to its personnel,

put forward the principle of "equality of remuneration and work" and the standardisation of outsourcing arrangements. Based on the new Labour Contract Law of the People's Republic of China, the Company proactively implemented the principle of "equality of remuneration and work" with self-regulation, which effectively limited the risks of the use of labour force by the Company.

Information of Employees

As at the end of 2013, the Group had 306,545 employees. The numbers of employees working under each classification and their respective proportions were as follows:

| | Number of employees | Percentage |
|--|---------------------|-------------|
| Management, Finance and Administration | 49,113 | 16.0% |
| Sales and Marketing | 157,915 | 51.5% |
| Operations and Maintenance | 97,264 | 31.7% |
| Research and Development | 2,253 | 0.8% |
| Total | 306,545 | 100% |

Corporate-Employee Relationship

Communication between Management and Employees

The Company established a feedback system to systematically understand and know the employees' views as well as promoted a close-end management system to handle the requests and concerns of the employees. In 2013, the Company's management and labour union leaders made over 60 visits to over 200 employees, including those who were in difficulty as well as the outstanding employees. To understand the views of the employees, the Company also introduced a third party survey involving over 7,000 employees in eight provincial branches to investigate their stress conditions as well as the sources and impacts of their work stress and the channels for relieving such stress. We have also timely understood and grasped the issues expressed by the employees, and actively reflected the demands of the employees by making proposals and recommendations to the Company.

Roles and Duties of Labour Unions

Our labour unions persisted in the principle of "serving both corporate development and the employees' growth".

We established an honours system for the employees. Based on the unified standard that adopted different layers and classifications and frontline-orientated incentive development principles, the Company researched and developed the "China Telecom Employees' Honours System" which established a multi-level, comprehensive, guidance-oriented and sustainable honours system and brought about deepened incentives for the employees. The honours system, together with the position and remuneration system, formed a differentiated incentive mechanism.

We created a platform for the on-the-job innovation activities of employees. Based on a low entry barrier, wide coverage, easy to replicate and long-term incentive approach, the Company actively created a platform for the enhancement of the employees' job innovation and capability, which further promoted the on-the-job innovation activities of the employees.

We created an ambience of innovation. The Company introduced an exemplary promotion convention in 2013 to award excellent quality and spirits. In 2013, two employees were awarded the "National May 1st Labour Award" while five received the "National May 1st Labour Medal"; 12 units were awarded the "National Pioneer Workers"; 14 units were awarded the "State-owned Pioneer Groups", with 25 workers being awarded the "Outstanding Workers"; 50 units were awarded the "Enterprise Pioneer Groups", with 97 workers being awarded as "Outstanding Workers"; nine employees were named as "Technical Master of China's State-owned Enterprises" while 24 were named as "Technical Master of Enterprise". To promote exemplary pioneer workers on a regular basis, the Company increased the intensity in the promotion of more than 80 frontline outstanding employees and over 10 teams. The Company actively created an ambience of advocating, learning, competing and caring for these pioneers in order to incentivise its employees to continue to pursue excellence.

The Company also offered guidance to the labour dispatch entities and labour outsourcing entities for them to establish labour unions and their employees to join the unions, in order to motivate employees' passion to participate in and support corporate development. As such, the union enrollment rate of the employees has reached 97%. The Company actively developed activities to build home for the employees and 14 provincial labour unions were named as the "Home for National Outstanding Workers".

Coordination and Communication between the Company and the Labour Unions

Over 700,000 counts of employees participated in three new business development competitions, which included network enhancement labour competition to improve network quality, a four-stage technical skills competition and the network security competition organised by the Ministry of Industry and Information Technology. The Company has also organised an on-the-job innovation training program for frontline employees, setting up a learning and exchange mechanism and promoting multi-level innovative workshops. To date, there were over 60 innovative workshops that aimed to speed up knowledge sharing and to transfer excellent experience and techniques. A win-win situation was attained for both the Company and the employees by enhancing the employees' technical skills, business skills, practical experience and their passion for innovation.

Caring for Employees

We deepened the implementation of the “Four-Small” initiative. The Company included the operating cost of the “Four-Small” initiative into its budget management to enhance its operating efficiency. The area of coverage of the “Four-Small” initiative was extended to different frontline operating units such as sales outlets, “10000” call service, and the installation and maintenance teams such that 80% of the frontline units implemented “Four-Small” initiative and employees of these units managed to benefit from such initiative. In addition, more were added to the “Four-Small” initiative to target different employees in different zones and different situations so that their actual difficulties and problems can be tackled immediately. The Company also adopted several measures to alleviate the stress of its employees.

We established a regular mechanism for employee visits. During the New Year and Lunar New Year holidays, the Company's entire management team visited frontline units in 17 provinces (districts and prefecture-level cities) to show their care for the employees. The management of the Company, labour union leaders and staff often found time to visit employees who were in difficulty as well as the outstanding employees when they were in their regions.

We cared for our employees in the affected regions and regions with severe conditions. The Company raised over RMB22 million for employees who were affected by the Ya'an Earthquake. In addition, a special relief fund of RMB1 million was allocated to the labour union in Sichuan province to assist the employees in the affected regions. RMB1.7 million was allocated to the affected employees in Gansu province as allowances for their families. The Company also allocated RMB12.1 million to frontline employees at 16 provincial branches as the "Cool Summer" subsidy. The Company also organised six sessions of study and field trip activities that promoted "Hand and hearts filling the love of China Telecom" for the employees that provided continued services during Ya'an Earthquake and an exchange program among the excellent employees working in areas with severe conditions. 186 outstanding employees participated in the activities.

We conducted activities to boost morale and team work. China Telecom organised a balloon volleyball tournament for its employees. China Telecom also took the trophy of the balloon volleyball competition organised by the China Telecommunications Sports Association. An internal photo competition organised

by the Company attracted over 3,000 submissions which enriched the Company's mobile photos archive. A national photography exhibition co-organised by the Company, the Popular Photography Magazine and the terminal company attracted over 60,000 entries, which successfully raised the branding of our "e-Surfing" service. Provincial labour unions organised over 50 arts and sports activities that not just enriched the employees' cultural life, but also raised their morale and team spirits.

Strengthening Human Capital

Focusing on our strategic development priorities, the Company continued to strengthen the development of talent teams, and actively promoted the capabilities improvement of our operation managers, professionals and technical personnel.

Developing Leadership Skills

In 2013, we organised and launched four phases of leadership training sessions for the management from the headquarter and provincial branches, two phases of leadership training sessions for prefecture-level management and a training session for the newly appointed management executives, with a total of 502 counts of managers attending the training sessions. The Company also actively sent management personnel to attend various trainings for high-level talents. In 2013, a total of five general managers from the provincial branches attended the leadership training organised by the China Executive Leadership Academy, Yan'an, and China Business Executives Academy, Dalian, while 10 deputy executives from the headquarter attended the

elective sessions for senior management. To fully utilise the functions of China Telecom College, the Company provided training for the new executives with emphasis on leadership training. To leverage on the strength of the online university, the Company set up special learning zones for managers to learn about the new technologies and new businesses. The Company also actively explored the training model for the reserved management, initiating a pilot scheme known as “entrepreneurial training camp” which was used as a basis to stimulate new thoughts among the reserved management team.

Cultivating Professional Talents

To fully utilise the professional talents based on the Company’s corporate focus, the Company has developed an annual work plan for each group of professionals in order to nurture their talents. In 2013, the Company organised 11 training sessions for Rank B talents under seven categories, including sales and marketing, IP, IT, wireless and mobility, core network, optical transmission and access as well as platform, with a total of 699 counts of senior professionals attending the training and a coverage ratio of over 95%. During the period, the Company examined 385 Rank A and Rank B talents specialised in IP, IT/ICT and sales and marketing, of which 110 were awarded with distinction.

Enhancing Employees’ Skills

The Company actively commenced frontline employees’ skills training and skills certification. In 2013, in order to support the overall strategy of “De-telecom”, “Market-orientation and Differentiation” and “Three New Roles” the Company focused on the key business development areas and held 187 training sessions

covering various areas, including marketing, products, sales services, corporate informatisation, maintenance and service support, network development and construction and integrated management, with 13,000 attendees in total, up 6.2% from 2012. The Company also organised and conducted skills certification for nine types of skills such as channel management, corporate informatisation, and customer service. A total of 82,000 counts of employees participated in the certification examinations. In line with the Group’s efforts to sub-divide performance evaluation units, the Company emphasised on the training provided for channel managers, secretaries of rural bureaus and self-managed TOP shop managers. In relation to our key businesses, the Company initiated trainings with an emphasis on relationship marketing of informatisation application in the industry and trainings to enhance supporting capabilities of key informatisation application. In addition, the Company also focused on the frontline employees and organised frontline training, as well as training on the mobile operating system and other professional training activities focusing on particular models. These training sessions fully enhanced the business techniques of frontline employees.

Looking forward, the Company is keen to build a team of talents and further enlarge the talent reserves for emerging services. In 2013, the Company recruited approximately 6,400 fresh graduates, 71.6% of which were majored in communications, computer engineering, sales and marketing and information operations management, up 11 percentage points from 2012. The Company continued to recruit top graduates for the available positions, with over 1,000 top graduates being selected in 2013, and a total of approximately 3,400 top graduates being trained in the past three years.

Remuneration and Performance Management

The remuneration of the Company's employees comprises base salary and performance based salary, and takes into account both short and medium-to-long term incentives. In 2013, the Company implemented the "Position and Remuneration System of Full Services Operation", instructing each business unit to gradually implement the system based on trial-run results. Furthermore, the Company persisted in determining the distribution of employees' remuneration based on their value and contribution while tilting towards the core frontline employees. At the same time, to facilitate the introduction of sub-dividing the performance evaluation units, the Company introduced innovative distribution mechanisms to motivate and incentivise its employees. Through measures such as market mechanism, shop owner responsibility system and tender underwriting, the Company managed to delegate responsibilities, allocate key resources and run independently with consistent rights and responsibilities. These

measures unified the interests of promoting corporate development and the individual interests of employees. By directly linking up the employees' salary level with their performance evaluation results, the Company encouraged its employees to be more productive so that they could fully realise their individual value and achieve a higher remuneration level while working for the company.

To continuously improve the model for classification and allocation of labour costs, the Company adopted a flexible budget control policy for provincial branches which proportionately matches income with labour cost such that more allocations were made to units with a higher level of revenues and vice versa. The Company continued to enhance the correlation between revenue and labour costs in terms of labour cost allocation and raise the allocation ratio in accordance with profit-linked efficiency. Furthermore, the Company continued to apply reduction rules to the labour costs incurred by the provincial branches that failed to meet the profit budget amounts, which ensured that the labour cost allocation



Continuously enhancing the technical skills of employees through organising a series of competition

mechanism fitted well into business development of the Company. The Company also applied value deposition and development cycle to manage its direct subsidiaries and professional companies and implemented a differentiated model for classification and allocation of labour costs.

At present, China Telecom has established a relatively comprehensive employees' performance evaluation system. Branches of all levels have established employees' performance evaluation teams which are led by the respective general manager of the relevant branch. The teams have formulated evaluation methods for deputies, functional departments, subordinated units and general employees. In 2013, the Company managed to further improve its employee evaluation and incentive mechanism and related supervision system to secure the fairness and reliability of the performance evaluation results. At the same time, it

has further optimised and improved the performance evaluation system to appraise the performance of business units, deputies, middle-level management and employees at different levels, enhancing the specific focus and relevance of the entire performance evaluation process.

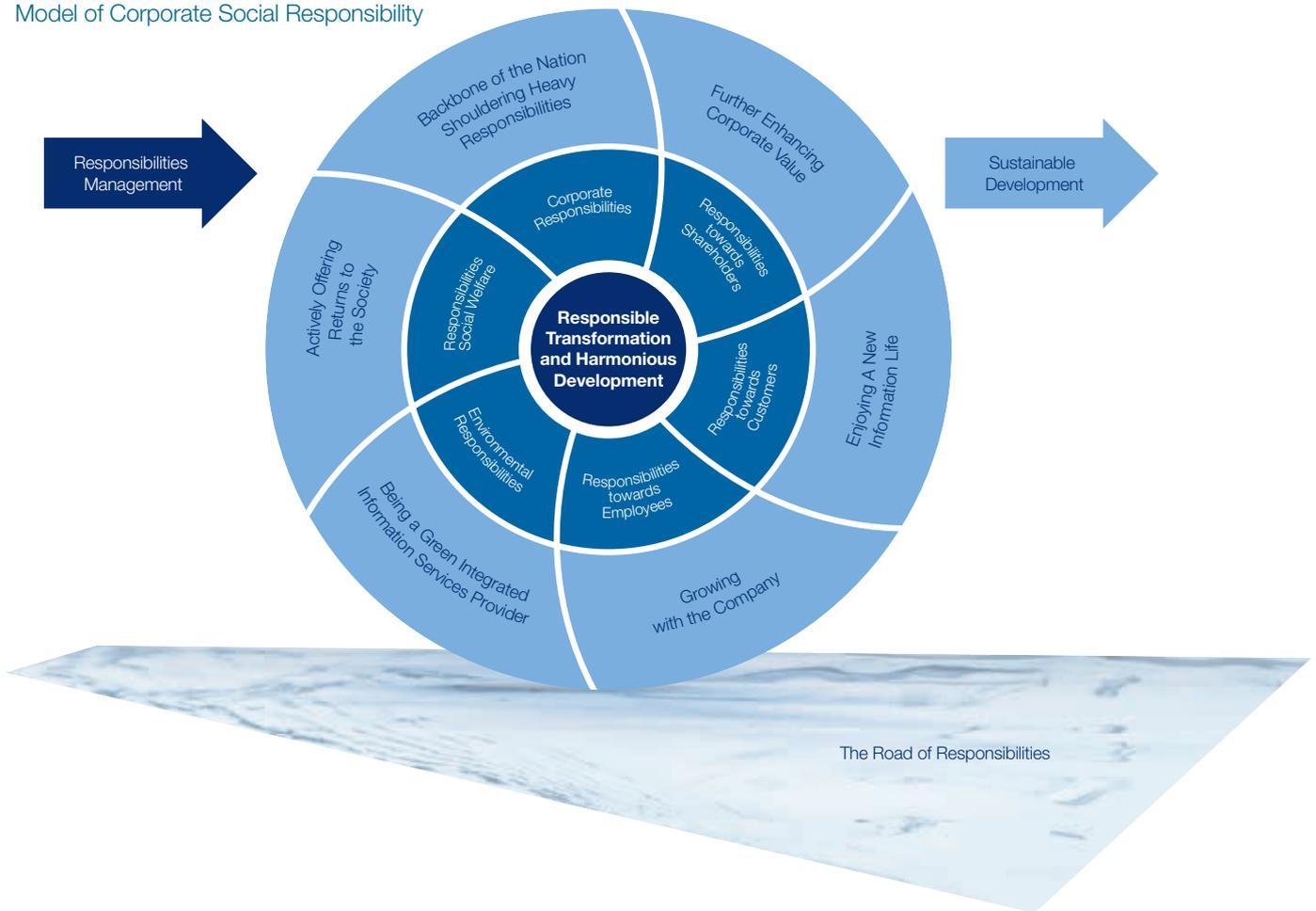
Guaranteeing Employee Welfare

The Company strictly abides by the laws and regulations such as the "Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China" to regulate its employment practices. The Company offers equality of remuneration and work, implements special regulations to protect female employees' rights and interests, and there were no gender discrimination policies or regulation, and there had been no circumstance whereby child labour or forced labour was employed.

Corporate Social Responsibility Report

By adhering to the core philosophy of “comprehensive innovation, pursuing truth and pragmatism, respecting people and creating value all together”, China Telecom persevered in the fulfillment of its responsibilities to stakeholders, further promoted enterprise transformation and continued to enhance its comprehensive corporate value. In 2013, China Telecom was ranked 14th in “Fortune China CSR Ranking 2013” by *Fortune China* magazine, which jumped from its previous ranking of the 39th. China Telecom was also first accredited as one of the “Top 25 Most Responsible Companies”.

Model of Corporate Social Responsibility



I. Operating with integrity and in compliance with the laws

The Company persists in operation complying with the laws and integrity, through complying with relevant laws and regulations, industry regulations and business ethics. We have established an all-rounded and seamless compliance system featuring legal education, strengthening internal control, audit supervision, anti-corruption and comprehensive risk management. We have created a lasting, effective and standard communication mechanism in order to regulate the disclosure of corporate information. We have taken the initiative in receiving government regulation and social supervision. In 2013, we continued to strengthen system construction, supervision and inspection, and made timely rectification when problems were discovered.

II. Fulfilling our essential responsibilities as a telecom operator

China Telecom regards the construction of complete and comprehensive basic networks, developing universal telecommunications services, guaranteeing emergency communications, maintaining information health, promoting indigenous innovation and facilitating industrial development as our inherent responsibilities.

Implementing the e-Surfing 3G network coverage in rural areas

Extensive areas of the rural territory in China have been covered by the 3G network of China Telecom. In 2013, the Company continued to improve the mobile networks in rural areas as well as the road network. As at the end of 2013, the 3G network covered 35,400 rural towns, enabling more residents in rural areas to use information services via the 3G network.

Promoting the “Broadband China • Fibre Cities” project

As a key player for constructing China’s broadband network, during the three consecutive years since 2011, China Telecom further accelerated the construction of broadband infrastructure by promoting the FTTH construction in urban areas and applying customised techniques in broadband network construction in rural areas to speed up the installation of broadband lines in administrative villages.

As at the end of 2013, the coverage of China Telecom FTTH reached approximately 84 million households. The number of FTTH subscribers was close to 27 million. The number of wireline broadband subscribers was over 100 million. Over 290,000 administrative villages in 21 provinces in Southern China installed broadband lines. 80% of China Telecom wireline broadband subscribers used bandwidth products with 4Mbps or above.

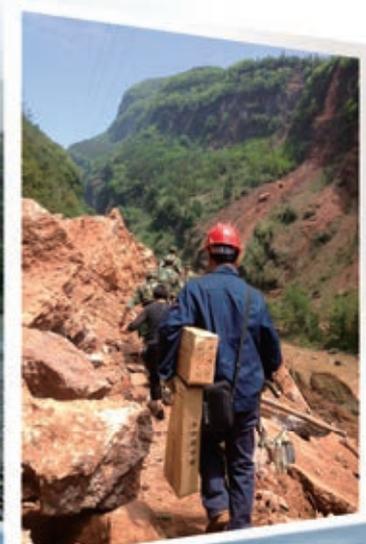
Progressing the “Village-to-Village” projects

China Telecom continued the implementation of the “Village-to-Village” projects to speed up the construction of service outlets in rural areas and raise the standard of informatisation for township governments, agricultural enterprises and individual farmers and bridge the digital divide between cities and the countryside. In 2013, the installation of broadband lines in over 6,800 administrative villages and over 1,600 natural villages was completed.

Securing emergency communications

China Telecom is dedicated to securing smooth national communications. In 2013, there were a number of natural disasters in China, such as the Ya’an earthquake, typhoons and floods. The Company quickly responded and took initiatives to restore communication services in the affected areas. Throughout the year, a total of 118,600 counts of relief workers, 27,500 counts of rescue vehicles and 1,300 counts of emergency communications equipment were deployed for this purpose. A total of 4.2 billion free SMS messages were sent. The Company successfully accomplished the communications support tasks of important events such as the Chinese National Games, Asian Youth Games, China-Eurasia Expo and China’s Antarctic expedition.

Mr. Wang Xiaochu, Chairman of the Company, led the disaster relief works against the earthquake



The relief team of China Telecom carried equipment and tools for emergency relief works

III. Fulfilling our responsibilities towards our customers

Adhering to our operation philosophy of “pursuing the mutual growth of corporate value and customer value”, and the service philosophy of “Customer First, Service Foremost”, China Telecom strives to protect the interests of customers according to the law. The Company also strives to understand our customer needs and provide suitable, easy-to-use and value-for-money products for all our customers, including individuals, households, corporations, government or social undertakings. With customer perception as a starting point, the Company continues to perfect our service and enhance its service quality, so as to enable our customers to fully enjoy a new informatisation lifestyle.

Implementing the campaign to tackle common service issues

In 2013, in association with the mass line education and implementation campaign, along with the correction of unwholesome tendencies in the industry required by the Ministry of Industry and Information Technology, China Telecom rectified a number of common service issues, enhancing service management and improving the long-term mechanism against these issues.

In response to customer complaints about the business practice of some of the subsidiaries of the Company such as involuntary service suspensions, compulsory bundled services and forced subscription, China Telecom carried out a series of measures to enhance its control and management. By increasing our efforts in centralising and marketing packages, the Company tackled the issues from the source. We also overhauled the provisions in our promotion package plans or other additional plans, the security settings of the related marketing systems and the access control systems, and rectified issues immediately after they were discovered. The Company regulated the marketing of

value-added services, prohibited forced subscription, strictly applied the re-confirmation for services, and imposed strict and severe punishment on violators. In addition, the Company required the sales outlets to ensure the sales of single product, and banned the practice of product bundling.

In response to customer complaints about the major problems in the installation and maintenance of broadband lines, China Telecom implemented a series of measures to regulate the provision of these services. The Company enhanced the management of installation and maintenance services to ensure timely delivery of such services. With a better allocation of resources, the Company managed to improve the booking system, and bring in more efficient service providers to better support and improve the work flow. The standardisation of the installation and maintenance service providers was implemented to improve the quality of their services. Metrics related to customer perception of the quality of the installation and maintenance services were improved to better evaluate service quality and to align the performance of the installation and maintenance service providers with customer perception.

In the 2013 customer satisfaction assessment organised by the Ministry of Industry and Information Technology, the broadband and 3G Internet services provided by China Telecom were recognised as having maintained a leading position in the industry. Our internet service was awarded the “Best New Media Service” for the year by *China Business News*. Our Weibo customer service was shortlisted for the “Top Ten Weibo Operations” by the State-owned Assets Supervision and Administration Commission of the State Council. China Telecom was named among the “Top Ten Units of Customer Service” in the Sixth Congress for the Assessment of After-sales Services in the country organised by the China General Chamber of Commerce and the China Foundation of Consumer Protection.

Promoting informatisation in primary and secondary schools

In 2013, our operations at all levels took the initiative to contact primary and secondary schools in respective regions and provided a range of solutions for schools in various areas, including the construction of informatisation infrastructure at primary and secondary schools, informatisation of education management, provision of digital education resources services, construction of and training for the professional team for the informatisation of education, launch of pilot testing programmes for the informatisation of education and the research and development of information technology and the promotion of the use of IT solutions and applications.

During the year, the Company installed a total of 27,000 new broadband lines and upgraded 36,000 existing ones at primary and secondary schools to further promote the “school-to-school” broadband connection. To fulfill the schools’ needs to share quality education resources among different classes, the Company introduced the use of the “class-to-class” application. In addition, the Company worked together with the education departments to promote the “people-to-people” internet learning space and implement the construction and operation of the cloud computing platform for digital education resources. The Company also worked together with the education departments to launch an informatisation training programme for teachers and professional teams to improve the IT skills of people working in elementary education units. One of the major campaigns “10,000 roadshows for campus informatisation” served more than 100,000 teachers in the region. The Company also supported the education departments in their pilot testing programmes for informatisation of education and helped to complete the construction of more than 4,300 “smart campuses”.

IV. Fulfilling our responsibility towards our employees

We consider our employees to be our most valuable resource. The Company adheres to the principle of respecting people and cherishing every employee. We value various types of professional and technical staff and seek to align the development of the Company with the staff. In accordance with relevant state laws and regulations, we safeguard the interests of our employees and focus on the establishment of harmonious labour relations. We support labour unions in carrying out their functions and encourage our employees to participate in management and protect their rights to be the master of their own affairs.

In 2013, we continued to carry out production safety publicity and provide education and training to implement our production safety accountability system and safety management system. We continued to improve the working and living conditions of our frontline employees by expanding the coverage of the “Four Smalls” initiative, namely, small canteens, small bathrooms, small washrooms and small activity rooms at the workplace, which will be extended to other frontline units such as the sales outlets, “10000” call service and the installation and maintenance service providers. The Company persisted in determining employees’ remuneration based on their value and contribution and continued to tilt in favour of frontline employees, which resulted in the steady increase of their income.

In 2013, we increased our efforts in staff training to fulfil the strong development needs arising from our business expansion, with the number of attendees for professional training increased by 6.2% from 2012. The Company provided more support for the training of frontline employees and launched the campaign

to deliver training to frontline employees, with a focus on training the frontline employees in marketing units, especially managers in our county offices, in order to enhance their management skills. The Company trained and accredited employees responsible for frontline marketing and services, installation and maintenance as a total of 82,000 counts of employees went through the accreditation process. The Company organised a number of skills competitions and set up multi-level innovative workshops to establish an on-the-job innovation platform to encourage our employees to improve their innovative and technical skills. Employees were also encouraged to share their knowledge, experience and skills, and help each other to improve their technical skills and practical experience. Caring for the spiritual well-being of our employees, the Company established the “China Telecom Employees’ Honours System”, a system that contained different classes of honours with extensive coverage. Being both guidance-driven and sustainable, the system aimed to increase the employees’ own values and encourage them to continue to pursue excellence.

China Telecom continued to provide the best support for our employees who were in difficulty. The Company set up a permanent mechanism to offer comfort to its employees, with a support mechanism to help all employees who might be from different regions and in different situations to solve their practical difficulties and problems. In 2013, the Company launched a campaign to raise over RMB22 million for employees in Ya’an, Sichuan, who were affected by the earthquake.

V. Fulfilling our responsibility towards the environment

China Telecom has established the concept of “Low-Carbon Telecommunications and Environmentally Friendly Development” and is committed to being an “Environmentally Friendly Integrated Information Service Provider” by further promoting energy saving and emission reduction in the areas of procurement, construction and operations.

In 2013, we accelerated the promotion of an energy consumption monitoring system. With the sub-division of performance evaluation units, the Company examined energy usage in greater detail and applied norm management to improve the precision management of energy saving and emission reduction. We steadily promoted operations under an increased temperature in our facilities, raising 55% of our mobile network base stations to 28 or 30 degrees Celsius and thereby saving more than 100 million units of electricity for the year. We continued to upgrade the technology to reduce energy consumption in our infrastructure. During the year, we built around 4,000 intelligent ventilation units, and completed the construction of approximately 6,000 sets of e-green power switches and approximately 1,500 intelligent heat transfer devices. Energy saving technology was used in 41% of our facilities, 9 percentage points higher than 2012 with around 150 million units of electricity being saved for the year. The Company comprehensively promoted a more energy-saving and reliable 240V DC power supply system, with more than 400 units put in use in 2013. Energy consumption in our telecommunications networks was effectively controlled during the year.

In addition to the promotion of environmentally friendly operations, the Company continued to develop and promote the environmentally friendly information products to help our customers' energy saving and emission reduction, as well as our environmentally friendly development.

Furthermore, to avoid redundant construction and improve the efficiency of telecommunications infrastructure, the Company cooperated with its parent company and various telecommunications operators to jointly construct and share the Internet infrastructure. It also helped to protect the natural environment and landscape, and reduced the use of land, energy and raw materials.

Implementing Energy Performance Contracting

Energy Performance Contracting, or EPC, is a new market mechanism for energy saving operations, whereby the fees saved by lower usage of energy are used to pay all the costs of the energy saving project.

In 2013, the Company achieved a new breakthrough in upgrading the technology to save energy by utilising EPC, while effectively supporting the upgrade of its infrastructure and network equipment. As at the end of 2013, 19 provincial branches of China Telecom deployed external funds of approximately RMB170 million for 382 EPC projects, saving approximately 77 million units of electricity for the year.

VI. Contributing to Community Well-being

China Telecom was consciously involved in social welfare undertakings. Through various forms of public service activities, we supported the development of science and technology, education, culture, sports and health undertakings, cared for vulnerable groups in society and helped those in distress and poverty. We advocated and encouraged our employees to foster the volunteering spirit and participate in various forms of voluntary service activities. In 2013, we continued to assist our parent company with promoting poverty alleviation and assistance in Tibet. We participated in a variety of assistance programmes in Bianba County, Tibet, and in Yanyuan County and Muli County, Liangshan Yi Autonomous Prefecture, Sichuan.

The Company assisted with projects in relation to infrastructure construction, informatisation, education and training, agriculture, health and science and technology. Together with the Ministry of Education, the Company jointly launched a campaign known as “e-Surfing School Care for the Unattended Children” together with mainstream media to raise public awareness of unattended children, covering two million unattended children scattered in 4,000 schools in eight mid-western provinces.

In 2014, China Telecom will proactively take the initiative to develop a coordinated approach to fulfil its responsibility towards its stakeholders. As an integrated information service provider, we will help to improve the livelihood of the people, implementing industrialisation, informatisation, urbanisation and agricultural modernisation. We will assist with restructuring and developing the national economy, while using our best efforts to create value in our business for stakeholders. We will also strive to make new contributions to the sustainable development of our economy and society.

China Telecom successfully commenced the e-Surfing 3G services in the Antarctic



An innovative,
responsible
and
vibrant
enterprise

PROMISING
PROSPECT



FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE SHAREHOLDERS OF CHINA TELECOM CORPORATION LIMITED

(Incorporated in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Telecom Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 110 to 185, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
19 March 2014

Consolidated Statement of Financial Position

at 31 December 2013 (Amounts in millions)

| | Note | 31 December 2013 RMB | 31 December 2012 RMB (restated) |
|--|------|----------------------------|--|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment, net | 4 | 374,341 | 373,781 |
| Construction in progress | 5 | 44,157 | 32,500 |
| Lease prepayments | | 25,007 | 25,759 |
| Goodwill | 6 | 29,917 | 29,918 |
| Intangible assets | 7 | 8,045 | 9,214 |
| Interests in associates | 9 | 1,106 | 1,016 |
| Investments | 10 | 1,026 | 616 |
| Deferred tax assets | 11 | 2,927 | 2,922 |
| Other assets | 19 | 3,930 | 4,190 |
| Total non-current assets | | 490,456 | 479,916 |
| Current assets | | | |
| Inventories | 12 | 6,523 | 5,928 |
| Income tax recoverable | | 312 | 1,505 |
| Accounts receivable, net | 13 | 20,022 | 18,782 |
| Prepayments and other current assets | 14 | 7,569 | 6,331 |
| Time deposits with original maturity over three months | | 2,287 | 2,730 |
| Cash and cash equivalents | 15 | 16,070 | 30,099 |
| Total current assets | | 52,783 | 65,375 |
| Total assets | | 543,239 | 545,291 |

The notes on pages 118 to 185 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2013 (Amounts in millions)

| | Note | 31 December 2013 RMB | 31 December 2012 RMB (restated) |
|---|------|----------------------------|--|
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term debt | 16 | 27,687 | 6,523 |
| Current portion of long-term debt | 16 | 20,072 | 10,212 |
| Accounts payable | 17 | 81,132 | 68,948 |
| Accrued expenses and other payables | 18 | 69,633 | 105,781 |
| Income tax payable | | 371 | 492 |
| Current portion of finance lease obligations | | 1 | – |
| Current portion of deferred revenues | 19 | 1,202 | 1,654 |
| Total current liabilities | | 200,098 | 193,610 |
| Net current liabilities | | (147,315) | (128,235) |
| Total assets less current liabilities | | 343,141 | 351,681 |
| Non-current liabilities | | | |
| Long-term debt and payable | 16 | 62,617 | 83,070 |
| Finance lease obligations | | – | 3 |
| Deferred revenues | 19 | 1,229 | 1,791 |
| Deferred tax liabilities | 11 | 631 | 717 |
| Total non-current liabilities | | 64,477 | 85,581 |
| Total liabilities | | 264,575 | 279,191 |
| Equity | | | |
| Share capital | 20 | 80,932 | 80,932 |
| Reserves | 21 | 196,809 | 184,207 |
| Total equity attributable to equity holders of the Company | | 277,741 | 265,139 |
| Non-controlling interests | | 923 | 961 |
| Total equity | | 278,664 | 266,100 |
| Total liabilities and equity | | 543,239 | 545,291 |

Approved and authorised for issue by the Board of Directors on 19 March 2014.

Wang Xiaochu
Chairman and Chief
Executive Officer

Yang Jie
Executive Director,
President and Chief
Operating Officer

Wu Andi
Executive Director,
Executive Vice President
and Chief Financial Officer

The notes on pages 118 to 185 form part of these financial statements.

Statement of Financial Position

at 31 December 2013 (Amounts in millions)

| | Note | 31 December 2013 RMB | 31 December 2012 RMB |
|--|------|----------------------------|----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment, net | 4 | 372,222 | 371,738 |
| Construction in progress | 5 | 43,806 | 32,080 |
| Lease prepayments | | 24,990 | 25,742 |
| Goodwill | 6 | 29,877 | 29,877 |
| Intangible assets | 7 | 7,662 | 8,962 |
| Investments in subsidiaries | 8 | 6,015 | 6,078 |
| Interests in associates | 9 | 564 | 564 |
| Investments | 10 | 1,025 | 612 |
| Deferred tax assets | 11 | 2,647 | 2,716 |
| Other assets | 19 | 3,800 | 4,078 |
| Total non-current assets | | 492,608 | 482,447 |
| Current assets | | | |
| Inventories | 12 | 3,203 | 3,183 |
| Income tax recoverable | | 306 | 1,494 |
| Accounts receivable, net | 13 | 19,326 | 17,789 |
| Prepayments and other current assets | 14 | 5,951 | 5,135 |
| Time deposits with original maturity over three months | | 30 | 580 |
| Cash and cash equivalents | 15 | 8,211 | 20,862 |
| Total current assets | | 37,027 | 49,043 |
| Total assets | | 529,635 | 531,490 |

The notes on pages 118 to 185 form part of these financial statements.

Statement of Financial Position

at 31 December 2013 (Amounts in millions)

| | Note | 31 December 2013 RMB | 31 December 2012 RMB |
|--|------|----------------------------|----------------------------|
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term debt | 16 | 27,578 | 6,476 |
| Current portion of long-term debt | 16 | 20,072 | 10,212 |
| Accounts payable | 17 | 78,199 | 64,043 |
| Accrued expenses and other payables | 18 | 65,473 | 102,657 |
| Income tax payable | | 201 | 291 |
| Current portion of finance lease obligations | | 1 | – |
| Current portion of deferred revenues | 19 | 1,201 | 1,651 |
| Total current liabilities | | 192,725 | 185,330 |
| Net current liabilities | | (155,698) | (136,287) |
| Total assets less current liabilities | | 336,910 | 346,160 |
| Non-current liabilities | | | |
| Long-term debt and payable | 16 | 62,617 | 82,690 |
| Finance lease obligations | | – | 3 |
| Deferred revenues | 19 | 1,229 | 1,791 |
| Deferred tax liabilities | 11 | 505 | 627 |
| Total non-current liabilities | | 64,351 | 85,111 |
| Total liabilities | | 257,076 | 270,441 |
| Equity | | | |
| Share capital | 20 | 80,932 | 80,932 |
| Reserves | 21 | 191,627 | 180,117 |
| Total equity | | 272,559 | 261,049 |
| Total liabilities and equity | | 529,635 | 531,490 |

Approved and authorised for issue by the Board of Directors on 19 March 2014.

Wang Xiaochu
Chairman and Chief
Executive Officer

Yang Jie
Executive Director,
President and Chief
Operating Officer

Wu Andi
Executive Director,
Executive Vice President
and Chief Financial Officer

The notes on pages 118 to 185 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013 (Amounts in millions, except per share data)

| | Note | 2013 RMB | 2012 RMB (restated) |
|---|------|-------------|---------------------------|
| Operating revenues | 22 | 321,584 | 283,176 |
| Operating expenses | | | |
| Depreciation and amortisation | | (69,083) | (49,666) |
| Network operations and support | 23 | (53,102) | (65,979) |
| Selling, general and administrative | | (70,448) | (63,099) |
| Personnel expenses | 24 | (46,723) | (42,857) |
| Other operating expenses | 25 | (54,760) | (40,367) |
| Total operating expenses | 26 | (294,116) | (261,968) |
| Operating profit | | 27,468 | 21,208 |
| Net finance costs | 27 | (5,153) | (1,562) |
| Investment income | | 670 | 93 |
| Share of profits of associates | | 103 | 78 |
| Profit before taxation | | 23,088 | 19,817 |
| Income tax | 28 | (5,422) | (4,753) |
| Profit for the year | | 17,666 | 15,064 |
| Other comprehensive income for the year: | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Change in fair value of available-for-sale equity securities | | 414 | (228) |
| Deferred tax on change in fair value of available-for-sale equity securities | | (104) | 57 |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China | | (79) | (2) |
| Share of other comprehensive income of associates | | 5 | – |
| Other comprehensive income for the year, net of tax | | 236 | (173) |
| Total comprehensive income for the year | | 17,902 | 14,891 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 17,545 | 14,949 |
| Non-controlling interests | | 121 | 115 |
| Profit for the year | | 17,666 | 15,064 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 17,781 | 14,776 |
| Non-controlling interests | | 121 | 115 |
| Total comprehensive income for the year | | 17,902 | 14,891 |
| Basic earnings per share | 33 | 0.22 | 0.18 |
| Number of shares (in millions) | 33 | 80,932 | 80,932 |

The notes on pages 118 to 185 form part of these financial statements.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2013 (Amounts in millions)

| | Attributable to equity holders of the Company | | | | | | | | Non-controlling interests | Total equity | |
|---|---|-----------------|---------------|--------------------|----------------|------------------|-------------------|---------|---------------------------|--------------|---------|
| | Share capital | Capital reserve | Share premium | Statutory reserves | Other reserves | Exchange reserve | Retained earnings | Total | | | |
| | Note | RMB | RMB | RMB | RMB | RMB | RMB | RMB | | | RMB |
| Balance as at 1 January 2012, | | | | | | | | | | | |
| as previously reported | | 80,932 | 16,767 | 10,746 | 64,316 | 283 | (818) | 83,896 | 256,122 | 788 | 256,910 |
| Adjusted for the Seventh Acquisition | 1 | - | 233 | - | - | - | (45) | (143) | 45 | - | 45 |
| Balance as at 1 January 2012, as restated | | 80,932 | 17,000 | 10,746 | 64,316 | 283 | (863) | 83,753 | 256,167 | 788 | 256,955 |
| Profit for the year, as restated | | - | - | - | - | - | - | 14,949 | 14,949 | 115 | 15,064 |
| Other comprehensive income, as restated | | - | - | - | - | (171) | (2) | - | (173) | - | (173) |
| Total comprehensive income, as restated | | - | - | - | - | (171) | (2) | 14,949 | 14,776 | 115 | 14,891 |
| Contribution from non-controlling interests | | - | 249 | - | - | - | - | - | 249 | 131 | 380 |
| Distribution to non-controlling interests | | - | - | - | - | - | - | - | - | (73) | (73) |
| Acquisition of the Sixth Acquired Business | 1 | - | (48) | - | - | - | - | - | (48) | - | (48) |
| Dividends | 32 | - | - | - | - | - | - | (5,625) | (5,625) | - | (5,625) |
| Appropriations | 21 | - | - | - | 1,413 | - | - | (1,413) | - | - | - |
| Others | | - | (380) | - | - | - | - | - | (380) | - | (380) |
| Balance as at 31 December 2012, | | | | | | | | | | | |
| as restated | | 80,932 | 16,821 | 10,746 | 65,729 | 112 | (865) | 91,664 | 265,139 | 961 | 266,100 |
| Profit for the year | | - | - | - | - | - | - | 17,545 | 17,545 | 121 | 17,666 |
| Other comprehensive income | | - | - | - | - | 315 | (79) | - | 236 | - | 236 |
| Total comprehensive income | | - | - | - | - | 315 | (79) | 17,545 | 17,781 | 121 | 17,902 |
| Contribution from non-controlling interests | | - | 141 | - | - | - | - | - | 141 | 59 | 200 |
| Distribution to non-controlling interests | | - | - | - | - | - | - | - | - | (74) | (74) |
| Acquisition of the Seventh Acquired Company | 1 | - | (278) | - | - | - | - | - | (278) | - | (278) |
| Dividends | 32 | - | - | - | - | - | - | (5,433) | (5,433) | - | (5,433) |
| Appropriations | 21 | - | - | - | 1,663 | - | - | (1,663) | - | - | - |
| Disposal of a subsidiary | 1 | - | 380 | - | - | - | - | 11 | 391 | (144) | 247 |
| Balance as at 31 December 2013 | | 80,932 | 17,064 | 10,746 | 67,392 | 427 | (944) | 102,124 | 277,741 | 923 | 278,664 |

The notes on pages 118 to 185 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013 (Amounts in millions)

| | Note | 2013 RMB | 2012 RMB (restated) |
|---|------|------------------|---------------------------|
| Net cash from operating activities | (a) | 88,351 | 70,722 |
| Cash flows used in investing activities | | | |
| Capital expenditure | | (70,921) | (50,071) |
| Lease prepayments | | (111) | (133) |
| Proceeds from disposal of property, plant and equipment | | 1,538 | 2,696 |
| Proceeds from disposal of lease prepayments | | 360 | 255 |
| Net cash inflow/(outflow) from disposal of a subsidiary | 1 | 512 | (116) |
| Purchase of time deposits with maturity over three months | | (2,750) | (2,730) |
| Maturity of time deposits with maturity over three months | | 3,193 | 1,804 |
| Payment for the payable to China Telecommunications Corporation related to the Mobile Network Acquisition (as defined in Note 16) | | (14,269) | – |
| Payment for the first installment of the Mobile Network Acquisition | | (25,500) | – |
| Net cash used in investing activities | | (107,948) | (48,295) |
| Cash flows from/(used in) financing activities | | | |
| Principal element of finance lease payments | | (2) | – |
| Proceeds from bank and other loans | | 54,983 | 9,702 |
| Repayment of bank and other loans | | (44,053) | (24,133) |
| Payment of dividends | | (5,433) | (5,625) |
| Payment for the acquisition price of the Fifth Acquisition | 1 | – | (29) |
| Payment for the acquisition price of the Sixth Acquisition | 1 | – | (48) |
| Net cash contributions from non-controlling interests | | 142 | 331 |
| Net cash from/(used in) financing activities | | 5,637 | (19,802) |
| Net (decrease)/increase in cash and cash equivalents | | (13,960) | 2,625 |
| Cash and cash equivalents at 1 January | | 30,099 | 27,475 |
| Effect of changes in foreign exchange rate | | (69) | (1) |
| Cash and cash equivalents at 31 December | | 16,070 | 30,099 |

The notes on pages 118 to 185 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013 (Amounts in millions)

(a) Reconciliation of profit before taxation to net cash from operating activities

| | 2013 RMB | 2012 RMB (restated) |
|--|---------------|---------------------------|
| Profit before taxation | 23,088 | 19,817 |
| Adjustments for: | | |
| Depreciation and amortisation | 69,083 | 49,666 |
| Impairment losses for doubtful debts | 1,744 | 1,612 |
| Write down of inventories | 360 | 235 |
| Investment income | (670) | (93) |
| Share of profits of associates | (103) | (78) |
| Interest income | (361) | (591) |
| Interest expense | 5,511 | 2,154 |
| Unrealised foreign exchange loss/(gain) | 3 | (1) |
| Gain on retirement and disposal of property, plant and equipment | (1,021) | (2,429) |
| Operating profit before changes in working capital | 97,634 | 70,292 |
| Increase in accounts receivable | (3,156) | (2,124) |
| Increase in inventories | (955) | (1,185) |
| Increase in prepayments and other current assets | (1,077) | (1,045) |
| Decrease in other assets | 294 | 484 |
| Increase in accounts payable | 3,210 | 5,016 |
| Increase in accrued expenses and other payables | 3,148 | 6,245 |
| Decrease in deferred revenues | (1,014) | (1,360) |
| Cash generated from operations | 98,084 | 76,323 |
| Interest received | 358 | 587 |
| Interest paid | (5,573) | (2,200) |
| Investment income received | 21 | 23 |
| Income tax paid | (4,539) | (4,011) |
| Net cash from operating activities | 88,351 | 70,722 |

The notes on pages 118 to 185 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2013

1. Principal Activities, Organisation 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, telecommunication network resource services and lease of network equipment, value-added services, integrated information application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People’s Republic of China (the “PRC”). Following the acquisition of Code Division Multiple Access (“CDMA”) mobile telecommunications business in October 2008, the Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region (“Macau”) of the PRC. The Group also provides international telecommunications services, including lease of network equipment, International Internet access and transit, and Internet data centre service in certain countries of the Asia Pacific, Europe, 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, lease of network equipment, roaming and interconnection arrangements.

Organisation

As part of the reorganisation (the “Restructuring”) of China Telecommunications Corporation, the Company was incorporated in the PRC on 10 September 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.

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

On 31 December 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 million (hereinafter, referred to as the “First Acquisition”).

On 30 June 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 million (hereinafter, referred to as the “Second Acquisition”).

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

On 30 June 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 million (hereinafter, referred to as the “Fourth Acquisition”).

On 1 August 2011 and 1 December 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 million (hereinafter, referred to as the “Fifth Acquisition”).

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

Notes to the Financial Statements

for the year ended 31 December 2013

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

Pursuant to an agreement entered into by the Company and China Telecommunications Corporation on 26 April 2013, the Company disposed of an 80% equity interest in E-surfing Media Co., Ltd. ("E-surfing Media"), a subsidiary of the Company primarily engaged in the provision of video media services, to China Telecommunications Corporation. The initial consideration for the disposal of the equity interest in E-surfing Media was RMB1,195 million, which was concluded based on the valuation of the equity interests in E-surfing Media as at 31 December 2012 as filed for the state-owned assets appraisals. In addition, an adjustment was made to the initial consideration to arrive at the final consideration based on 80% of the change in the book value of the net assets of E-surfing Media during the period from 31 December 2012 to the completion date of the disposal. The risks and rewards of the ownership of the equity interest in E-surfing Media were transferred to China Telecommunications Corporation on 30 June 2013. The final consideration was arrived at RMB1,248 million and received by 31 December 2013.

Analysis of assets and liabilities of the disposed subsidiary:

| | 30 June 2013 |
|------------------------------------|---------------------|
| | RMB millions |
| Current assets | |
| Cash and cash equivalents | 736 |
| Accounts receivable, net | 150 |
| Other current assets | 1 |
| Non-current assets | |
| Property, plant and equipment, net | 111 |
| Other non-current assets | 18 |
| Current liabilities | |
| Accounts payable | 222 |
| Other current liabilities | 64 |
| Non-current liabilities | 8 |
| Net assets disposed of | 722 |

1. Principal Activities, Organisation and Basis of Presentation (continued)**Organisation (continued)**

Gain on disposal of a subsidiary:

| | 2013 |
|---------------------------|---------------------|
| | RMB millions |
| Consideration received | 1,248 |
| Net assets disposed of | (722) |
| Non-controlling interests | 144 |
| Gain on disposal | 670 |

The gain on disposal of E-surfing Media has been included in investment income of the consolidated statement of comprehensive income.

Net cash inflow from disposal of a subsidiary:

| | 2013 |
|--|---------------------|
| | RMB millions |
| Consideration received in cash and cash equivalents | 1,248 |
| Less: cash and cash equivalents disposed of | (736) |
| Net cash inflow from disposal of a subsidiary | 512 |

Pursuant to an acquisition agreement entered into by CT Global and China Telecommunications Corporation on 16 December 2013, CT Global acquired 100% interest in China Telecom (Europe) Limited (“CT Europe” or the “Seventh Acquired Company”), a wholly owned subsidiary of China Telecommunications Corporation, from China Telecommunications Corporation (hereinafter, referred to as the “Seventh Acquisition”). The initial consideration for the Seventh Acquisition was RMB261 million. The initial consideration shall be adjusted for the difference between the net asset value on the completion date of the acquisition and the net asset value on the appraisal benchmark date of the acquisition, which was 30 June 2013 in order to arrive at the final consideration. The Seventh Acquisition was completed on 31 December 2013. The final consideration was RMB278 million. The initial consideration has been paid within 15 Business Days upon the completion of the acquisition.

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

Notes to the Financial Statements

for the year ended 31 December 2013

1. Principal Activities, Organisation and Basis of Presentation (continued)

Basis of presentation

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

The consolidated results of operations for the year ended 31 December 2012 and the consolidated financial position as at 31 December 2012 as previously reported by the Group and the combined amounts presented in the consolidated financial statements of the Group to reflect the acquisition of the Seventh Acquired Company are set out below:

| | The Group (as previously reported) RMB millions | The Seventh Acquired Company RMB millions | The Group (as restated) RMB millions |
|--|--|--|---|
| Consolidated statement of comprehensive income for the year ended 31 December 2012: | | | |
| Operating revenues | 283,073 | 103 | 283,176 |
| Profit for the year | 15,040 | 24 | 15,064 |
| Consolidated statement of financial position as at 31 December 2012: | | | |
| Total assets | 545,072 | 219 | 545,291 |
| Total liabilities | 279,042 | 149 | 279,191 |
| Total equity | 266,030 | 70 | 266,100 |

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

1. Principal Activities, Organisation and Basis of Presentation (continued)

Set up of subsidiaries

On 9 June 2013, the Group set up a subsidiary, iMUSIC Culture & Technology Co., Ltd., which engages in the provision of music production and related information services.

On 19 August 2013, the Group set up a subsidiary, Zhejiang Yixin Technology Co., Ltd., which engages in the provision of instant messenger service.

Merger with subsidiaries

Pursuant to the resolution passed by the Company's shareholders at an Extraordinary General Meeting held on 25 February 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 1 July 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.

Notes to the Financial Statements

for the year ended 31 December 2013

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”). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities (Note 2(m)).

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

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

Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 40.

(b) Basis of consolidation

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

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

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

2. Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

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

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's net identifiable assets over the cost of the investment (if any).

Thereafter, the investment is adjusted for the Group's equity share of the post-acquisition changes in the associate's net assets and any impairment loss relating to the investment. When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised 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 unrealised gains arising from intercompany transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(c) Foreign currencies

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

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

(d) Cash and cash equivalents

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

(e) Accounts and other receivables

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

2. Significant Accounting Policies (continued)

(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 realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs to make the sale and the related tax expenses.

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 2(o)). 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 capitalised 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 amortised over their estimated useful lives on a straight-line basis. As at 31 December 2013, the carrying amount of assets held under finance leases was RMB28 million (2012: RMB3 million).

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 recognised as income or expense in the profit or loss on the date of disposal.

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(g) Property, plant and equipment (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:

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

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

(h) Lease prepayments

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

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 2(o)). The cost of an item comprises direct costs of construction, capitalisation 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. Capitalisation 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 6) 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(o)). 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.

2. Significant Accounting Policies (continued)

(k) Intangible assets

The Group's intangible assets comprise computer software and customer relationships acquired in the CDMA business acquisition (Note 7).

Computer software that is not an integral part of any tangible assets, is recorded at cost less subsequent accumulated amortisation and impairment losses (Note 2(o)). Amortisation 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 amortised on a straight-line basis over the expected customer relationship of five years. By the end of the expected customer relationship period, fully amortised customer relationships were written off.

(l) Investments in subsidiaries

In the Company's stand-alone statement of financial position, investments in subsidiaries are stated at cost less impairment losses (Note 2(o)).

(m) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value being recognised in other comprehensive income and accumulated separately in equity. For investments in available-for-sale equity securities, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in 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(o)).

(n) 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 recognised 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.

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(o) Impairment

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

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

- significant financial difficulty of the debtor;
- 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 reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

The impairment loss for accounts and other receivables is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the financial asset's original effective interest rate where the effect of discounting is material, and is recognised as an expense in profit or loss.

The impairment loss for investments in equity securities carried at cost is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in profit or loss.

Impairment losses for accounts and other receivables are reversed through profit or loss if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

2. Significant Accounting Policies (continued)

(o) Impairment (continued)

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

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable 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 recognised as an income in profit or loss. The reversal is reduced by the amount that would have been recognised as depreciation and amortisation had the write-down not occurred. An impairment loss in respect of goodwill is not reversed. For the years presented, no reversal of impairment loss was recognised in profit or loss.

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(p) 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 recognised as the services are provided.
- (ii) Fees received for wireline installation charges for periods prior to 1 January 2012 are deferred and recognised 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 amortised over the same expected customer relationship period. In 2012, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.
- (iii) Monthly service fees are recognised in the month during which the services are provided to customers.
- (iv) Revenue from sale of prepaid calling cards are recognised as the cards are used by customers.
- (v) Revenue derived from value-added services are recognised when the services are provided to customers.

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

- i) The Group is responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;
- ii) The Group takes title of the inventory of the applications before they are ordered by customers;
- iii) The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;
- iv) The Group establishes selling prices with customers;
- v) The Group can modify the applications or perform part of the services;
- vi) The Group has discretion in selecting suppliers used to fulfill an order; and
- vii) The Group determines the nature, type, characteristics, or specifications of the applications or services.

2. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

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

- (vi) Revenue from the provision of Internet and telecommunications network resource services is recognised when the services are provided to customers.
- (vii) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the minutes of traffic processed.
- (viii) Lease income from operating leases is recognised over the term of the lease.
- (ix) Revenue derived from integrated information application services is recognised when the services are provided to customers.
- (x) Sale of equipment is recognised 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 recognised when the service is provided to customers.

The Group offers promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: The undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognises revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognised based upon the actual usage of such services. During each of the years in the two-year period ended 31 December 2013, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote the Group's core business of the provision of telecommunications services, and the fair value of the telecommunication services approximates the total contract consideration. The Group believes that the residual method of accounting for promotional packages provides the most relevant and reliable presentation method of the delivery and sales of the terminal equipment and telecommunication services since it reflects the economic substance of the arrangement.

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(q) 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 RMB36,490 million for the year ended 31 December 2013 (2012: RMB34,905 million), among which, the costs of terminal equipment offered as part of a promotional package to our customers for free or at a nominal amount to promote the Group's telecommunication service amounted to RMB22,795 million for the year ended 31 December 2013 (2012: RMB21,754 million).

(r) 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 recognised 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 capitalised 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.

(s) Research and development expense

Research and development expenditure is expensed as incurred. For the year ended 31 December 2013, research and development expense was RMB630 million (2012: RMB608 million).

(t) Employee benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government and defined contribution retirement plans administered by independent external parties are recognised in profit or loss as incurred. Further information is set out in Note 38.

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 39.

(u) Interest-bearing borrowings

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

(v) Accounts and other payables

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

2. Significant Accounting Policies (continued)

(w) Provisions and contingent liabilities

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

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

(x) Income tax

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

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

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

(y) Dividends

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(z) 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.

(aa) Segmental reporting

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

3. Application of New and Revised International Financial Reporting Standards

The IASB has issued a number of new and revised IFRSs that are effective for accounting period beginning on or after 1 January 2013. The Group applied the following new or revised IFRSs that are effective for the current year:

- Amendments to IAS 1, “Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income”
- IFRS 10, “Consolidated Financial Statements”
- IFRS 12, “Disclosure of Interests in Other Entities”
- IFRS 13, “Fair Value Measurement”
- Amendments to IFRS 7, “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities”
- Revised IAS 19, “Employee Benefits”

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current accounting period (Note 41).

Amendments to IAS 1, “Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income”

The amendments introduced new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, “statement of comprehensive income” is renamed as “statement of profit or loss and other comprehensive income” and “income statement” is renamed as “statement of profit or loss”. However, the amendments to IAS 1 allow an entity to use titles for these statements other than those used in the amendments to IAS 1. The Group has not made any changes to the titles for these statements.

In addition, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories to disclose: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The application of the amendments has no significant impact on the presentation of items of other comprehensive income of the Group.

IFRS 10, “Consolidated Financial Statements”

IFRS 10 replaces the parts of IAS 27, “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and SIC 12, “Consolidation – Special Purpose Entities”. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) has power over an investee, (b) has exposure, or rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The application of IFRS 10 has no significant impact on the Group’s financial statements.

Notes to the Financial Statements

for the year ended 31 December 2013

3. Application of New and Revised International Financial Reporting Standards (continued)

IFRS 12, “Disclosure of Interests in Other Entities”

IFRS 12 is a disclosure standard and brings together into a single standard all disclosure requirements applicable to entities’ interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those previously required by the respective standards.

The application of IFRS 12 has no significant impact on the Group’s financial statements.

IFRS 13, “Fair Value Measurement”

IFRS 13 establishes a single source of guidance for fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions.

The application of IFRS 13 has no significant impact on the Group’s financial statements.

Amendments to IFRS 7, “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities”

The amendments require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendments has no significant impact on the Group’s financial statements.

Revised IAS 19, “Employee Benefits”

Revised IAS 19, “Employee Benefits” mainly changes the accounting for defined benefit plans. This standard eliminates the “corridor approach” permitted under the previous version of IAS 19 and no longer permits the recognition of actuarial gains and losses to be deferred and recognised in profit or loss. All actuarial gains and losses should be recognised immediately through other comprehensive income.

The application of Revised IAS 19, “Employee Benefits” has no significant impact on the Group’s financial statements.

4. Property, Plant and Equipment, Net

The Group

| | Buildings and improvements RMB millions | Telecomm- unications network plant and equipment RMB millions | Furniture, fixture, motor vehicles and other equipment RMB millions | Total RMB millions |
|---|---|--|---|-----------------------|
| Cost/Deemed cost: | | | | |
| Balance at 1 January 2012, as previously reported | 86,309 | 654,201 | 24,715 | 765,225 |
| Adjusted for the Seventh Acquisition (Note 1) | – | 37 | 9 | 46 |
| Balance at 1 January 2012, as restated | 86,309 | 654,238 | 24,724 | 765,271 |
| Additions | 582 | 868 | 775 | 2,225 |
| Mobile Network Acquisition (Note 16) | 3,697 | 98,476 | 700 | 102,873 |
| Transferred from construction in progress | 2,348 | 42,022 | 1,329 | 45,699 |
| Disposals | (414) | (4,617) | (448) | (5,479) |
| Reclassification | (1) | 172 | (171) | – |
| Balance at 31 December 2012, as restated | 92,521 | 791,159 | 26,909 | 910,589 |
| Additions | 560 | 1,367 | 955 | 2,882 |
| Transferred from construction in progress | 2,926 | 58,424 | 1,494 | 62,844 |
| Disposals | (657) | (14,915) | (1,126) | (16,698) |
| Reclassification | 61 | (175) | 114 | – |
| Balance at 31 December 2013 | 95,411 | 835,860 | 28,346 | 959,617 |
| Accumulated depreciation and impairment: | | | | |
| Balance at 1 January 2012, as previously reported | (32,696) | (446,683) | (16,942) | (496,321) |
| Adjusted for the Seventh Acquisition (Note 1) | – | (21) | (4) | (25) |
| Balance at 1 January 2012, as restated | (32,696) | (446,704) | (16,946) | (496,346) |
| Depreciation charge for the year | (3,810) | (39,324) | (2,162) | (45,296) |
| Written back on disposal | 258 | 4,162 | 414 | 4,834 |
| Reclassification | – | (66) | 66 | – |
| Balance at 31 December 2012, as restated | (36,248) | (481,932) | (18,628) | (536,808) |
| Depreciation charge for the year | (4,776) | (56,794) | (2,294) | (63,864) |
| Written back on disposal | 540 | 13,819 | 1,037 | 15,396 |
| Reclassification | (21) | 44 | (23) | – |
| Balance at 31 December 2013 | (40,505) | (524,863) | (19,908) | (585,276) |
| Net book value at 31 December 2013 | 54,906 | 310,997 | 8,438 | 374,341 |
| Net book value at 31 December 2012, as restated | 56,273 | 309,227 | 8,281 | 373,781 |

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for the year ended 31 December 2013

4. Property, Plant and Equipment, Net (continued)

The Company

| | Buildings and improvements RMB millions | Telecomm- unications network plant and equipment RMB millions | Furniture, fixture, motor vehicles and other equipment RMB millions | Total RMB millions |
|---|---|--|---|-----------------------|
| Cost/Deemed cost: | | | | |
| Balance at 1 January 2012 | 85,750 | 651,808 | 23,444 | 761,002 |
| Additions | 567 | 795 | 918 | 2,280 |
| Mobile Network Acquisition (Note 16) | 3,697 | 98,476 | 700 | 102,873 |
| Transferred from construction in progress | 2,285 | 41,808 | 1,303 | 45,396 |
| Disposals | (392) | (4,629) | (367) | (5,388) |
| Reclassification | (1) | 225 | (224) | – |
| Balance at 31 December 2012 | 91,906 | 788,483 | 25,774 | 906,163 |
| Additions | 544 | 1,335 | 906 | 2,785 |
| Transferred from construction in progress | 2,874 | 57,962 | 1,463 | 62,299 |
| Disposals | (630) | (14,855) | (958) | (16,443) |
| Reclassification | 60 | (176) | 116 | – |
| Balance at 31 December 2013 | 94,754 | 832,749 | 27,301 | 954,804 |
| Accumulated depreciation and impairment: | | | | |
| Balance at 1 January 2012 | (32,523) | (445,397) | (16,234) | (494,154) |
| Depreciation charge for the year | (3,729) | (39,097) | (2,212) | (45,038) |
| Written back on disposal | 237 | 4,182 | 348 | 4,767 |
| Reclassification | – | (119) | 119 | – |
| Balance at 31 December 2012 | (36,015) | (480,431) | (17,979) | (534,425) |
| Depreciation charge for the year | (4,692) | (56,556) | (2,141) | (63,389) |
| Written back on disposal | 519 | 13,801 | 912 | 15,232 |
| Reclassification | (21) | 40 | (19) | – |
| Balance at 31 December 2013 | (40,209) | (523,146) | (19,227) | (582,582) |
| Net book value at 31 December 2013 | 54,545 | 309,603 | 8,074 | 372,222 |
| Net book value at 31 December 2012 | 55,891 | 308,052 | 7,795 | 371,738 |

5. Construction in Progress

| | The Group RMB millions | The Company RMB millions |
|---|---------------------------|-----------------------------|
| Balance at 1 January 2012, as previously reported | 18,448 | 18,174 |
| Adjusted for the Seventh Acquisition (Note 1) | 27 | – |
| Balance at 1 January 2012, as restated | 18,475 | 18,174 |
| Additions | 51,862 | 51,395 |
| Mobile Network Acquisition (Note 16) | 9,177 | 9,177 |
| Transferred to property, plant and equipment | (45,699) | (45,396) |
| Transferred to intangible assets | (1,315) | (1,270) |
| Balance at 31 December 2012, as restated | 32,500 | 32,080 |
| Additions | 77,364 | 76,814 |
| Transferred to property, plant and equipment | (62,844) | (62,299) |
| Transferred to intangible assets | (2,863) | (2,789) |
| Balance at 31 December 2013 | 44,157 | 43,806 |

6. Goodwill

| | The Group | | The Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Cost: | | | | |
| Goodwill arising from acquisition of CDMA business | 29,917 | 29,918 | 29,877 | 29,877 |

On 1 October 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the “CDMA business”) from China Unicom. The purchase price of the business combination was RMB43,800 million, which was fully settled as at 31 December 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 million 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 recognised 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.

Notes to the Financial Statements

for the year ended 31 December 2013

6. Goodwill (continued)

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's telecommunications business. The recoverable amount of the Group's telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period and a pre-tax discount rate of 10.6% (2012: 10.2%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

7. Intangible Assets

The Group

| | Computer software RMB millions | Customer relationships RMB millions | Total RMB millions |
|---|--------------------------------------|---|-----------------------|
| Cost: | | | |
| Balance at 1 January 2012 | 9,893 | 11,238 | 21,131 |
| Additions | 269 | – | 269 |
| Mobile Network Acquisition (Note 16) | 3,578 | – | 3,578 |
| Transferred from construction in progress | 1,315 | – | 1,315 |
| Disposals | (67) | – | (67) |
| Balance at 31 December 2012 | 14,988 | 11,238 | 26,226 |
| Additions | 461 | – | 461 |
| Transferred from construction in progress | 2,863 | – | 2,863 |
| Disposals | (221) | (11,238) | (11,459) |
| Balance at 31 December 2013 | 18,091 | – | 18,091 |
| Accumulated amortisation and impairment: | | | |
| Balance at 1 January 2012 | (6,110) | (7,306) | (13,416) |
| Amortisation charge for the year | (1,403) | (2,248) | (3,651) |
| Written back on disposal | 55 | – | 55 |
| Balance at 31 December 2012 | (7,458) | (9,554) | (17,012) |
| Amortisation charge for the year | (2,787) | (1,684) | (4,471) |
| Written back on disposal | 199 | 11,238 | 11,437 |
| Balance at 31 December 2013 | (10,046) | – | (10,046) |
| Net book value at 31 December 2013 | 8,045 | – | 8,045 |
| Net book value at 31 December 2012 | 7,530 | 1,684 | 9,214 |

7. Intangible Assets (continued)

The Company

| | Computer software RMB millions | Customer relationships RMB millions | Total RMB millions |
|---|--------------------------------------|---|-----------------------|
| Cost: | | | |
| Balance at 1 January 2012 | 9,561 | 11,238 | 20,799 |
| Additions | 179 | – | 179 |
| Mobile Network Acquisition (Note 16) | 3,578 | – | 3,578 |
| Transferred from construction in progress | 1,270 | – | 1,270 |
| Disposals | (56) | – | (56) |
| Balance at 31 December 2012 | 14,532 | 11,238 | 25,770 |
| Additions | 327 | – | 327 |
| Transferred from construction in progress | 2,789 | – | 2,789 |
| Disposals | (192) | (11,238) | (11,430) |
| Balance at 31 December 2013 | 17,456 | – | 17,456 |
| Accumulated amortisation and impairment: | | | |
| Balance at 1 January 2012 | (5,959) | (7,306) | (13,265) |
| Amortisation charge for the year | (1,345) | (2,248) | (3,593) |
| Written back on disposal | 50 | – | 50 |
| Balance at 31 December 2012 | (7,254) | (9,554) | (16,808) |
| Amortisation charge for the year | (2,729) | (1,684) | (4,413) |
| Written back on disposal | 189 | 11,238 | 11,427 |
| Balance at 31 December 2013 | (9,794) | – | (9,794) |
| Net book value at 31 December 2013 | 7,662 | – | 7,662 |
| Net book value at 31 December 2012 | 7,278 | 1,684 | 8,962 |

Notes to the Financial Statements

for the year ended 31 December 2013

8. Investments in Subsidiaries

| | The Company | |
|-------------------------------|-----------------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions |
| Unquoted investments, at cost | 6,015 | 6,078 |

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2013 are as follows:

| Name of Company | Type of legal entity | Date of incorporation | Place of incorporation and operation | Registered/ Issued capital (in RMB millions unless otherwise stated) | Principal activity |
|--|----------------------|-----------------------|--|--|---|
| China Telecom System Integration Co., Limited | Limited Company | 13 September 2001 | PRC | 392 | Provision of system integration and consulting services |
| China Telecom Global Limited | Limited Company | 25 February 2000 | Hong Kong Special Administrative Region of the PRC | HK\$58 million | Provision of international value-added network services |
| China Telecom (Americas) Corporation | Limited Company | 22 November 2001 | The United States of America | US\$43 million | Provision of telecommunications services |
| China Telecom Best Tone Information Service Co., Limited | Limited Company | 15 August 2007 | PRC | 350 | Provision of Best Tone information services |
| China Telecom (Macau) Company Limited | Limited Company | 15 October 2004 | Macau Special Administrative Region of the PRC | MOP60 million | Provision of telecommunications services |
| Tianyi Telecom Terminals Company Limited | Limited Company | 1 July 2005 | PRC | 500 | Sales of telecommunications terminals |
| China Telecom (Singapore) Pte. Limited | Limited Company | 5 October 2006 | Singapore | S\$1 | Provision of international value-added network services |

8. Investments in Subsidiaries (continued)

| Name of Company | Type of legal entity | Date of incorporation | Place of incorporation and operation | Registered/ Issued capital (in RMB millions unless otherwise stated) | Principal activity |
|---|-----------------------------|------------------------------|--|---|--|
| E-surfing Pay Co., Ltd | Limited Company | 3 March 2011 | PRC | 300 | Provision of e-commerce services |
| Shenzhen Shekou Telecommunications Company Limited | Limited Company | 5 May 1984 | PRC | 91 | Provision of telecommunications services |
| China Telecom (Australia) Pty Ltd | Limited Company | 10 January 2011 | Australia | AUD1 million | Provision of international value-added network services |
| China Telecom Korea Co.,Ltd | Limited Company | 16 May 2012 | South Korea | KRW500 million | Provision of international value-added network services |
| China Telecom (Malaysia) SDN BHD | Limited Company | 26 June 2012 | Malaysia | RM500,000 | Provision of international value-added network services |
| China Telecom Information Technology (Vietnam) Co., Ltd | Limited Company | 9 July 2012 | Vietnam | VND6,300 million | Provision of international value-added network services |
| iMUSIC Culture & Technology Co., Ltd. | Limited Company | 9 June 2013 | PRC | 250 | Provision of music production and related information services |
| China Telecom (Europe) Limited | Limited Company | 2 March 2006 | The United Kingdom of Great Britain and Northern Ireland | GBP16.15 million | Provision of international value-added network services |
| Zhejiang Yixin Technology Co., Ltd. | Limited Company | 19 August 2013 | PRC | 10 | Provision of instant messenger service |

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for the year ended 31 December 2013

8. Investments in Subsidiaries (continued)

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company and Zhejiang Yixin Technology Co., Ltd. which is 73% owned by the Company, all of the above subsidiaries are directly or indirectly wholly-owned by the Company. No subsidiaries of the Group have material non-controlling interest.

9. Interests in Associates

| | The Group | | The Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Unlisted equity investments, at cost | 229 | 232 | 564 | 564 |
| Share of post-acquisition changes in net assets | 877 | 784 | – | – |
| | 1,106 | 1,016 | 564 | 564 |

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

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

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

9. Interests in Associates (continued)

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

| | Shanghai Information Investment Incorporation | |
|--|--|----------------------|
| | 2013 RMB millions | 2012 RMB millions |
| Current assets | 5,721 | 5,495 |
| Non-current assets | 7,683 | 7,031 |
| Current liabilities | 4,795 | 4,865 |
| Non-current liabilities | 3,265 | 2,929 |
| Operating revenues | 3,772 | 3,424 |
| Profit for the year | 267 | 244 |
| Other comprehensive income for the year | (1) | 3 |
| Total comprehensive income for the year | 266 | 247 |
| Dividend received from the associate | 8 | 7 |
| Reconciled to the Group's interests in the associate | | |
| Net assets of the associate | 5,344 | 4,732 |
| Non-controlling interests of the associate | (1,733) | (1,378) |
| Group's effective interest in the associate | 24% | 24% |
| Group's share of net assets of the associate | 867 | 805 |
| Carrying amount of the associate in the consolidated financial statements of the Group | 867 | 805 |

10. Investments

| | The Group | | The Company | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Available-for-sale equity securities | 999 | 585 | 998 | 585 |
| Other unlisted equity investments | 27 | 31 | 27 | 27 |
| | 1,026 | 616 | 1,025 | 612 |

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

Notes to the Financial Statements

for the year ended 31 December 2013

11. Deferred Tax Assets and Liabilities

The components of deferred tax assets and deferred tax liabilities recognised in the consolidated statement of financial position and statement of financial position and the movements are as follows:

The Group

| | Assets | | Liabilities | | Net Balance | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Provisions and impairment losses, primarily for doubtful debts | 1,071 | 1,028 | – | – | 1,071 | 1,028 |
| Property, plant and equipment | 1,431 | 1,279 | (184) | (266) | 1,247 | 1,013 |
| Deferred revenues and installation costs | 425 | 615 | (270) | (378) | 155 | 237 |
| Available-for-sale equity securities | – | – | (177) | (73) | (177) | (73) |
| Deferred tax assets/(liabilities) | 2,927 | 2,922 | (631) | (717) | 2,296 | 2,205 |

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

| | Balance at 1 January 2013 RMB millions | Recognised in statement of comprehensive income RMB millions | Disposal of a subsidiary RMB millions | Balance at 31 December 2013 RMB millions |
|---|---|--|---|---|
| Provisions and impairment losses, primarily for doubtful debts | 1,028 | 43 | – | 1,071 |
| Property, plant and equipment | 1,013 | 238 | (4) | 1,247 |
| Deferred revenues and installation costs | 237 | (82) | – | 155 |
| Available-for-sale equity securities | (73) | (104) | – | (177) |
| Net deferred tax assets | 2,205 | 95 | (4) | 2,296 |

11. Deferred Tax Assets and Liabilities (continued)**The Company**

| | Assets | | Liabilities | | Net Balance | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Provisions and impairment losses, primarily for doubtful debts | 990 | 982 | – | – | 990 | 982 |
| Property, plant and equipment | 1,232 | 1,101 | (149) | (249) | 1,083 | 852 |
| Deferred revenues and installation costs | 425 | 615 | (271) | (378) | 154 | 237 |
| Available-for-sale equity securities | – | 18 | (85) | – | (85) | 18 |
| Deferred tax assets/(liabilities) | 2,647 | 2,716 | (505) | (627) | 2,142 | 2,089 |

| | Balance at 1 January 2012 RMB millions | Addition in the Sixth Acquisition RMB millions | Recognised in statement of comprehensive income RMB millions | Balance at 31 December 2012 RMB millions |
|---|---|---|--|---|
| Provisions and impairment losses, primarily for doubtful debts | 965 | 2 | 15 | 982 |
| Property, plant and equipment | 665 | – | 187 | 852 |
| Deferred revenues and installation costs | 352 | – | (115) | 237 |
| Available-for-sale equity securities | (39) | – | 57 | 18 |
| Net deferred tax assets | 1,943 | 2 | 144 | 2,089 |

| | Balance at 1 January 2013 RMB millions | Recognised in statement of comprehensive income RMB millions | Balance at 31 December 2013 RMB millions |
|--|---|--|---|
| Provisions and impairment losses, primarily for doubtful debts | 982 | 8 | 990 |
| Property, plant and equipment | 852 | 231 | 1,083 |
| Deferred revenues and installation costs | 237 | (83) | 154 |
| Available-for-sale equity securities | 18 | (103) | (85) |
| Net deferred tax assets | 2,089 | 53 | 2,142 |

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for the year ended 31 December 2013

12. Inventories

Inventories represent:

| | The Group | | The Company | |
|------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Materials and supplies | 905 | 985 | 893 | 968 |
| Goods for resale | 5,618 | 4,943 | 2,310 | 2,215 |
| | 6,523 | 5,928 | 3,203 | 3,183 |

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

| | Note | The Group | | The Company | |
|--|------|----------------------|------------------------------------|----------------------|----------------------|
| | | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Accounts receivable | | | | | |
| Third parties | | 21,293 | 19,650 | 19,454 | 18,130 |
| China Telecom Group | (i) | 391 | 627 | 181 | 289 |
| Other telecommunications operators in the PRC | | 536 | 529 | 527 | 526 |
| Subsidiaries | | – | – | 1,306 | 805 |
| | | 22,220 | 20,806 | 21,468 | 19,750 |
| Less: Allowance for doubtful debts | | (2,198) | (2,024) | (2,142) | (1,961) |
| | | 20,022 | 18,782 | 19,326 | 17,789 |

Note:

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

13. Accounts Receivable, Net (continued)

The following table summarises the changes in allowance for doubtful debts:

| | The Group | | The Company | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| At beginning of year | 2,024 | 1,942 | 1,961 | 1,873 |
| Impairment losses for doubtful debts | 1,740 | 1,624 | 1,721 | 1,605 |
| Accounts receivable written off | (1,566) | (1,542) | (1,540) | (1,517) |
| At end of year | 2,198 | 2,024 | 2,142 | 1,961 |

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

| | The Group | | The Company | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Current, within 1 month | 11,887 | 11,402 | 11,725 | 11,279 |
| 1 to 3 months | 2,438 | 2,319 | 2,390 | 2,288 |
| 4 to 12 months | 1,784 | 1,613 | 1,769 | 1,598 |
| More than 12 months | 488 | 387 | 487 | 386 |
| | 16,597 | 15,721 | 16,371 | 15,551 |
| Less: Allowance for doubtful debts | (2,122) | (1,932) | (2,105) | (1,917) |
| | 14,475 | 13,789 | 14,266 | 13,634 |

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

| | The Group | | The Company | |
|------------------------------------|----------------------|------------------------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Current, within 1 month | 2,436 | 1,953 | 2,448 | 1,817 |
| 1 to 3 months | 1,169 | 1,575 | 1,010 | 1,186 |
| 4 to 12 months | 1,302 | 984 | 1,054 | 780 |
| More than 12 months | 716 | 573 | 585 | 416 |
| | 5,623 | 5,085 | 5,097 | 4,199 |
| Less: Allowance for doubtful debts | (76) | (92) | (37) | (44) |
| | 5,547 | 4,993 | 5,060 | 4,155 |

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for the year ended 31 December 2013

13. Accounts Receivable, Net (continued)

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

| | The Group | | The Company | |
|----------------------------|----------------------|------------------------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Not past due | 17,839 | 16,854 | 17,190 | 15,893 |
| Less than 1 month past due | 1,206 | 1,261 | 1,184 | 1,245 |
| 1 to 3 months past due | 977 | 667 | 952 | 651 |
| Amounts past due | 2,183 | 1,928 | 2,136 | 1,896 |
| | 20,022 | 18,782 | 19,326 | 17,789 |

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

14. Prepayments and Other Current Assets

Prepayments and other current assets represent:

| | The Group | | The Company | |
|--|----------------------|------------------------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Amounts due from China Telecom Group | 1,037 | 779 | 828 | 764 |
| Amounts due from subsidiaries | – | – | 746 | 480 |
| Amounts due from other telecommunications operators in the PRC | 472 | 407 | 472 | 407 |
| Prepayments in connection with construction work and equipment purchases | 1,213 | 1,086 | 476 | 568 |
| Prepaid expenses and deposits | 2,418 | 2,149 | 2,009 | 1,802 |
| Other receivables | 2,429 | 1,910 | 1,420 | 1,114 |
| | 7,569 | 6,331 | 5,951 | 5,135 |

15. Cash and Cash Equivalents

| | The Group | | The Company | |
|--|-----------------------------|------------------------------------|-----------------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Cash at bank and in hand | 14,639 | 22,492 | 8,105 | 17,614 |
| Time deposits with original maturity within three months | 1,431 | 7,607 | 106 | 3,248 |
| | 16,070 | 30,099 | 8,211 | 20,862 |

16. Short-term and Long-term Debt and Payable

Short-term debt comprises:

| | The Group | | The Company | |
|--|-----------------------------|----------------------|-----------------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Loans from banks – unsecured | 5,443 | 5,521 | 5,416 | 5,474 |
| Other loans – unsecured | 182 | 182 | 182 | 182 |
| Loans from China Telecom Group – unsecured | 22,062 | 820 | 21,980 | 820 |
| Total short-term debt | 27,687 | 6,523 | 27,578 | 6,476 |

The weighted average interest rate of the Group's and the Company's total short-term debt as at 31 December 2013 was 4.7% (2012: 5.5%) and 4.7% (2012: 5.5%) respectively. As at 31 December 2013, the loans from banks and other loans bear interest at rates ranging from 4.5% to 6.0% (2012: 4.5% to 6.7%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at rate of 4.5% (2012: 4.5% to 4.7%) per annum and are repayable within one year.

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16. Short-term and Long-term Debt and Payable (continued)

Long-term debt and payable comprises:

| | Interest rates and final maturity | The Group | | The Company | |
|---|---|----------------------|----------------------|----------------------|----------------------|
| | | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Bank loans – unsecured | | | | | |
| Renminbi denominated | Interest rates ranging from 3.60% to 7.04% per annum with maturities through 2020 | 10 | 160 | 10 | 160 |
| US Dollars denominated | Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060 | 534 | 598 | 534 | 598 |
| Euro denominated | Interest rate of 2.30% per annum with maturities through 2032 | 428 | 456 | 428 | 456 |
| Other currencies denominated | | 20 | 26 | 20 | 26 |
| | | 992 | 1,240 | 992 | 1,240 |
| Other loans – unsecured | | | | | |
| Renminbi denominated | | 1 | 1 | 1 | 1 |
| Medium-term notes – unsecured (Note (i)) | | 19,986 | 29,951 | 19,986 | 29,951 |
| Amount due to China Telecommunications Corporation – unsecured | | | | | |
| Deferred consideration of Mobile Network Acquisition – Renminbi denominated (Note (ii)) | | 61,710 | 61,710 | 61,710 | 61,710 |
| Others | | – | 380 | – | – |
| Total long-term debt and payable | | 82,689 | 93,282 | 82,689 | 92,902 |
| Less: Current portion | | (20,072) | (10,212) | (20,072) | (10,212) |
| Non-current portion | | 62,617 | 83,070 | 62,617 | 82,690 |

16. Short-term and Long-term Debt and Payable (continued)

Note:

- (i) On 23 October 2008, the Company issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum. This medium-term note was repaid by the Company on 24 October 2013.

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

All of the above medium-term notes are unsecured.

- (ii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces, municipalities and autonomous regions in the PRC (hereinafter, referred to as the "Mobile Network Acquisition"). The Company may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition. The Company pays interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate is set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rates for 2013 and 2014 are 4.83% and 6.25%, respectively.

If the amount is not paid when due, the Company is required to pay the liquidated damages on such amount at a daily rate of 0.03% of the amount in arrears from the day following the applicable due date to the date that such amount has actually been paid in full.

The aggregate maturities of the Group's and the Company's long-term debt and payable subsequent to 31 December 2013 are as follows:

| | The Group | | The Company | |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Within 1 year | 20,072 | 10,212 | 20,072 | 10,212 |
| Between 1 to 2 years | 85 | 20,059 | 85 | 20,059 |
| Between 2 to 3 years | 86 | 86 | 86 | 86 |
| Between 3 to 4 years | 61,796 | 86 | 61,796 | 86 |
| Between 4 to 5 years | 74 | 62,177 | 74 | 61,797 |
| Thereafter | 576 | 662 | 576 | 662 |
| | 82,689 | 93,282 | 82,689 | 92,902 |

The Group's short-term and long-term debt and payable do not contain any financial covenants. As at 31 December 2013, the Group and the Company have unutilised committed credit facilities amounting to RMB157,694 million (2012: RMB163,130 million) and RMB157,694 million (2012: RMB163,127 million) respectively.

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for the year ended 31 December 2013

17. Accounts Payable

Accounts payable are analysed as follows:

| | The Group | | The Company | |
|--|----------------------|------------------------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Third parties | 66,115 | 56,353 | 60,213 | 49,065 |
| China Telecom Group | 13,905 | 11,557 | 13,276 | 10,968 |
| Other telecommunications operators in the PRC | 1,112 | 1,038 | 1,110 | 1,038 |
| Subsidiaries | – | – | 3,600 | 2,972 |
| | 81,132 | 68,948 | 78,199 | 64,043 |

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

Ageing analysis of accounts payable is as follows:

| | The Group | | The Company | |
|--|----------------------|------------------------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Due within 1 month or on demand | 19,349 | 18,467 | 15,370 | 13,588 |
| Due after 1 month but within 3 months | 16,178 | 17,793 | 15,968 | 17,770 |
| Due after 3 months but within 6 months | 15,396 | 15,885 | 15,161 | 15,931 |
| Due after 6 months | 30,209 | 16,803 | 31,700 | 16,754 |
| | 81,132 | 68,948 | 78,199 | 64,043 |

18. Accrued Expenses and Other Payables

Accrued expenses and other payables represent:

| | Note | The Group | | The Company | |
|--|------|----------------------|------------------------------------|----------------------|----------------------|
| | | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Amounts due to China Telecom Group | (i) | 1,690 | 40,745 | 849 | 40,420 |
| Amounts due to subsidiaries | | – | – | 459 | 468 |
| Amounts due to other telecommunications operators in the PRC | | 59 | 59 | 59 | 57 |
| Accrued expenses | | 14,774 | 14,431 | 13,291 | 13,154 |
| Customer deposits and receipts in advance | | 53,063 | 50,515 | 50,815 | 48,558 |
| Dividend payable | | 47 | 31 | – | – |
| | | 69,633 | 105,781 | 65,473 | 102,657 |

Note:

- (i) The amount as at 31 December 2013 includes the final consideration of the Seventh Acquisition amounting to RMB278 million, among which the initial consideration amounting to RMB261 million was paid in January 2014.

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

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19. Deferred Revenues

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

| | The Group | | The Company | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Balance at beginning of year | 3,445 | 4,805 | 3,442 | 4,803 |
| Additions for the year | | | | |
| – calling cards | 484 | 773 | 484 | 769 |
| | 484 | 773 | 484 | 769 |
| Reductions for the year | | | | |
| – amortisation of installation fees | (860) | (1,233) | (860) | (1,233) |
| – usage of calling cards | (638) | (900) | (636) | (897) |
| Balance at end of year | 2,431 | 3,445 | 2,430 | 3,442 |
| Representing: | | | | |
| – current portion | 1,202 | 1,654 | 1,201 | 1,651 |
| – non-current portion | 1,229 | 1,791 | 1,229 | 1,791 |
| | 2,431 | 3,445 | 2,430 | 3,442 |

Included in other assets are primarily capitalised direct costs associated with the installation of wireline services. As at 31 December 2013, the unamortised portion of these costs was RMB1,172 million (2012: RMB1,687 million).

20. Share Capital

| | The Group and the Company | |
|---|---------------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions |
| Registered, issued and fully paid | | |
| 67,054,958,321 ordinary domestic shares of RMB1.00 each | 67,055 | 67,055 |
| 13,877,410,000 overseas listed H shares of RMB1.00 each | 13,877 | 13,877 |
| | 80,932 | 80,932 |

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

21. Reserves

The Group

| | Capital reserve RMB millions (Note (i)) | Share premium RMB millions | Statutory reserves RMB millions (Note (iii)) | Other reserves RMB millions (Note (ii)) | Exchange reserve RMB millions | Retained earnings RMB millions | Total RMB millions |
|--|---|-------------------------------------|--|---|--|---|--------------------------|
| Balance as at 1 January 2012, as previously reported | 16,767 | 10,746 | 64,316 | 283 | (818) | 83,896 | 175,190 |
| Adjusted for the Seventh Acquisition (Note 1) | 233 | - | - | - | (45) | (143) | 45 |
| Balance as at 1 January 2012, as restated | 17,000 | 10,746 | 64,316 | 283 | (863) | 83,753 | 175,235 |
| Acquisition of the Sixth Acquired Business (Note 1) | (48) | - | - | - | - | - | (48) |
| Contribution from non-controlling interests | 249 | - | - | - | - | - | 249 |
| Others | (380) | - | - | - | - | - | (380) |
| Dividends (Note 32) | - | - | - | - | - | (5,625) | (5,625) |
| Appropriations (Note (iii)) | - | - | 1,413 | - | - | (1,413) | - |
| Total comprehensive income for the year, as restated | - | - | - | (171) | (2) | 14,949 | 14,776 |
| Balance as at 31 December 2012, as restated | 16,821 | 10,746 | 65,729 | 112 | (865) | 91,664 | 184,207 |
| Acquisition of the Seventh Acquired Company (Note 1) | (278) | - | - | - | - | - | (278) |
| Disposal of a subsidiary | 380 | - | - | - | - | 11 | 391 |
| Contribution from non-controlling interests | 141 | - | - | - | - | - | 141 |
| Dividends (Note 32) | - | - | - | - | - | (5,433) | (5,433) |
| Appropriations (Note (iii)) | - | - | 1,663 | - | - | (1,663) | - |
| Total comprehensive income for the year | - | - | - | 315 | (79) | 17,545 | 17,781 |
| Balance as at 31 December 2013 | 17,064 | 10,746 | 67,392 | 427 | (944) | 102,124 | 196,809 |

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for the year ended 31 December 2013

21. Reserves (continued)

The Company

| | Capital reserve RMB millions (Note (i)) | Share premium RMB millions | Statutory reserves RMB millions (Note (iii)) | Retained earnings RMB millions | Total RMB millions |
|---|--|----------------------------------|---|--------------------------------------|-----------------------|
| Balance as at 1 January 2012 | 29,168 | 10,746 | 64,316 | 67,623 | 171,853 |
| Total comprehensive income for the year | - | - | - | 13,909 | 13,909 |
| Acquisition of the Sixth Acquired Business (Note 1) | (20) | - | - | - | (20) |
| Appropriations (Note (iii)) | - | - | 1,413 | (1,413) | - |
| Dividends (Note 32) | - | - | - | (5,625) | (5,625) |
| Balance as at 31 December 2012 | 29,148 | 10,746 | 65,729 | 74,494 | 180,117 |
| Total comprehensive income for the year | - | - | - | 16,943 | 16,943 |
| Appropriations (Note (iii)) | - | - | 1,663 | (1,663) | - |
| Dividends (Note 32) | - | - | - | (5,433) | (5,433) |
| Balance as at 31 December 2013 | 29,148 | 10,746 | 67,392 | 84,341 | 191,627 |

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 Group 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 Group and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.

Capital reserve of the Company represents the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation.

- (ii) Other reserves of the Group represent primarily the change in the fair value of available-for-sale equity securities and the deferred tax liabilities recognised 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 31 December 2013, the Company transferred RMB1,663 million, being 10% of the year's net profit determined in accordance with IFRS, to this reserve. For the year ended 31 December 2012, the Company transferred RMB1,413 million, being 10% of the year's net profit determined in accordance with the IFRS.

The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2013 and 2012.

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 utilised 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.

21. 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 of the Company determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As at 31 December 2013, the amount of retained earnings available for distribution was RMB84,341 million (2012: RMB74,494 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB6,098 million in respect of the financial year 2013 proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period (Note 32).

22. Operating Revenues

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

| | Note | The Group | |
|--|-------|----------------------|------------------------------------|
| | | 2013 RMB millions | 2012 RMB millions (restated) |
| Wireline voice | (i) | 38,633 | 43,369 |
| Mobile voice | (ii) | 58,217 | 49,166 |
| Internet | (iii) | 99,394 | 87,662 |
| Value-added services | (iv) | 36,230 | 31,137 |
| Integrated information application services | (v) | 25,233 | 23,181 |
| Telecommunications network resource services and lease of network equipment | (vi) | 17,586 | 15,737 |
| Others | (vii) | 46,291 | 32,924 |
| | | 321,584 | 283,176 |

Note:

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

Notes to the Financial Statements

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23. Network Operations and Support Expenses

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

| | The Group | |
|------------------------------------|----------------------|------------------------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) |
| Operating and maintenance | 29,963 | 24,840 |
| Utility | 11,404 | 7,823 |
| Property rental and management fee | 7,284 | 5,141 |
| CDMA network capacity lease fee | – | 25,546 |
| Others | 4,451 | 2,629 |
| | 53,102 | 65,979 |

24. Personnel Expenses

Personnel expenses are attributable to the following functions:

| | The Group | |
|-------------------------------------|----------------------|------------------------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) |
| Network operations and support | 30,551 | 28,392 |
| Selling, general and administrative | 16,172 | 14,465 |
| | 46,723 | 42,857 |

25. Other Operating Expenses

Other operating expenses consist of:

| | Note | The Group | |
|-------------------------|------|----------------------|------------------------------------|
| | | 2013 RMB millions | 2012 RMB millions (restated) |
| Interconnection charges | (i) | 15,916 | 14,129 |
| Cost of goods sold | (ii) | 38,764 | 26,162 |
| Donations | | 11 | 12 |
| Others | | 69 | 64 |
| | | 54,760 | 40,367 |

25. Other Operating Expenses (continued)

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.

26. Total Operating Expenses

Total operating expenses for the year ended 31 December 2013 were RMB294,116 million (2012: RMB261,968 million) which include auditor's remuneration in relation to audit and non-audit services are RMB60 million and RMB1 million respectively (2012: RMB90 million and RMB6 million).

27. Net Finance Costs

Net finance costs comprise:

| | The Group | |
|--|-----------------------------|------------------------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) |
| Interest expense incurred | 5,840 | 2,479 |
| Less: Interest expense capitalised* | (329) | (325) |
| Net interest expense | 5,511 | 2,154 |
| Interest income | (361) | (591) |
| Foreign exchange losses | 61 | 47 |
| Foreign exchange gains | (58) | (48) |
| | 5,153 | 1,562 |
| *Interest expense was capitalised in construction in progress at the following rates per annum | 4.5%–5.8% | 1.3%–6.2% |

28. Income Tax

Income tax in the profit or loss comprises:

| | The Group | |
|---|-----------------------------|------------------------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) |
| Provision for PRC income tax | 5,590 | 4,900 |
| Provision for income tax in other tax jurisdictions | 31 | 50 |
| Deferred taxation | (199) | (197) |
| | 5,422 | 4,753 |

Notes to the Financial Statements

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28. Income Tax (continued)

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

| | Note | The Group | |
|---|-------|----------------------|------------------------------------|
| | | 2013 RMB millions | 2012 RMB millions (restated) |
| Profit before taxation | | 23,088 | 19,817 |
| Expected income tax expense at statutory tax rate of 25% | (i) | 5,772 | 4,954 |
| Differential tax rate on PRC subsidiaries' and branches' income | (i) | (216) | (269) |
| Differential tax rate on other subsidiaries' income | (ii) | (31) | (23) |
| Non-deductible expenses | (iii) | 428 | 539 |
| Non-taxable income | (iv) | (120) | (162) |
| Effect of change in tax rate | (v) | 4 | 155 |
| Others | (vi) | (415) | (441) |
| Actual income tax expense | | 5,422 | 4,753 |

Note:

- (i) Except for certain subsidiaries and branches which are taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 35%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts represent miscellaneous income which are not subject to income tax.
- (v) Certain branches with operations in the western region of the PRC gradually obtained approvals from tax authorities to adopt the preferential income tax rate of 15%. Accordingly, deferred tax assets that were recovered and deferred tax liabilities were settled after obtaining the approvals from tax authorities were adjusted to reflect the change in tax rate. The overall effect of change in tax rate was charged to the consolidated statement of comprehensive income.
- (vi) Amounts primarily represent tax deduction on prior year research and development expenses and losses on disposal of property, plant and equipment approved by tax authorities during the year.

29. Directors' and Supervisors' Remuneration

The following table sets out the remuneration paid or payable to the Company's Directors and Supervisors:

| 2013 | Directors'/ supervisors' fees RMB thousands | Salaries, allowances and benefits in kind RMB Thousands | Discretionary ¹ bonuses RMB thousands | Retirement scheme contributions RMB thousands | Share-based payments RMB thousands | Total RMB Thousands |
|--|---|--|--|--|--|------------------------|
| <i>Executive directors</i> | | | | | | |
| Wang Xiaochu | - | 350 | 1,148 | 67 | - | 1,565 |
| Yang Jie | - | 343 | 1,105 | 66 | - | 1,514 |
| Wu Andi | - | 298 | 1,031 | 64 | - | 1,393 |
| Zhang Jiping | - | 305 | 1,031 | 64 | - | 1,400 |
| Yang Xiaowei | - | 298 | 1,020 | 63 | - | 1,381 |
| Sun Kangmin | - | 306 | 1,019 | 64 | - | 1,389 |
| Ke Ruiwen | - | 298 | 550 | 68 | - | 916 |
| <i>Non-executive director</i> | | | | | | |
| Chen Liangxian ² | - | - | - | - | - | - |
| Xie Liang ² | - | - | - | - | - | - |
| <i>Independent non-executive directors</i> | | | | | | |
| Wu Jichuan | 167 | - | - | - | - | 167 |
| Qin Xiao | 200 | - | - | - | - | 200 |
| Tse Hau Yin | 399 | - | - | - | - | 399 |
| Cha May Lung | 200 | - | - | - | - | 200 |
| Xu Erming | 200 | - | - | - | - | 200 |
| <i>Supervisors</i> | | | | | | |
| Shao Chunbao | - | 297 | 393 | 63 | - | 753 |
| Tang Qi ³ | - | 66 | 75 | 21 | - | 162 |
| Mao Shejun ³ | - | 133 | 380 | 42 | - | 555 |
| Zhang Jianbin | - | 157 | 397 | 59 | - | 613 |
| Hu Jing | - | 96 | 308 | 52 | - | 456 |
| Du Zuguo | - | - | - | - | - | - |
| <i>Independent supervisor</i> | | | | | | |
| Zhu Lihao | 100 | - | - | - | - | 100 |
| | 1,266 | 2,947 | 8,457 | 693 | - | 13,363 |

1 Including deferred performance bonus for the term of office from 2010 to 2012.

2 Mr. Chen Liangxian resigned as a Non-executive Director of the Company on 20 March 2013. Mr. Xie Liang was appointed as a Non-executive Director of the Company on 29 May 2013.

3 Mr. Mao Shejun retired as a Supervisor of the Company on 19 August 2013. Mr. Tang Qi was appointed as a Supervisor of the Company on 19 August 2013.

4 The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year.

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29. Directors' and Supervisors' Remuneration (continued)

| 2012 | Directors'/ supervisors' fees RMB thousands | Salaries, allowances and benefits in kind RMB Thousands | Discretionary bonuses RMB thousands | Retirement scheme contributions RMB thousands | Share-based payments RMB thousands | Total RMB Thousands |
|--|---|--|---|--|--|------------------------|
| <i>Executive directors</i> | | | | | | |
| Wang Xiaochu | - | 337 | 377 | 62 | - | 776 |
| Yang Jie | - | 337 | 386 | 59 | - | 782 |
| Wu Andi | - | 293 | 344 | 59 | - | 696 |
| Zhang Jiping | - | 293 | 344 | 59 | - | 696 |
| Zhang Chenshuang ¹ | - | 122 | 337 | 24 | - | 483 |
| Yang Xiaowei | - | 293 | 340 | 59 | - | 692 |
| Sun Kangmin | - | 293 | 340 | 59 | - | 692 |
| Ke Ruiwen ² | - | 171 | 171 | 36 | - | 378 |
| <i>Non-executive director</i> | | | | | | |
| Li Jinming ³ | - | - | - | - | - | - |
| Chen Liangxian ⁴ | - | - | - | - | - | - |
| <i>Independent non-executive directors</i> | | | | | | |
| Wu Jichuan | 200 | - | - | - | - | 200 |
| Qin Xiao | 203 | - | - | - | - | 203 |
| Tse Hau Yin | 405 | - | - | - | - | 405 |
| Cha May Lung | 203 | - | - | - | - | 203 |
| Xu Erming | 200 | - | - | - | - | 200 |
| <i>Supervisors</i> | | | | | | |
| Shao Chunbao ⁶ | - | 49 | 49 | 10 | - | 108 |
| Miao Jianhua ⁵ | - | 245 | 289 | 48 | - | 582 |
| Mao Shejun | - | 173 | 450 | 59 | - | 682 |
| Zhang Jianbin ⁶ | - | 45 | 62 | 19 | - | 126 |
| Xu Cailiao ⁵ | - | 83 | 303 | 42 | - | 428 |
| Han Fang ⁵ | - | 225 | 316 | 42 | - | 583 |
| Hu Jing ⁶ | - | 10 | 22 | 8 | - | 40 |
| Du Zuguo | - | - | - | - | - | - |
| <i>Independent supervisor</i> | | | | | | |
| Zhu Lihao | 100 | - | - | - | - | 100 |
| | 1,311 | 2,969 | 4,130 | 645 | - | 9,055 |

¹ Mr. Zhang Chenshuang retired as an Executive Director of the Company on 20 March 2012.

² Mr. Ke Ruiwen was appointed as an Executive Director of the Company on 30 May 2012.

³ Mr. Li Jinming retired as a Non-executive Director of the Company on 22 August 2012.

⁴ Mr. Chen Liangxian was appointed as a Non-executive Director of the Company on 16 October 2012, and resigned as a Non-executive Director of the Company on 20 March 2013.

⁵ Mr. Miao Jianhua retired as a Supervisor of the Company on 22 August 2012. Mr. Xu Cailiao and Madam Han Fang resigned as Supervisors of the Company on 22 August 2012.

⁶ Mr. Shao Chunbao, Mr. Zhang Jianbin and Mr. Hu Jing were appointed as Supervisors of the Company on 16 October 2012.

⁷ The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year.

30. Individuals With Highest Emoluments and Senior Management Remuneration

(a) Five highest paid individuals

Of the five highest paid individuals of the Group for the year ended 31 December 2013, one of them was director of the Company and whose remuneration was disclosed in Note 29. None of the five highest paid individuals of the Group for the year ended 31 December 2012 were directors of the Company.

The aggregate of the emoluments in respect of the four (2012: five) individuals (non-directors) are as follows:

| | 2013 RMB thousands | 2012 RMB thousands |
|---|--------------------------|--------------------------|
| Salaries, allowances and benefits in kind | 4,176 | 5,713 |
| Discretionary bonuses | 3,639 | 2,588 |
| Retirement scheme contributions | 113 | 118 |
| | 7,928 | 8,419 |

The emoluments of the four (2012: five) individuals (non-directors) with the highest emoluments are within the following bands:

| | 2013 Number of individuals | 2012 Number of individuals |
|---------------------------|----------------------------------|----------------------------------|
| RMB0–RMB1,000,000 | 0 | 0 |
| RMB1,000,001–RMB1,500,000 | 0 | 2 |
| RMB1,500,001–RMB2,000,000 | 2 | 2 |
| RMB2,000,001–RMB2,500,000 | 2 | 1 |

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the periods presented.

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30. Individuals With Highest Emoluments and Senior Management Remuneration (continued)

(b) Senior management remuneration

The emoluments of the Group's senior management are within the following bands:

| | 2013 Number of individuals | 2012 Number of individuals |
|---------------------------|----------------------------------|----------------------------------|
| RMB0–RMB1,000,000 | 17 | 26 |
| RMB1,000,001–RMB1,500,000 | 5 | 0 |
| RMB1,500,001–RMB2,000,000 | 2 | 0 |
| RMB2,000,001–RMB2,500,000 | 1 | 1 |

31. Profit Attributable to Equity Holders of the Company

For the year ended 31 December 2013, the consolidated profit attributable to equity holders of the Company includes a profit of RMB16,633 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2012, the consolidated profit attributable to equity holders of the Company includes a profit of RMB14,134 million which has been dealt with in the stand-alone financial statements of the Company.

32. Dividends

Pursuant to a resolution passed at the Directors' meeting on 19 March 2014, a final dividend of equivalent to HK\$0.095 per share totaling approximately RMB6,098 million for the year ended 31 December 2013 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 31 December 2013.

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2013, a final dividend of RMB0.067135 (equivalent to HK\$0.085) per share totaling RMB5,433 million in respect of the year ended 31 December 2012 was declared and paid on 19 July 2013.

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

33. Basic Earnings Per Share

The calculation of basic earnings per share for the years ended 31 December 2013 and 2012 is based on the profit attributable to equity holders of the Company of RMB17,545 million and RMB14,949 million 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.

34. Commitments and Contingencies

Operating lease commitments

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

As at 31 December 2013 and 2012, the Group's and the Company's future minimum lease payments under non-cancellable operating leases are as follows:

| | The Group | | The Company | |
|------------------------------|----------------------|------------------------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions (restated) | 2013 RMB millions | 2012 RMB millions |
| Within 1 year | 2,236 | 2,133 | 1,964 | 1,995 |
| Between 1 to 2 years | 1,516 | 1,202 | 1,319 | 1,118 |
| Between 2 to 3 years | 1,087 | 881 | 988 | 819 |
| Between 3 to 4 years | 779 | 688 | 718 | 636 |
| Between 4 to 5 years | 611 | 553 | 581 | 505 |
| Thereafter | 1,344 | 1,489 | 1,294 | 1,372 |
| Total minimum lease payments | 7,573 | 6,946 | 6,864 | 6,445 |

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2013 was RMB6,057 million (2012: RMB29,434 million).

Notes to the Financial Statements

for the year ended 31 December 2013

34. Commitments and Contingencies (continued)

Capital commitments

As at 31 December 2013 and 2012, the Group and the Company had capital commitments as follows:

| | The Group | | The Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2013 RMB millions | 2012 RMB millions | 2013 RMB millions | 2012 RMB millions |
| Authorised and contracted for | | | | |
| – property | 931 | 462 | 915 | 462 |
| – telecommunications network plant and equipment | 6,807 | 6,641 | 6,747 | 6,606 |
| | 7,738 | 7,103 | 7,662 | 7,068 |
| Authorised but not contracted for | | | | |
| – property | 778 | 764 | 778 | 764 |
| – telecommunications network plant and equipment | 6,460 | 8,401 | 6,444 | 8,377 |
| | 7,238 | 9,165 | 7,222 | 9,141 |

Contingent liabilities

- (a) The Company and the Group were advised by their PRC lawyers that, no material contingent liabilities were assumed by the Company or the Group.
- (b) As at 31 December 2013 and 2012, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

As at 31 December 2013 and 2012, the Company did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to subsidiaries.

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 unfavourable 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.

35. Financial Instruments

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

(a) Fair Value Measurements

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

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

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

The Group and the Company's available-for-sale equity investment securities are categorised as level 1 financial instruments. As at 31 December 2013, the fair value of the Group and the Company's available-for-sale equity investment securities are RMB999 million (2012: RMB585 million) and RMB998 million (2012: RMB585 million), respectively, based on quoted market price on a PRC stock exchange. The Group and the Company'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.

Notes to the Financial Statements

for the year ended 31 December 2013

35. Financial Instruments (continued)

(a) Fair Value Measurements (continued)

The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group and the Company for debt with substantially the same characteristics and maturities. The fair value measurement of long-term indebtedness is categorized as level 2. The interest rates used by the Group and the Company in estimating the fair values of long-term debt and payable, having considered the foreign currency denomination of the debt, ranged from 1.0% to 6.8% (2012: 1.0% to 6.8%). As at 31 December 2013 and 2012, the carrying amounts and fair values of the Group and the Company's long-term debt and payable were as follows:

The Group

| | 2013 | | 2012 | |
|----------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Carrying amount RMB millions | Fair value RMB millions | Carrying amount RMB millions | Fair value RMB millions |
| Long-term debt and payable | 82,689 | 82,002 | 93,282 | 92,931 |

The Company

| | 2013 | | 2012 | |
|----------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Carrying amount RMB millions | Fair value RMB millions | Carrying amount RMB millions | Fair value RMB millions |
| Long-term debt and payable | 82,689 | 82,002 | 92,902 | 92,551 |

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

35. Financial Instruments (continued)

(b) Risks

The Group and the Company'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 and the Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group and the Company'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 authorises changes if necessary based on operating and market conditions and other relevant risks. The following summarises 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 and the Company, 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 and the Company primarily place 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 and the Company 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 and the Company's credit policy and quantitative disclosures in respect of the Group and the Company's exposure on credit risk for accounts receivable are set out in Note 13.

(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 and the Company manages liquidity risk by maintaining sufficient cash balances and adequate amount of committed banking facilities to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments, capital expenditures and new investments for a set minimum period of between 3 to 6 months.

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for the year ended 31 December 2013

35. 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 and the Company'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 and the Company would be required to repay:

The Group

| | 2013 | | | | | |
|--|-----------------|--|----------------------------|--|---|-------------------|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
| | | | | | | |
| Short-term debt | 27,687 | 28,279 | 28,279 | - | - | - |
| Long-term debt and payable | 82,689 | 99,135 | 24,874 | 3,951 | 69,690 | 620 |
| Accounts payable | 81,132 | 81,132 | 81,132 | - | - | - |
| Accrued expenses and other payables | 69,633 | 69,633 | 69,633 | - | - | - |
| Finance lease obligations | 1 | 1 | 1 | - | - | - |
| | 261,142 | 278,180 | 203,919 | 3,951 | 69,690 | 620 |
| 2012 | | | | | | |
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
| | | | | | | |
| Short-term debt | 6,523 | 6,652 | 6,652 | - | - | - |
| Long-term debt and payable | 93,282 | 110,705 | 14,571 | 23,997 | 71,441 | 696 |
| Accounts payable, as restated | 68,948 | 68,948 | 68,948 | - | - | - |
| Accrued expenses and other payables, as restated | 105,781 | 105,781 | 105,781 | - | - | - |
| Finance lease obligations | 3 | 3 | - | 2 | 1 | - |
| | 274,537 | 292,089 | 195,952 | 23,999 | 71,442 | 696 |

35. Financial Instruments (continued)**(b) Risks (continued)****(ii) Liquidity risk (continued)****The Company**

| | 2013 | | | | | |
|-------------------------------------|---------------------------------|---|--|--|---|-----------------------------------|
| | Carrying amount RMB millions | Total contractual undiscouted cash flow RMB millions | Within 1 year or on demand RMB millions | More than 1 year but less than 2 years RMB millions | More than 2 years but less than 5 years RMB millions | More than 5 years RMB millions |
| Short-term debt | 27,578 | 28,168 | 28,168 | - | - | - |
| Long-term debt and payable | 82,689 | 99,135 | 24,874 | 3,951 | 69,690 | 620 |
| Accounts payable | 78,199 | 78,199 | 78,199 | - | - | - |
| Accrued expenses and other payables | 65,473 | 65,473 | 65,473 | - | - | - |
| Finance lease obligations | 1 | 1 | 1 | - | - | - |
| | 253,940 | 270,976 | 196,715 | 3,951 | 69,690 | 620 |

| | 2012 | | | | | |
|-------------------------------------|---------------------------------|---|--|--|---|-----------------------------------|
| | Carrying amount RMB millions | Total contractual undiscouted cash flow RMB millions | Within 1 year or on demand RMB millions | More than 1 year but less than 2 years RMB millions | More than 2 years but less than 5 years RMB millions | More than 5 years RMB millions |
| Short-term debt | 6,476 | 6,604 | 6,604 | - | - | - |
| Long-term debt and payable | 92,902 | 110,196 | 14,571 | 23,997 | 70,932 | 696 |
| Accounts payable | 64,043 | 64,043 | 64,043 | - | - | - |
| Accrued expenses and other payables | 102,657 | 102,657 | 102,657 | - | - | - |
| Finance lease obligations | 3 | 3 | - | 2 | 1 | - |
| | 266,081 | 283,503 | 187,875 | 23,999 | 70,933 | 696 |

Management believes that the Group and the Company's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 16) will be sufficient to meet the Group and the Company's working capital requirements and repay its borrowings and obligations when they become due.

Notes to the Financial Statements

for the year ended 31 December 2013

35. Financial Instruments (continued)

(b) Risks (continued)

(iii) Interest rate risk

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

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

The Group

| | 2013 | | 2012 | |
|---|---------------------------|--------------|---------------------------|--------------|
| | Effective interest rate % | RMB millions | Effective interest rate % | RMB millions |
| Fixed rate debt: | | | | |
| Short-term debt | 4.7 | 26,807 | 5.4 | 5,877 |
| Long-term debt and payable | 4.5 | 20,979 | 4.4 | 31,572 |
| | | 47,786 | | 37,449 |
| Variable rate debt: | | | | |
| Short-term debt | 5.5 | 880 | 5.5 | 646 |
| Long-term debt and payable | 6.3 | 61,710 | 4.8 | 61,710 |
| | | 62,590 | | 62,356 |
| Total debt | | 110,376 | | 99,805 |
| Fixed rate debt as a percentage of total debt | | 43.3% | | 37.5% |

35. Financial Instruments (continued)**(b) Risks (continued)****(iii) Interest rate risk (continued)****The Company**

| | 2013 | | 2012 | |
|---|---------------------------|--------------|---------------------------|--------------|
| | Effective interest rate % | RMB millions | Effective interest rate % | RMB millions |
| Fixed rate debt: | | | | |
| Short-term debt | 4.7 | 26,698 | 5.5 | 5,850 |
| Long-term debt and payable | 4.5 | 20,979 | 4.4 | 31,192 |
| | | 47,677 | | 37,042 |
| Variable rate debt: | | | | |
| Short-term debt | 5.5 | 880 | 5.5 | 626 |
| Long-term debt and payable | 6.3 | 61,710 | 4.8 | 61,710 |
| | | 62,590 | | 62,336 |
| Total debt | | 110,267 | | 99,378 |
| Fixed rate debt as a percentage of total debt | | 43.2% | | 37.3% |

As at 31 December 2013, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group and the Company's net profit for the year and retained earnings by approximately RMB469 million (2012: RMB468 million).

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group and the Company'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 2012.

(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 and the Company's foreign currency risk exposure relates to bank deposits and borrowings denominated primarily in US dollars, Euros and Hong Kong dollars.

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35. Financial Instruments (continued)

(b) Risks (continued)

(iv) Foreign currency exchange rate risk (continued)

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group and the Company's financial position and result of operations because 94.3% (2012: 97.2%) of the Group and 99.2% (2012: 99.2%) of the Company's cash and cash equivalents and 99.1% (2012: 98.9%) and of the Group and the Company's short-term and long-term debt and payable as at 31 December 2013 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 16.

36. Capital Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of total debt-to-total assets ratio. For this purpose the Group defines total debt as the sum of short-term debt, long-term debt and payable, and finance lease obligations. As at 31 December 2013, the Group's total debt-to-total assets ratio was 20.3% (2012: 18.3%), which is within the range of management's expectation.

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

37. Related Party Transactions

(a) Transactions with China Telecom Group

The Group is a part of companies under China Telecommunications Corporation, a company owned by the PRC government, and has significant transactions and business relationships with members of China Telecom Group.

37. Related Party Transactions (continued)**(a) Transactions with China Telecom Group (continued)**

The principal transactions with China Telecom Group are as follows. The majority of these transactions also constitute continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and have complied with the disclosure requirements under Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the report of directors.

| | Note | 2013 RMB millions | 2012 RMB millions (restated) |
|---|--------|----------------------|------------------------------------|
| Purchases of telecommunications equipment and materials | (i) | 3,563 | 3,029 |
| Sales of telecommunications equipment and materials | (i) | 3,885 | 2,685 |
| Construction and engineering services | (ii) | 14,543 | 10,203 |
| Provision of IT services | (iii) | 192 | 370 |
| Receiving IT services | (iii) | 1,136 | 764 |
| Receiving community services | (iv) | 2,826 | 2,652 |
| Receiving ancillary services | (v) | 11,208 | 9,541 |
| Operating lease expenses | (vi) | 652 | 366 |
| Net transaction amount of centralised services | (vii) | 616 | 570 |
| Interconnection revenues | (viii) | 44 | 48 |
| Interconnection charges | (viii) | 394 | 414 |
| Interest on amounts due to and loans from China Telecom Group* | (ix) | 3,912 | 24 |
| Lease of CDMA network facilities* | (x) | 157 | – |
| Lease of land use rights* | (xi) | 16 | – |
| CDMA network capacity lease fee | (xii) | – | 25,546 |
| Reimbursement of capacity maintenance related costs of CDMA network | (xiii) | – | 2,519 |
| Mobile Network Acquisition | (xiv) | – | 87,210 |

Note:

- (i) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (iii) Represent IT services provided to and received from China Telecom Group.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.

* These transactions also constitute connected transactions under Chapter 14A of the Listing Rules. They are conducted on normal commercial terms and are fully exempted from compliance with the reporting, announcement, independent shareholders' approval and/or annual review requirements either under Rules 14A.31, 14A.33 or 14A.65 of the Listing Rules.

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37. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Note: (continued)

- (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 centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 16).
- (x) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region.
- (xi) Represent amounts received and receivable from/paid and payable to China Telecom Group for leases of land use rights.
- (xii) Represent amounts paid and payable to China Telecom Group for lease of CDMA network capacity.
- (xiii) 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.
- (xiv) Represent the final consideration of the Mobile Network Acquisition (Note 16).

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

| | 2013 RMB millions | 2012 RMB millions (restated) |
|--|----------------------|------------------------------------|
| Accounts receivable | 391 | 627 |
| Prepayments and other current assets | 1,037 | 779 |
| Total amounts due from China Telecom Group | 1,428 | 1,406 |
| Accounts payable | 13,905 | 11,557 |
| Accrued expenses and other payables | 1,690 | 40,745 |
| Short-term debt | 22,062 | 820 |
| Long-term debt and payable | 61,710 | 61,710 |
| Total amounts due to China Telecom Group | 99,367 | 114,832 |

37. Related Party Transactions (continued)**(a) Transactions with China Telecom Group (continued)**

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt and payable, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt and payable due to China Telecom Group are set out in Note 16.

As at 31 December 2013 and 2012, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

(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 summarised as follows:

| | 2013 RMB thousands | 2012 RMB thousands |
|------------------------------|--------------------------|--------------------------|
| Short-term employee benefits | 14,329 | 9,041 |
| Post-employment benefits | 794 | 704 |
| | 15,123 | 9,745 |

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal, autonomous regional and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 38.

(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 organisations (collectively referred to as "government-related entities").

Notes to the Financial Statements

for the year ended 31 December 2013

37. Related Party Transactions (continued)

(d) Transactions with other government-related entities in the PRC (continued)

Apart from transactions with parent company and its fellow subsidiaries (Note 37(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
- 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.

38. Post-Employment Benefits Plans

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

The Group's contributions for the above plans for the year ended 31 December 2013 were RMB5,682 million (2012: RMB5,049 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2013 was RMB707 million (2012: RMB617 million).

39. 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 recognises compensation expense of the stock appreciation rights over the applicable vesting period.

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100%, respectively, of the total stock appreciation rights granted to such person.

During the year ended 31 December 2013 and 2012, no stock appreciation right units were exercised. For the year ended 31 December 2013, compensation expense of RMB39 million was reversed by the Group in respect of stock appreciation rights as a result of decline in share price of the Company. For the year ended 31 December 2012, compensation expense of RMB163 million was recognised by the Group in respect of stock appreciation rights.

As at 31 December 2013, the carrying amount of the liability arising from stock appreciation rights was RMB124 million (2012: RMB163 million). As at 31 December 2013, 305 million stock appreciation right units vested but were not exercised. The carrying amount of the corresponding liability was RMB41 million. As at 31 December 2012, no stock appreciation right units were vested.

40. Accounting Estimates and Judgements

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 judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 2. Management believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

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40. Accounting Estimates and Judgements (continued)

Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(o). 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 recognised 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 judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

For the year ended 31 December 2013, no provision for impairment losses were made against the carrying value of property, plant and equipment (2012 Nil). 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 amortisation

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.

Amortisation of customer relationships is recognised on a straight-line basis over the expected customer relationship period of five years.

41. Possible Impact of Amendments, New Standards and Interpretation Issued But Not Yet Effective for the Annual Accounting Period Ended 31 December 2013

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretation which are not yet effective for the annual accounting period ended 31 December 2013:

| | Effective for accounting period beginning on or after |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27, "Investment Entities" | 1 January 2014 |
| Amendments to IAS 32, "Offsetting Financial Assets and Financial Liabilities" | 1 January 2014 |
| Amendments to IAS 36, "Recoverable Amount Disclosures for Non-Financial Assets" | 1 January 2014 |
| Amendments to IAS 39, "Novation of Derivatives and Continuation of Hedge Accounting" | 1 January 2014 |
| IFRIC 21, "Levies" | 1 January 2014 |
| Amendments to IAS 19, "Defined Benefit Plans: Employee Contributions" | 1 July 2014 |
| Amendments to IFRSs, "Annual Improvements to IFRSs 2010-2012 Cycle" | 1 July 2014 (with limited exceptions) |
| Amendments to IFRSs, "Annual Improvements to IFRSs 2011-2013 Cycle" | 1 July 2014 |
| IFRS 14, "Regulatory Deferral Accounts" | 1 January 2016 |
| IFRS 9, "Financial Instruments", and Amendments to IFRS 9 and IFRS 7, "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | Mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised |

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 31 December 2013. 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.

42. Comparative Figures

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

43. Parent and Ultimate Holding Company

The parent and ultimate holding company of the Group as at 31 December 2013 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.

Financial Summary

(Amounts in millions, except per share data)

| | Year ended 31 December | | | | |
|---|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2013 RMB | 2012 RMB (restated) | 2011 RMB (restated) | 2010 RMB (restated) | 2009 RMB (restated) |
| Results of operation | | | | | |
| Wireline voice | 38,633 | 43,369 | 49,770 | 62,499 | 78,432 |
| Mobile voice | 58,217 | 49,166 | 38,628 | 28,906 | 20,027 |
| Internet | 99,394 | 87,662 | 74,994 | 63,991 | 51,569 |
| Telecommunications network resource services and lease of network equipment | 17,586 | 15,737 | 14,321 | 12,442 | 11,520 |
| Value-added services, integrated information application services and others | 107,754 | 87,242 | 67,338 | 51,634 | 46,733 |
| Upfront connection fees | – | – | 98 | 497 | 1,151 |
| Operating revenues | 321,584 | 283,176 | 245,149 | 219,969 | 209,432 |
| Depreciation and amortisation | 69,083 | 49,666 | 51,241 | 52,231 | 52,812 |
| Network operations and support | 53,102 | 65,979 | 52,940 | 47,493 | 43,749 |
| Selling, general and administrative | 70,448 | 63,099 | 48,765 | 42,153 | 40,526 |
| Personnel expenses | 46,723 | 42,857 | 39,204 | 35,564 | 32,888 |
| Other operating expenses | 54,760 | 40,367 | 28,878 | 19,113 | 17,452 |
| Operating expenses | 294,116 | 261,968 | 221,028 | 196,554 | 187,427 |
| Operating profit | 27,468 | 21,208 | 24,121 | 23,415 | 22,005 |
| Net finance costs | (5,153) | (1,562) | (2,254) | (3,601) | (4,377) |
| Investment income | 670 | 93 | 40 | 328 | 791 |
| Share of profits of associates | 103 | 78 | 99 | 131 | 101 |
| Profit before taxation | 23,088 | 19,817 | 22,006 | 20,273 | 18,520 |
| Income tax | (5,422) | (4,753) | (5,416) | (4,846) | (4,382) |
| Profit for the year | 17,666 | 15,064 | 16,590 | 15,427 | 14,138 |
| Other comprehensive income for the year: | | | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Change in fair value of available-for-sale equity securities | 414 | (228) | (205) | 132 | 538 |
| Deferred tax on change in fair value of available-for-sale equity securities | (104) | 57 | 51 | (48) | (120) |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China | (79) | (2) | (105) | (52) | 6 |
| Share of other comprehensive income of associates | 5 | – | – | (25) | – |
| Other comprehensive income for the year, net of tax | 236 | (173) | (259) | 7 | 424 |
| Total comprehensive income for the year | 17,902 | 14,891 | 16,331 | 15,434 | 14,562 |
| Profit attributable to | | | | | |
| Equity holders of the Company | 17,545 | 14,949 | 16,494 | 15,309 | 13,934 |
| Non-controlling interests | 121 | 115 | 96 | 118 | 204 |
| Profit for the year | 17,666 | 15,064 | 16,590 | 15,427 | 14,138 |
| Total comprehensive income attributable to | | | | | |
| Equity holders of the Company | 17,781 | 14,776 | 16,235 | 15,316 | 14,283 |
| Non-controlling interests | 121 | 115 | 96 | 118 | 279 |
| Total comprehensive income for the year | 17,902 | 14,891 | 16,331 | 15,434 | 14,562 |
| Basic earnings per share | 0.22 | 0.18 | 0.20 | 0.19 | 0.17 |

Financial Summary

(Amounts in millions, except per share data)

| | As at 31 December of the year | | | | |
|--|-------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2013 RMB | 2012 RMB (restated) | 2011 RMB (restated) | 2010 RMB (restated) | 2009 RMB (restated) |
| Financial condition | | | | | |
| Property, plant and equipment, net | 374,341 | 373,781 | 268,925 | 272,532 | 283,605 |
| Construction in progress | 44,157 | 32,500 | 18,475 | 14,449 | 11,582 |
| Other non-current assets | 71,958 | 73,635 | 72,218 | 78,367 | 83,909 |
| Cash and bank deposits | 18,357 | 32,829 | 29,279 | 27,890 | 35,310 |
| Other current assets | 34,426 | 32,546 | 30,434 | 27,470 | 25,714 |
| Total assets | 543,239 | 545,291 | 419,331 | 420,708 | 440,120 |
| Current liabilities | 200,098 | 193,610 | 127,397 | 127,012 | 143,536 |
| Non-current liabilities | 64,477 | 85,581 | 34,979 | 47,482 | 59,323 |
| Total liabilities | 264,575 | 279,191 | 162,376 | 174,494 | 202,859 |
| Total equity attributable to equity holders of the Company | 277,741 | 265,139 | 256,167 | 245,718 | 236,413 |
| Non-controlling interests | 923 | 961 | 788 | 496 | 848 |
| Total equity | 278,664 | 266,100 | 256,955 | 246,214 | 237,261 |
| Total liabilities and equity | 543,239 | 545,291 | 419,331 | 420,708 | 440,120 |

Shareholder Information

Share Information

Share Listing

China Telecom Corporation Limited's H shares were listed on The Stock Exchange of Hong Kong Limited on 15 November 2002 and New York Stock Exchange as American Depositary Shares (ADSs) on 14 November 2002. ADSs are issued by The Bank of New York Mellon. Each ADS traded in the United States represents 100 ordinary H shares.

Stock Code

| | |
|---|-----|
| The Stock Exchange of Hong Kong Limited | 728 |
| New York Stock Exchange | CHA |

Share Price Performance

| 2013 share price | HK\$ per H share | | | US\$ per ADS | | |
|------------------|------------------|------|-------|--------------|-------|-------|
| | High | Low | Close | High | Low | Close |
| | 4.46 | 3.48 | 3.92 | 58.06 | 44.94 | 50.57 |

Number of issued shares: (as at 31 December 2013) 80,932,368,321

Market capitalization: (as at 31 December 2013) HK\$317.3 billion

Share price performance of China Telecom on The Stock Exchange of Hong Kong Limited versus Hang Seng Index (HSI) and MSCI World Telecom Service Sector Index (MSCI) from IPO on 15 November 2002 to 31 December 2013.



Distribution of shares and shareholdings

The share capital of the Company as at 31 December 2013 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2013, the share capital of the Company comprised:

| | Number of shares | Percentage of the total number of shares |
|---|------------------|---|
| Total number of Domestic shares: | 67,054,958,321 | 82.85 |
| <i>Domestic shares held by:</i> | | |
| China Telecommunications Corporation | 57,377,053,317 | 70.89 |
| Guangdong Rising Assets Management Co., Ltd. | 5,614,082,653 | 6.94 |
| Zhejiang Financial Development Company | 2,137,473,626 | 2.64 |
| Fujian Investment & Development Group Co., Ltd | 969,317,182 | 1.20 |
| Jiangsu Guoxin Investment Group Co., Ltd. | 957,031,543 | 1.18 |
| Total number of H shares (including ADSs): | 13,877,410,000 | 17.15 |
| Total | 80,932,368,321 | 100.00 |

Major shareholders of H shares

The following table shows the major shareholders that exercised or controlled the exercise of 5% or above of H shares as at 31 December 2013:

| Name of shareholder | Number of shares | Percentage of the total number of H shares in issue |
|--------------------------------|------------------|---|
| Commonwealth Bank of Australia | 2,080,867,924 | 14.99 |
| JPMorgan Chase & Co. | 1,536,081,879 | 11.07 |
| BlackRock, Inc. | 1,301,821,443 | 9.38 |

Shareholder Information

Dividend History

| Financial Year | Ex-Dividend Date | Shareholder Approval Date | Payment Date | Dividend per Share (HK\$) |
|----------------|------------------|---------------------------|--------------|---------------------------|
| 2002 Final | 16 May 2003 | 20 June 2003 | 10 July 2003 | 0.00837* |
| 2003 Final | 1 April 2004 | 3 May 2004 | 20 May 2004 | 0.065 |
| 2004 Final | 21 April 2005 | 25 May 2005 | 23 June 2005 | 0.065 |
| 2005 Final | 20 April 2006 | 23 May 2006 | 15 June 2006 | 0.075 |
| 2006 Final | 26 April 2007 | 29 May 2007 | 15 June 2007 | 0.085 |
| 2007 Final | 28 April 2008 | 30 May 2008 | 16 June 2008 | 0.085 |
| 2008 Final | 23 April 2009 | 26 May 2009 | 30 June 2009 | 0.085 |
| 2009 Final | 22 April 2010 | 25 May 2010 | 30 June 2010 | 0.085 |
| 2010 Final | 18 April 2011 | 20 May 2011 | 30 June 2011 | 0.085 |
| 2011 Final | 5 June 2012 | 30 May 2012 | 20 July 2012 | 0.085 |
| 2012 Final | 4 June 2013 | 29 May 2013 | 19 July 2013 | 0.085 |
| 2013 Final | 4 June 2014 | 29 May 2014 | 18 July 2014 | 0.095** |

* On the basis of HK\$0.065 per share, pro-rated based on the number of days the Company's shares have been listed during the year of 2002.

** The dividend proposal is subject to shareholders' approval at the Annual General Meeting to be held on 29 May 2014.

Annual Reports

Our annual reports in both English and Chinese are now available through the Internet at <http://www.chinatelecom-h.com>. The Company will file an annual report in Form 20-F for the year 2013 with the United States Securities and Exchange Commission by 30 April 2014.

2013 Annual Report Survey

Annual Report is a key communication channel between shareholders and the Company. Last year, we received around 100 questionnaires of "Your Views on Annual Report 2012". Each of these responses benefited us in enhancing and further improving our annual reports. We are deeply indebted to the respondents for their constructive responses. In accordance with our commitment, we have to donate HK\$50 for each questionnaire received. In this regard, we have donated a sum of HK\$10,000 to the charitable organisation, WWF. In addition, we have already implemented the suggestion of allowing shareholders to choose means of receipt and language of corporate communication to enhance environmental protection and cost savings.

We value and are eager to keep hearing your comments on our annual report for our further improvement in the future. It is highly appreciated if you could spare your precious time to complete the questionnaire of "Your Views on Annual Report 2013", as attached in this annual report, and return it by post or fax to us at +852 2877 0988. You can also fill in the electronic form at our website, www.chinatelecom-h.com.

Annual General Meeting

To be held at 11 a.m. on 29 May 2014 in Grand Hyatt Hong Kong

Registered office

Address: 31 Jinrong Street
Xicheng District
Beijing
PRC 100033
Tel: 86 10 6642 8166
Fax: 86 10 6601 0728

Any enquiries relating to the strategic development or operations of China Telecom Corporation Limited, please contact the Investor Relations Department:

Investor Relations Department

Tel: 852 2877 9777
Fax: 852 2877 0988
Email: ir@chinatelecom-h.com

Any enquiries relating to your shareholding, for example transfers of shares, change of name or address, loss of share certificates, please contact the H share registrar:

H share registrar

Computershare Hong Kong Investor Services Limited

Address: Shops 1702–1706, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel: 852 2862 8555
Fax: 852 2865 0990
Email: hkinfo@computershare.com.hk

Shareholder Information

Any enquiries relating to ADSs, please contact the depositary:

ADS depositary

The Bank of New York Mellon

Address: Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258

Tel: 1-888-269-2377 (toll free in USA)
1-212-815-3700 (international)

Email: shrrelations@bnymellon.com

Forward-Looking Statements

Certain statements contained in this document may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Corporation Limited (the “Company”) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

Corporate Culture

Corporate Mission

Let the customers fully enjoy a new information life

Strategic Goal

Be a world-class integrated information service provider

Core Value

Comprehensive innovation, pursuing truth and pragmatism,
respecting people and creating value all together

Operation Philosophy

Pursue mutual growth of corporate value and customer value

Service Philosophy

Customer First Service Foremost

Code of Corporate Practice

Keep promise and provide excellent service for customers

Cooperate honestly and seek win-win result in joint innovation

Operate prudently and enhance corporate value continuously

Manage precisely and allocate resources scientifically

Care the staff and tap their potential to the full

Reward the society and be a responsible corporate citizen

Corporate Slogan

Connecting the World

China Telecom Corporation Limited

31 Jinrong Street, Xicheng District, Beijing, PRC, 100033

www.chinatelecom-h.com



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