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, managed data and leased line, value-added services, integrated information application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People's Republic of China (the "PRC"). Following the acquisition of Code Division Multiple Access ("CDMA") mobile telecommunications business in October 2008, the Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region ("Macau") of the PRC. The Group also provides international telecommunications services, including leased line, International Internet access and transit, and Internet data centre service in certain countries of the Asia Pacific, South America and North America regions.

The operations of the Group in the mainland China are subject to the supervision and regulation by the PRC government. The Ministry of Industry and Information Technology of the PRC (the "MIIT"), pursuant to the authority delegated to it by the PRC State Council, is responsible for formulating the telecommunications industry policies and regulations, including the regulation and setting of tariff levels for basic telecommunications services, such as wireline and mobile local and long distance telephony services, managed data services, leased line, roaming and interconnection arrangements.

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.

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").

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

Organisation (continued)

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

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

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

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

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

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

Basis of presentation

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

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

	The Group (as previously reported) RMB millions	The Sixth Acquired Business RMB millions	The Group (as restated) RMB millions
Consolidated statement of comprehensive income for the year ended 31 December 2011:			
Operating revenues	245,041	27	245,068
Profit for the year	16,598	(2)	16,596
Consolidated statement of financial position as at 31 December 2011:			
Total assets	419,115	36	419,151
Total liabilities	162,237	4	162,241
Total equity	256,878	32	256,910

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

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

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.

2. Acquisition of Certain CDMA Network Assets and Associated Liabilities

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

Pursuant to the Acquisition Agreement entered into between the Company and China Telecommunications Corporation on 22 August 2012 and the resolution passed by the Company's Extraordinary General Meeting held on 16 October 2012, the Company completed the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces, municipalities and autonomous regions in the PRC on 31 December 2012 (hereinafter referred to as the "Mobile Network Acquisition").

The initial consideration of the Mobile Network Acquisition was RMB84,595.41 million, and was subject to price adjustment, which reflected changes in the value of the CDMA network assets and associated liabilities during the period between the date following the base date for the asset appraisal (being 31 March 2012) up to (and including) the completion date of the acquisition (being 31 December 2012), to arrive at the final consideration. The final consideration was agreed to be RMB87,210.35 million, which consisted of RMB25,500.00 million paid within five business days following the completion date of the Mobile Network Acquisition, and a deferred consideration of RMB61,710.35 million, which will be payable on or before the fifth anniversary of the completion date of the Mobile Network Acquisition. The interest rate of the deferred consideration will be adjusted in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rate for the first year is 4.83%. The tax expenses related to the Mobile Network Acquisition, which mainly include deed tax for the transfer of properties and land use rights, amounted to RMB29.43 million. The related tax expenses have been included in the book value of assets acquired.

The Mobile Network Acquisition was recognised as an assets acquisition, and the assets and associated liabilities acquired by the Company are stated at their respective purchase prices including related tax expenses as follows:

	Note	RMB millions
Property, plant and equipment, net	4	102,873
Construction in progress	5	9,177
Lease prepayments		151
Intangible assets	7	3,578
Other assets		1,080
Inventories		135
Accounts receivable, net		2,079
Prepayments and other current assets		642
Total assets acquired		119,715
Accounts payable		(17,965)
Accrued expenses and other payables		(14,540)
Total liabilities assumed		(32,505)

3. Significant Accounting Policies

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and interpretations. These financial statements 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 3(m)). The accounting policies described below have been consistently applied by the Group.

The preparation of financial statements in conformity with IFRS requires management to make 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. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3. 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 jointly controlled entity.

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's net identifiable assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the Group's equity share of the post-acquisition changes in the associate's net assets. When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being 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.

3. Significant Accounting Policies (continued)

(c) Translation of foreign currencies

The accompanying consolidated financial statements are presented in Renminbi ("RMB"). The functional currency of the Company and its subsidiaries in mainland China is RMB. The functional currency of CT Global, CT Americas, China Telecom (Macau) Company Limited ("CT Macau"), China Telecom (Singapore) Pte. Limited ("CT Singapore"), China Telecom (Australia) Pty Ltd ("CT Australia"), China Telecom Korea Co.,Ltd ("CT Korea"), China Telecom (Malaysia) SDN BHD ("CT Malaysia") and China Telecom Information Technology (Vietnam) Co. Ltd ("CT Vietnam") is Hong Kong dollars (HK$), US dollars (US$), Macau Pataca (MOP), Singapore dollars (S$), Australia dollars (AUD), Korea dollars (KRW), Malaysia dollars (RM) and Vietnamese dong (VND), respectively. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those capitalised as construction in progress (Note 3(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 CT Global, CT Americas, CT Macau, CT Singapore, CT Australia, CT Korea, CT Malaysia and CT Vietnam are translated into RMB at average rate prevailing during the year. Assets and liabilities of CT Global, CT Americas, CT Macau, CT Singapore, CT Australia, CT Korea, CT Malaysia and CT Vietnam are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are 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) Trade and other receivables

Trade 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 3(o)) unless the effect of discounting would be immaterial, in which case they are stated at cost.

(f) Inventories

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

Inventories that are held for resale are stated at the lower of cost or net 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.

3. Significant Accounting Policies (continued)

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 3(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 2012, the carrying amount of assets held under finance leases was RMB3 million (2011: RMB76 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.

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.

3. Significant Accounting Policies (continued)

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 3(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 3(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.

(k) Intangible assets

The Group's intangible assets comprise computer software and customer relationships acquired in the CDMA business (as defined in Note 6) 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 3(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.

(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 3(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. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 3(o)).

3. Significant Accounting Policies (continued)

(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.

(o) Impairment

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

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

– significant financial difficulty of the debtor;

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

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

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

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

If such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in profit or loss. Impairment losses for trade and other receivables are reversed through profit or loss if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities are not reversed.

(ii) Impairment of long-lived assets

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

3. Significant Accounting Policies (continued)

(o) Impairment (continued)

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

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

An impairment loss is 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. For the years presented, no reversal of impairment loss was recognised in profit or loss. An impairment loss in respect of goodwill is not reversed.

(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.

3. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

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

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

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

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

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

iv) The Group establishes selling prices with customers;

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

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

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

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

(vi) Revenue from the provision of Internet and managed data services are 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 are 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.

3. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

The Group offers promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: The undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognizes revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognized based upon the actual usage of such services. During each of the years in the three-year period ended 31 December 2012, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote the Group's core business of the provision of telecommunications services, and the fair value of the 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.

(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 RMB34,901 million for the year ended 31 December 2012 (2011: RMB27,498 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 RMB21,754 million for the year ended 31 December 2012 (2011: RMB15,641 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 2012, research and development expense was RMB608 million (2011: RMB558 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.

3. Significant Accounting Policies (continued)

(t) Employee benefits (continued)

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) Trade and other payables

Trade 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.

(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, in which case the relevant amounts of tax are recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax is calculated on the basis of the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is 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.

3. Significant Accounting Policies (continued)

(y) Dividends

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

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

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 2011, as previously reported	84,478	627,662	23,140	735,280
Adjusted for the Sixth Acquisition (Note 1)	–	–	205	205
Balance at 1 January 2011, as restated	84,478	627,662	23,345	735,485
Additions through acquisition of a subsidiary	49	370	20	439
Additions	213	1,058	1,045	2,316
Transferred from construction in progress	1,768	39,221	1,241	42,230
Disposals	(200)	(14,234)	(811)	(15,245)
Reclassification	1	124	(125)	–
Balance at 31 December 2011, as restated	86,309	654,201	24,715	765,225
Additions	**582**	**867**	**774**	**2,223**
Mobile Network Acquisition (Note 2)	**3,697**	**98,476**	**700**	**102,873**
Transferred from construction in progress	**2,348**	**41,997**	**1,328**	**45,673**
Disposals	**(414)**	**(4,617)**	**(448)**	**(5,479)**
Reclassification	**(1)**	**172**	**(171)**	**–**
Balance at 31 December 2012	**92,521**	**791,096**	**26,898**	**910,515**
Accumulated depreciation and impairment:				
Balance at 1 January 2011, as previously reported	(29,174)	(418,339)	(15,289)	(462,802)
Adjusted for the Sixth Acquisition (Note 1)	–	–	(169)	(169)
Balance at 1 January 2011, as restated	(29,174)	(418,339)	(15,458)	(462,971)
Additions through acquisition of a subsidiary	(40)	(251)	(14)	(305)
Depreciation charge for the year	(3,634)	(41,111)	(2,158)	(46,903)
Written back on disposal	154	13,019	685	13,858
Reclassification	(2)	(1)	3	–
Balance at 31 December 2011, as restated	(32,696)	(446,683)	(16,942)	(496,321)
Depreciation charge for the year	**(3,810)**	**(39,315)**	**(2,160)**	**(45,285)**
Written back on disposal	**258**	**4,162**	**414**	**4,834**
Reclassification	**–**	**(66)**	**66**	**–**
Balance at 31 December 2012	**(36,248)**	**(481,902)**	**(18,622)**	**(536,772)**
Net book value at 31 December 2012	**56,273**	**309,194**	**8,276**	**373,743**
Net book value at 31 December 2011, as restated	53,613	207,518	7,773	268,904
Net book value at 1 January 2011, as restated	55,304	209,323	7,887	272,514

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

The Company

	Buildings and improvements RMB millions	Telecommunications 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 2011	84,122	625,949	22,438	732,509
Additions	128	859	740	1,727
Transferred from construction in progress	1,683	39,064	1,171	41,918
Disposals	(184)	(14,188)	(780)	(15,152)
Reclassification	1	124	(125)	–
Balance at 31 December 2011	85,750	651,808	23,444	761,002
Additions	**567**	**795**	**918**	**2,280**
Mobile Network Acquisition (Note 2)	**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**
Accumulated depreciation and impairment:				
Balance at 1 January 2011	(29,085)	(417,428)	(14,919)	(461,432)
Depreciation charge for the year	(3,574)	(40,973)	(2,000)	(46,547)
Written back on disposal	138	13,005	682	13,825
Reclassification	(2)	(1)	3	–
Balance at 31 December 2011	(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)**
Net book value at 31 December 2012	**55,891**	**308,052**	**7,795**	**371,738**
Net book value at 31 December 2011	53,227	206,411	7,210	266,848

5. Construction in Progress

	The Group RMB millions	The Company RMB millions
Balance at 1 January 2011	14,445	14,243
Additions	47,442	47,020
Transferred to property, plant and equipment	(42,230)	(41,918)
Transferred to intangible assets	(1,209)	(1,171)
Balance at 31 December 2011	18,448	18,174
Additions	**51,847**	**51,395**
Mobile Network Acquisition (Note 2)	**9,177**	**9,177**
Transferred to property, plant and equipment	**(45,673)**	**(45,396)**
Transferred to intangible assets	**(1,315)**	**(1,270)**
Balance at 31 December 2012	**32,484**	**32,080**

6. Goodwill

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Cost:				
Goodwill arising from acquisition of CDMA business	**29,918**	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.

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 10.2% (2011: 11.5%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

7. Intangible Assets

The Group

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

7. Intangible Assets (continued)

The Company

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2011	8,348	11,238	19,586
Additions	101	–	101
Transferred from construction in progress	1,171	–	1,171
Disposals	(59)	–	(59)
Balance at 31 December 2011	9,561	11,238	20,799
Additions	**179**	**–**	**179**
Mobile Network Acquisition (Note 2)	**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**
Accumulated amortisation and impairment:			
Balance at 1 January 2011	(4,676)	(5,058)	(9,734)
Amortisation charge for the year	(1,329)	(2,248)	(3,577)
Provision for impairment	(8)	–	(8)
Written back on disposal	54	–	54
Balance at 31 December 2011	(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)**
Net book value at 31 December 2012	**7,278**	**1,684**	**8,962**
Net book value at 31 December 2011	3,602	3,932	7,534

8. Investments in Subsidiaries

	The Company	
	2012 RMB millions	2011 RMB millions
Unquoted investments, at cost	**6,078**	6,178

8. Investments in Subsidiaries (continued)

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2012 are as follows:

Name of Company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/ Issued capital (in RMB millions unless otherwise stated)	Principal 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
E-surfing Pay Co., Ltd	Limited Company	3 March 2011	PRC	300	Provision of e-commerce services
E-surfing Media Co., Ltd	Limited Company	11 March 2011	PRC	313	Provision of video media 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

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
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

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

9. Interests in Associates

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	2012 RMB millions	2011 RMB millions
Unlisted equity investments, at cost	232	233	564	619
Share of post-acquisition changes in net assets	784	752	–	–
	1,016	985	564	619

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 condition 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.

10. Investments

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Available-for-sale equity securities	**585**	617	**585**	617
Other unlisted equity investments	**31**	31	**27**	27
	616	648	**612**	644

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.

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

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

11. Deferred Tax Assets and Liabilities (continued)

The Group (continued)

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

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

11. Deferred Tax Assets and Liabilities (continued)

The Company

	Assets			Liabilities			Net balance		
	31 December 2012 RMB millions	31 December 2011 RMB millions	1 January 2011 RMB millions	**31 December 2012 RMB millions**	31 December 2011 RMB millions	1 January 2011 RMB millions	**31 December 2012 RMB millions**	31 December 2011 RMB millions	1 January 2011 RMB millions
Current									
Provisions and impairment losses, primarily for doubtful debts	**982**	965	997	**–**	–	–	**982**	965	997
Non-current									
Property, plant and equipment	**1,101**	1,066	2,833	**(249)**	(401)	(526)	**852**	665	2,307
Deferred revenues and installations costs	**615**	914	1,093	**(378)**	(562)	(660)	**237**	352	433
Available-for-sale equity securities	**18**	–	–	**–**	(39)	(90)	**18**	(39)	(90)
Deferred tax assets/(liabilities)	**2,716**	2,945	4,923	**(627)**	(1,002)	(1,276)	**2,089**	1,943	3,647

	Balance at 1 January 2011 RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 31 December 2011 RMB millions
Current			
Provisions and impairment losses, primarily for doubtful debts	997	(32)	965
Non-current			
Property, plant and equipment	2,307	(1,642)	665
Deferred revenues and installation costs	433	(81)	352
Available-for-sale equity securities	(90)	51	(39)
Net deferred tax assets	3,647	(1,704)	1,943

	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**
Current				
Provisions and impairment losses, primarily for doubtful debts	**965**	**2**	**15**	**982**
Non-current				
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**

12. Inventories

Inventories represent:

	The Group			The Company		
	31 December 2012 RMB millions	31 December 2011 RMB millions (restated)	1 January 2011 RMB millions (restated)	**31 December 2012 RMB millions**	31 December 2011 RMB millions	1 January 2011 RMB millions
Materials and supplies	**985**	970	874	**968**	951	861
Goods for resale	**4,943**	3,873	2,300	**2,215**	1,413	1,139
	5,928	4,843	3,174	**3,183**	2,364	2,000

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

		The Group		The Company	
	Note	**2012 RMB millions**	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Accounts receivable					
Third parties		**19,637**	18,040	**18,130**	16,680
China Telecom Group	(i)	**626**	1,803	**289**	1,358
Other telecommunications operators in the PRC		**529**	570	**526**	554
Subsidiaries		**–**	–	**805**	395
		20,792	20,413	**19,750**	18,987
Less: Allowance for doubtful debts		**(2,024)**	(1,942)	**(1,961)**	(1,873)
		18,768	18,471	**17,789**	17,114

Note:

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

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
At beginning of year	**1,942**	2,024	**1,873**	1,955
Impairment losses for doubtful debts	**1,624**	1,383	**1,605**	1,365
Accounts receivable written off	**(1,542)**	(1,465)	**(1,517)**	(1,447)
At end of year	**2,024**	1,942	**1,961**	1,873

13. Accounts Receivable, Net (continued)

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Current, within 1 month	**11,402**	10,872	**11,279**	10,767
1 to 3 months	**2,319**	2,120	**2,288**	2,054
4 to 12 months	**1,613**	1,444	**1,598**	1,435
More than 12 months	**387**	432	**386**	431
	15,721	14,868	**15,551**	14,687
Less: Allowance for doubtful debts	**(1,932)**	(1,797)	**(1,917)**	(1,787)
	13,789	13,071	**13,634**	12,900

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Current, within 1 month	**1,945**	2,763	**1,817**	2,271
1 to 3 months	**1,573**	899	**1,186**	852
4 to 12 months	**980**	1,287	**780**	745
More than 12 months	**573**	596	**416**	432
	5,071	5,545	**4,199**	4,300
Less: Allowance for doubtful debts	**(92)**	(145)	**(44)**	(86)
	4,979	5,400	**4,155**	4,214

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Not past due	**16,840**	16,687	**15,893**	15,395
Less than 1 month past due	**1,261**	1,081	**1,245**	1,053
1 to 3 months past due	**667**	703	**651**	666
Amounts past due	**1,928**	1,784	**1,896**	1,719
	18,768	18,471	**17,789**	17,114

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		
	31 December 2012 RMB millions	31 December 2011 RMB millions (restated)	1 January 2011 RMB millions (restated)	31 December 2012 RMB millions	31 December 2011 RMB millions	1 January 2011 RMB millions
Amounts due from China Telecom Group	779	1,091	1,044	764	1,088	996
Amounts due from subsidiaries	–	–	–	480	491	470
Amounts due from other telecommunications operators in the PRC	407	195	232	407	195	232
Prepayments in connection with construction work and equipment purchases	1,086	765	716	568	396	443
Prepaid expenses and deposits	2,118	1,580	1,385	1,802	1,186	1,128
Other receivables	1,907	1,035	1,697	1,114	816	1,451
	6,297	4,666	5,074	5,135	4,172	4,720

15. Cash and Cash Equivalents

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	2012 RMB millions	2011 RMB millions
Cash at bank and in hand	22,375	24,470	17,614	18,942
Time deposits with original maturity within three months	7,607	2,902	3,248	963
	29,982	27,372	20,862	19,905

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

Short-term debt comprises:

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	2012 RMB millions	2011 RMB millions
Loans from banks – unsecured	5,521	8,123	5,474	8,123
Other loans – unsecured	182	244	182	244
Loans from China Telecom Group – unsecured	820	820	820	820
Total short-term debt	6,523	9,187	6,476	9,187

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

The weighted average interest rate of the Group's and the Company's total short-term debt as at 31 December 2012 was 5.5% (2011: 5.9%) and 5.5% (2011: 5.9%) respectively. As at 31 December 2012, the loans from banks and other loans bear interest at rates ranging from 4.5% to 6.7% (2011: 3.9% to 7.2%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at fixed rates ranging from 4.5% to 4.7% (2011: 3.9% to 4.9%) per annum and are repayable within one year.

Long-term debt and payable comprises:

	Interest rates and final maturity	The Group 2012 RMB millions	The Group 2011 RMB millions	The Company 2012 RMB millions	The Company 2011 RMB millions
Bank loans – unsecured					
Renminbi denominated	Interest rates ranging from 3.60% to 7.04% per annum with maturities through 2020	**160**	409	**160**	409
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060	**598**	648	**598**	648
Japanese Yen denominated	Interest rates ranging from 1.49% to 1.58% per annum with maturities in 2012	**–**	1,441	**–**	1,441
Euro denominated	Interest rates of 2.30% per annum with maturities through 2032	**456**	485	**456**	485
Other currencies denominated		**26**	29	**26**	29
		1,240	3,012	**1,240**	3,012
Other loans – unsecured					
Renminbi denominated		**1**	1	**1**	1
Medium-term notes – unsecured (Note (i))		**29,951**	39,903	**29,951**	39,903
Amount due to China Telecommunications Corporation – unsecured					
Deferred consideration of the Mobile Network Acquisition – Renminbi denominated (Note (ii))		**61,710**	–	**61,710**	–
Others		**380**	–	**–**	–
Total long-term debt and payable		**93,282**	42,916	**92,902**	42,916
Less: Current portion		**(10,212)**	(11,766)	**(10,212)**	(11,766)
Non-current portion		**83,070**	31,150	**82,690**	31,150

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.

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

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 Mobile Network Acquisition (Note 2). The Company may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition. The Company pays interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate is set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rate for the first year is 4.83%.

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

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Within 1 year	**10,212**	11,766	**10,212**	11,766
Between 1 to 2 years	**20,059**	10,188	**20,059**	10,188
Between 2 to 3 years	**86**	20,049	**86**	20,049
Between 3 to 4 years	**86**	89	**86**	89
Between 4 to 5 years	**62,177**	89	**61,797**	89
Thereafter	**662**	735	**662**	735
	93,282	42,916	**92,902**	42,916

The Group's short-term and long-term debt and payable do not contain any financial covenants. As at 31 December 2012, the Group and the Company have unutilised committed credit facilities amounting to RMB163,130 million (2011: RMB118,970 million) and RMB163,127 million (2011: RMB118,970 million) respectively.

17. Accounts Payable

Accounts payable are analysed as follows:

	The Group			The Company		
	31 December 2012 RMB millions	31 December 2011 RMB millions (restated)	1 January 2011 RMB millions (restated)	31 December 2012 RMB millions	31 December 2011 RMB millions	1 January 2011 RMB millions
Third parties	56,333	34,749	30,840	49,065	30,182	27,697
China Telecom Group	11,473	8,911	8,571	10,968	8,199	8,021
Other telecommunications operators in the PRC	1,038	699	630	1,038	697	629
Subsidiaries	–	–	–	2,972	1,445	1,273
	68,844	44,359	40,041	64,043	40,523	37,620

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		
	31 December 2012 RMB millions	31 December 2011 RMB millions (restated)	1 January 2011 RMB millions (restated)	31 December 2012 RMB millions	31 December 2011 RMB millions	1 January 2011 RMB millions
Due within 1 month or on demand	18,427	13,075	10,310	13,588	10,568	8,967
Due after 1 month but within 3 months	17,783	11,610	8,626	17,770	11,260	8,047
Due after 3 months but within 6 months	15,831	8,054	9,830	15,931	7,794	9,693
Due after 6 months	16,803	11,620	11,275	16,754	10,901	10,913
	68,844	44,359	40,041	64,043	40,523	37,620

18. Accrued Expenses and Other Payables

Accrued expenses and other payables represent:

		The Group			The Company		
	Note	**31 December 2012 RMB millions**	31 December 2011 RMB millions (restated)	1 January 2011 RMB millions (restated)	**31 December 2012 RMB millions**	31 December 2011 RMB millions	1 January 2011 RMB millions
Amounts due to China Telecom Group	(i)	**40,745**	312	389	**40,420**	222	319
Amounts due to subsidiaries		**–**	–	–	**468**	272	125
Amounts due to other telecommunications operators in the PRC		**59**	78	85	**57**	78	85
Accrued expenses		**14,410**	14,280	14,401	**13,154**	13,509	13,691
Customer deposits and receipts in advance		**50,491**	44,698	37,584	**48,558**	43,282	36,587
Dividend payable		**31**	7	433	**–**	–	418
		105,736	59,375	52,892	**102,657**	57,363	51,225

Note:

(i) 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.

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	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Balance at beginning of year	**4,805**	6,203	**4,803**	6,203
Additions for the year				
– installation fees	**–**	373	**–**	373
– calling cards	**773**	1,275	**769**	1,267
	773	1,648	**769**	1,640
Reductions for the year				
– amortisation of connection fees	**–**	(98)	**–**	(98)
– amortisation of installation fees	**(1,233)**	(1,660)	**(1,233)**	(1,660)
– usage of calling cards	**(900)**	(1,288)	**(897)**	(1,282)
Balance at end of year	**3,445**	4,805	**3,442**	4,803
Representing:				
– current portion	**1,654**	2,093	**1,651**	2,091
– non-current portion	**1,791**	2,712	**1,791**	2,712
	3,445	4,805	**3,442**	4,803

Included in other assets are primarily capitalised direct costs associated with the installation of wireline services. As at 31 December 2012, the unamortised portion of these costs was RMB1,687 million (2011: RMB2,444 million).

20. Share Capital

	The Group and the Company	
	2012 RMB millions	2011 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 2011, as previously reported	16,767	10,746	62,634	438	(715)	74,826	164,696
Adjusted for the Sixth Acquisition (Note 1)	–	–	–	–	–	37	37
Balance as at 1 January 2011, as restated	16,767	10,746	62,634	438	(715)	74,863	164,733
Dividends (Note 32)	–	–	–	–	–	(5,763)	(5,763)
Acquisition of non-controlling interests	–	–	–	(1)	–	–	(1)
Acquisition of the Fifth Acquired Group	–	–	–	–	–	(19)	(19)
Distribution to China Telecom Group	–	–	–	–	–	(3)	(3)
Appropriations (Note (iii))	–	–	1,682	–	–	(1,682)	–
Total comprehensive income for the year, as restated	–	–	–	(154)	(103)	16,500	16,243
Balance as at 31 December 2011, as restated	16,767	10,746	64,316	283	(818)	83,896	175,190
Acquisition of the Sixth Acquired Business (Note 1)	**(48)**	**–**	**–**	**–**	**–**	**–**	**(48)**
Contribution from non-controlling interests	**249**	**–**	**–**	**–**	**–**	**–**	**249**
Others	**(380)**	**–**	**–**	**–**	**–**	**–**	**(380)**
Dividends (Note 32)	**–**	**–**	**–**	**–**	**–**	**(5,625)**	**(5,625)**
Appropriations (Note (iii))	**–**	**–**	**1,413**	**–**	**–**	**(1,413)**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(171)**	**(3)**	**14,925**	**14,751**
Balance as at 31 December 2012	**16,588**	**10,746**	**65,729**	**112**	**(821)**	**91,783**	**184,137**

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 2011	29,168	10,746	62,634	59,564	162,112
Total comprehensive income for the year	–	–	–	15,504	15,504
Appropriations (Note (iii))	–	–	1,682	(1,682)	–
Dividends (Note 32)	–	–	–	(5,763)	(5,763)
Balance as at 31 December 2011	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**

21. Reserves (continued)

Note:

(i) Capital reserve of the Group represents the sum of (a) the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation; and (b) the difference between the consideration paid by the Company for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation as described in Note 1, which were accounted for as equity transactions as disclosed in Note 1 to the financial statements, and the historical carrying amount of the net assets of these acquired entities.

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

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

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.

(iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As at 31 December 2012, the amount of retained earnings available for distribution was RMB74,494 million (2011: RMB67,623 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB5,522 million in respect of the financial year 2012 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:

		The Group	
	Note	**2012** **RMB millions**	2011 RMB millions (restated)
Wireline voice	(i)	**43,335**	49,764
Mobile voice	(ii)	**49,166**	38,628
Internet	(iii)	**87,660**	74,992
Value-added services	(iv)	**31,104**	25,554
Integrated information application services	(v)	**23,174**	20,473
Managed data and leased line	(vi)	**15,710**	14,273
Others	(vii)	**32,924**	21,286
Upfront connection fees	(viii)	**–**	98
		283,073	245,068

Note:

(i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections fees and installation fees charged to customers for the provision of wireline telephony services.

(ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.

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

(iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services.

(v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.

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

(vii) Represent primarily revenue from sale, rental and repair and maintenance of equipment.

(viii) Represent the amortised amount of the upfront fees received for initial activation of wireline services.

23. Network Operations and Support Expenses

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

	The Group	
	2012 RMB millions	2011 RMB millions (restated)
Operating and maintenance	24,766	20,814
Utility	7,822	7,040
Property rental and management fee	5,240	4,693
CDMA network capacity lease fee	25,546	19,011
Others	2,629	1,367
	66,003	52,925

24. Personnel Expenses

Personnel expenses are attributable to the following functions:

	The Group	
	2012 RMB millions	2011 RMB millions
Network operations and support	28,385	25,924
Selling, general and administrative	14,427	13,243
	42,812	39,167

25. Other Operating Expenses

Other operating expenses consist of:

	Note	The Group 2012 RMB millions	2011 RMB millions (restated)
Interconnection charges	(i)	**14,103**	13,042
Cost of goods sold	(ii)	**26,162**	15,730
Donations		**12**	13
Others		**64**	85
		40,341	28,870

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 2012 were RMB261,887 million (2011: RMB220,941 million) which include auditor's remuneration in relation to audit and non-audit services are RMB90 million and RMB6 million respectively (2011: RMB68 million and RMB4 million).

27. Net Finance Costs

Net finance costs comprise:

	The Group 2012 RMB millions	2011 RMB millions
Interest expense incurred	**2,479**	3,023
Less: Interest expense capitalised*	**(325)**	(313)
Net interest expense	**2,154**	2,710
Interest income	**(591)**	(405)
Foreign exchange losses	**47**	48
Foreign exchange gains	**(46)**	(99)
	1,564	2,254
* Interest expense was capitalised in construction in progress at the following rates per annum	**1.3% – 6.2%**	2.5% – 5.6%

28. Income Tax

Income tax in the profit or loss comprises:

	The Group	
	2012	2011
	RMB millions	RMB millions
Provision for PRC income tax	**4,900**	3,635
Provision for income tax in other tax jurisdictions	**50**	29
Deferred taxation	**(197)**	1,752
	4,753	5,416

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

		The Group	
		2012	2011
	Note	**RMB millions**	RMB millions
			(restated)
Profit before taxation		**19,793**	22,012
Expected income tax expense at statutory tax rate of 25%	(i)	**4,948**	5,503
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(269)**	(255)
Differential tax rate on other subsidiaries' income	(ii)	**(23)**	(3)
Non-deductible expenses	(iii)	**539**	489
Non-taxable income	(iv)	**(156)**	(291)
Effect of change in tax rate	(v)	**155**	–
Others	(vi)	**(441)**	(27)
Actual income tax expense		**4,753**	5,416

Note:

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

(ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 35%.

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

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

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

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

29. Directors' and Supervisors' Remuneration

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

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
Executive directors						
Wang Xiaochu	–	337	377	62	–	776
Yang Jie	–	337	386	59	–	782
Wu Andi	–	293	344	59	–	696
Zhang Jiping	–	293	344	59	–	696
Zhang Chenshuang[1]	–	122	337	24	–	483
Yang Xiaowei	–	293	340	59	–	692
Sun Kangmin	–	293	340	59	–	692
Ke Ruiwen[2]	–	171	171	36	–	378
Non-executive directors						
Li Jinming[3]	–	–	–	–	–	–
Chen Liangxian[4]	–	–	–	–	–	–
Independent non-executive directors						
Wu Jichuan	200	–	–	–	–	200
Qin Xiao	203	–	–	–	–	203
Tse Hau Yin	405	–	–	–	–	405
Cha May Lung	203	–	–	–	–	203
Xu Erming	200	–	–	–	–	200
Supervisors						
Shao Chunbao[6]	–	49	49	10	–	108
Miao Jianhua[5]	–	245	289	48	–	582
Mao Shejun	–	173	450	59	–	682
Zhang Jianbin[6]	–	45	62	19	–	126
Xu Cailiao[5]	–	83	303	42	–	428
Han Fang[5]	–	225	316	42	–	583
Hu Jing[6]	–	10	22	8	–	40
Du Zuguo	–	–	–	–	–	–
Independent supervisor						
Zhu Lihao	100	–	–	–	–	100
	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 30 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.

29. Directors' and Supervisors' Remuneration (continued)

2011	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
Executive directors						
Wang Xiaochu	–	350	339	60	1,400	2,149
Yang Jie	–	311	305	52	1,120	1,788
Shang Bing[1]	–	237	227	50	–	514
Wu Andi	–	304	305	53	1,120	1,782
Zhang Jiping	–	304	305	52	1,120	1,781
Zhang Chenshuang[2]	–	304	305	53	–	662
Yang Xiaowei	–	304	305	52	–	661
Sun Kangmin	–	304	305	52	1,120	1,781
Non-executive director						
Li Jinming	–	–	–	–	–	–
Independent non-executive directors						
Wu Jichuan	176	–	–	–	–	176
Qin Xiao	178	–	–	–	–	178
Tse Hau Yin	405	–	–	–	–	405
Cha May Lung	184	–	–	–	–	184
Xu Erming	176	–	–	–	–	176
Supervisors						
Miao Jianhua	–	304	305	53	–	662
Mao Shejun[3]	–	166	450	53	933	1,602
Du Zuguo[3]	–	–	–	–	–	–
Ma Yuzhu[3]	–	69	319	27	–	415
Xu Cailiao	–	93	307	43	513	956
Han Fang	–	92	302	42	513	949
Independent supervisor						
Zhu Lihao	88	–	–	–	–	88
	1,207	3,142	4,079	642	7,839	16,909

1 Mr. Shang Bing resigned as an executive director of the Company on 13 July 2011.

2 Mr. Zhang Chenshuang retired as an executive director of the Company on 20 March 2012.

3 Mr. Ma Yuzhu resigned as a supervisor of the Company on 20 May 2011. Mr. Mao Shejun and Mr. Du Zuguo were appointed as supervisors of the Company on 20 May 2011.

4 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

None of the five highest paid individuals of the Group for the year ended 31 December 2012 were directors of the Company. Of the five highest paid individuals of the Group for the year ended 31 December 2011, three of them were directors of the Company and whose remuneration was disclosed in Note 29.

The aggregate of the emoluments in respect of the five (2011: two) individuals (non-directors) are as follows:

	2012 RMB thousands	2011 RMB thousands
Salaries, allowances and benefits in kind	5,713	2,035
Discretionary bonuses	2,588	931
Retirement scheme contributions	118	226
Share-based payment	–	1,201
	8,419	4,393

The emoluments of the five (2011: two) individuals (non-directors) with the highest emoluments are within the following bands:

	2012 Number of individuals	2011 Number of individuals
RMB0 – RMB1,000,000	0	0
RMB1,000,001 – RMB1,500,000	2	0
RMB1,500,001 – RMB2,000,000	2	0
RMB2,000,001 – RMB2,500,000	1	2

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

(b) Senior management remuneration

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

	2012 Number of individuals	2011 Number of individuals
RMB0 – RMB1,000,000	26	15
RMB1,000,001 – RMB1,500,000	0	1
RMB1,500,001 – RMB2,000,000	0	6
RMB2,000,001 – RMB2,500,000	1	2

31. Profit Attributable to Equity Holders 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.

For the year ended 31 December 2011, the consolidated profit attributable to equity holders of the Company includes a profit of RMB15,722 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 20 March 2013, a final dividend of equivalent to HK$0.085 per share totaling approximately RMB5,522 million for the year ended 31 December 2012 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2012.

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 and the remaining amounts were paid by December 2012.

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

33. Basic Earnings per Share

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

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Within 1 year	**2,119**	18,182	**1,995**	18,076
Between 1 to 2 years	**1,195**	782	**1,118**	711
Between 2 to 3 years	**877**	600	**819**	560
Between 3 to 4 years	**686**	413	**636**	391
Thereafter	**2,042**	1,126	**1,877**	1,111
Total minimum lease payments	**6,919**	21,103	**6,445**	20,849

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2012 was RMB29,529 million (2011: RMB22,539 million).

Capital commitments

As at 31 December 2012 and 2011, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2012 RMB millions	2011 RMB millions	**2012 RMB millions**	2011 RMB millions
Authorised and contracted for				
– property	**462**	674	**462**	674
– telecommunications network plant and equipment	**6,641**	5,695	**6,606**	5,669
	7,103	6,369	**7,068**	6,343
Authorised but not contracted for				
– property	**764**	801	**764**	801
– telecommunications network plant and equipment	**8,401**	5,927	**8,377**	5,830
	9,165	6,728	**9,141**	6,631

34. Commitments and Contingencies (continued)

Contingent liabilities

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

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

As at 31 December 2012 and 2011, 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 include cash and cash equivalents, time deposits, investments, accounts receivable, advances and other receivables. Financial liabilities of the Group include short-term and long-term debts and payable, accounts payable, accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

(a) Fair Value

The amendments to IFRS 7, *Financial Instruments: Disclosures*, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is 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 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

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

35. Financial Instruments (continued)

(a) Fair Value (continued)

The Group's available-for-sale equity investment securities are categorised as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities is RMB585 million as at 31 December 2012 (2011: RMB617 million) was based on quoted market price on a PRC stock exchange. The Group's long-term investments, other than the available-for-sale equity investment securities, are unlisted equity interests for which no quoted market prices exist in the PRC and accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs.

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

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

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

(b) Risks

The Group's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which comprises of interest rate risk and foreign currency exchange rate risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, credit risk, and market risk. The Board regularly reviews these policies and 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, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunications services. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for accounts receivable are set out in Note 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 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.

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's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates at the end of the reporting period) and the earliest date the Group would be required to repay:

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

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

Management believes that the Group'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's working capital requirements and repay its borrowings and obligations when they become due.

35. Financial Instruments (continued)

(b) Risks (continued)

(iii) Interest rate risk

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

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

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

As at 31 December 2012, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group's net profit for the year and retained earnings by approximately RMB468 million (2011: RMB14 million).

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2011.

(iv) Foreign currency exchange rate risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to bank deposits and borrowings denominated primarily in US dollars, Euros, Japanese Yen and Hong Kong dollars.

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 97.6% (2011: 94.4%) of the Group's cash and cash equivalents and 98.9% (2011: 94.7%) of the Group's short-term and long-term debt and payable as at 31 December 2012 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 2012, the Group's total debt-to-total assets ratio was 18.3% (2011: 12.4%), 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.

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. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the report of directors.

	Note	2012 RMB millions	2011 RMB millions
Purchases of telecommunications equipment and materials	(i)	**3,029**	2,764
Sales of telecommunications equipment and materials	(i)	**2,685**	1,642
Construction and engineering services	(ii)	**10,203**	8,293
Provision of IT services	(iii)	**370**	365
Receiving IT services	(iii)	**764**	692
Receiving community services	(iv)	**2,652**	2,362
Receiving ancillary services	(v)	**9,541**	7,878
Operating lease expenses	(vi)	**366**	395
Net transaction amount of centralised services	(vii)	**570**	625
Interconnection revenues	(viii)	**44**	48
Interconnection charges	(viii)	**410**	498
Interest on loans from China Telecom Group	(ix)	**24**	208
CDMA network capacity lease fee	(x)	**25,546**	19,011
Reimbursement of capacity maintenance related costs of CDMA network	(xi)	**2,519**	3,151
Mobile Network Acquisition	(xii)	**87,210**	–

37. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Note:

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

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

(iii) Represent IT services provided by and received from China Telecom Group.

(iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.

(v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.

(vi) Represent net amounts paid and payable to China Telecom Group for leases of business premises and the amounts paid and payable to China Telecom Group for inter-provincial transmission optic fibres.

(vii) Represent net amount shared between the Company and China Telecom Group for costs associated with 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 loans from China Telecom Group (Note 16).

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

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

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

37. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

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

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

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

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

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

37. Related Party Transactions (continued)

(b) Key management personnel compensation

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

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

	2012 RMB thousands	2011 RMB thousands
Short-term employee benefits	9,041	9,037
Post-employment benefits	704	696
Equity-based compensation benefits	–	8,959
	9,745	18,692

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").

Apart from transactions with parent company and its affiliates (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 money
- use of public utilities

37. Related Party Transactions (continued)

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

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 2012 were RMB5,048 million (2011: RMB4,529 million).

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

39. Stock Appreciation Rights (continued)

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

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

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of five years from date of grant and an exercise price of HK$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As 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%, 66% and 100%, respectively, of the total stock appreciation rights granted to such person.

During the year ended 31 December 2012, no stock appreciation right units were exercised. During the year ended 31 December 2011, 412 million stock appreciation right units were exercised. For the year ended 31 December 2012, compensation expense of RMB163 million was recognised by the Group in respect of stock appreciation rights. For the year ended 31 December 2011, compensation expense of RMB328 million was recognised by the Group in respect of stock appreciation rights.

As at 31 December 2012, the carrying amount of the liability arising from stock appreciation rights was RMB163 million (2011: RMB28 million). As at 31 December 2012, no stock appreciation right units were vested. As at 31 December 2011, all stock appreciation right units vested were exercised.

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 3. Management believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

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 3(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 2012, no provision for impairment losses were made against the carrying value of property, plant and equipment (2011: 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. Management reviews the expected customer relationship period annually in order to estimate the amount of amortisation expense to be recorded during any reporting period. The expected customer relationship period is based on the estimate period over which future economic benefits will be received by the Group and takes into account the level of future competition, the risk of technological or functional obsolescence of its services, and the expected changes in the regulatory and social environment. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

41. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2012

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

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

41. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2012 (continued)

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 2012. So far the Group believes that the adoption of these amendments, new standards and interpretations may result in new or amended disclosures, it is unlikely to have a significant impact on its financial position and the results of operations.

42. Comparative Figures

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

43. Parent and Ultimate Holding Company

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