Notes to the Financial Statements

For the year ended 31 December 2009

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, Xinjiang Uygur Autonomous Region and Hong Kong Special Administrative Region of the People's Republic of China (the "PRC"). Following the acquisition of Code Division Multiple Access ("CDMA") mobile communication business in October 2008, the Group also provides nation-wide mobile telecommunications and related services in the mainland of the PRC and the Macau Special Administrative Region of the PRC. The Group also provides leased line and other related services in certain countries of the Asia Pacific, South America and North America regions.

The operations of the Group in the mainland PRC are subject to the supervision and regulation by the PRC government. The Ministry of Industry and Information Technology of the PRC (hereinafter "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

China Telecommunications Corporation (together with its subsidiaries other than the Group referred to as "China Telecom Group") is a state-owned enterprise which is under the supervision and regulation of the MIIT of the PRC. In November 2001, pursuant to an industry restructuring plan approved by the State Council, China Telecommunications Corporation's wireline telecommunications networks and related operations in 10 northern provinces, municipalities and autonomous regions of the PRC were transferred to the former China Netcom Group (subsequently merged with China United Network Communications Group Company Limited). China Telecommunications Corporation retained the wireline telecommunications networks and related operations of 21 provinces, municipalities and autonomous regions of the PRC, including those of the Company's subsidiaries. In accordance with this industry restructuring plan, China Telecommunications Corporation and the former China Netcom Group own 70% and 30%, respectively, of the nationwide inter-provincial optic fibres.

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.

Pursuant to the resolution passed by the Company's independent shareholders at an Extraordinary General Meeting held on 15 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 on 31 December 2003 (hereinafter, referred to as the "First Acquisition"). The purchase price consisted of a cash payment of RMB11,000 million and a long-term payable of RMB35,000 million. The remaining balance of the long-term payable was settled in October 2008.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

Organisation *(continued)*

Pursuant to the resolution passed by the Company's independent shareholders at an Extraordinary General Meeting held on 9 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 on 30 June 2004 (hereinafter, referred to as the "Second Acquisition"). The purchase price consisted of a cash payment of RMB8,340 million and a long-term payable of RMB19,460 million. On 30 June 2004, the Company repaid RMB4,310 million of this payable amount using the net proceeds from the issuance of new H shares in May 2004. The remaining balance of the long-term payable was settled in March 2009.

Pursuant to an equity purchase agreement entered into by the Company with China Telecommunications Corporation on 15 June 2007, the Company acquired the entire equity interests in China Telecom System Integration Co., Ltd. ("CTSI"), China Telecom (Hong Kong) International Limited ("CT (HK)") and China Telecom (Americas) Corporation ("CT Americas") (collectively the "Third Acquired Group") from China Telecommunications Corporation for a total purchase price of RMB1,408 million (hereinafter, referred to as the "Third Acquisition"). The purchase price was fully paid in July 2007.

Pursuant to an acquisition agreement entered into by the Company and China Telecommunications Corporation on 31 March 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"). The purchase price was fully paid in July 2008.

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

Basis of presentation

Since the Group is under common control of China Telecommunications Corporation, the Group's above acquisitions 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 consideration for the acquisition of these entities are accounted for as an equity transaction in the consolidated statement of changes in equity.

Merger with subsidiaries

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and interpretations. These financial statements 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 property, plant and equipment (Note 2(g)) and available-for-sale equity securities (Note 2(m)). The accounting policies described below have been consistently applied by the Group.

The preparation of the 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 are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 estimates with a significant risk of material adjustment in future financial periods are described in Note 39.

(b) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interests in associates. A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases, and the profit attributable to minority 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 minority interests and the equity holders of the Company. Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries. Minority 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 equity attributable to the equity holders of the Company.

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 and adjusted thereafter for the Group's equity share of the post-acquisition changes in the associate's net assets.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies *(continued)*

(b) Basis of consolidation *(continued)*

All significant intercompany balances and transactions and any 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.

(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 PRC is RMB. The functional currency of CT (HK), CT Americas, China Telecom (Macau) Company Limited ("CT Macau") and China Telecom (Singapore) Pte. Limited ("CT Singapore") is Hong Kong dollars (HK$), US dollars (US$), Macau Pataca (MOP) and Singapore dollars (S$) 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 2(i)), are recognised as income or expense in profit or loss. For the periods presented, no exchange differences were capitalised.

When preparing the Group's consolidated financial statements, the results of operations of CT (HK), CT Americas, CT Macau and CT Singapore are translated into Renminbi at average rate prevailing during the year. Statement of financial position items of CT (HK) and CT Americas, CT Macau and CT Singapore are translated into Renminbi 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 less allowance for impairment of doubtful debts (Note 2(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 and the estimated costs necessary to make the sale.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

Subsequent to the revaluation as described in Note 4, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. The separate classes into which the Company groups assets for the revaluation are buildings and improvements; telecommunications network plant and equipment; and furniture, fixture, motor vehicles and other equipment. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity in the revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the profit or loss. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Revaluations are performed annually on items which experience significant and volatile movements in fair value while items which experience insignificant movements in fair value are revalued every three to five years.

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 2009, the carrying amount of assets held under finance leases was RMB80 million (2008: RMB93 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. On retirement or disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies *(continued)*

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

Depreciation is provided to write off the cost/revalued amount 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 or valuation 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 and then charged to profit or loss on a straight-line basis over the respective periods of the rights which range from 20 years to 70 years.

(i) Construction in progress

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

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

(k) Intangible assets

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

Computer software that is not an integral part of any tangible assets, is recorded at cost less subsequent accumulated amortisation and impairment losses (Note 2(o)). Amortisation of computer software is calculated on a straight-line basis over the estimated useful lives, which mainly range from three to five years.

The customer relationships acquired in the CDMA acquisition are recorded at the acquisition-date fair value and amortised on a straight-line basis over the expected customer relationship of five years.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies *(continued)*

(l) Investments in subsidiaries

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

(m) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value being recognised in other comprehensive income and accumulated separately in equity. 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 2(o)).

(n) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments 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. 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.

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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies *(continued)*

(o) Impairment *(continued)*

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

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss 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 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, DLD and ILD usage are recognised as the services are provided.

(ii) Upfront fees received for activation of wireline services and wireline installation charges are deferred and recognised over the expected customer relationship period. The direct incremental costs associated with the installation of wireline services are deferred to the extent of the upfront fees and are amortised over the same expected customer relationship period.

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

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

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

(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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies *(continued)*

(q) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB22,360 million for the year ended 31 December 2009 (2008: RMB12,776 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 2009, research and development expense was RMB545 million (2008: RMB490 million).

(t) Employee benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government are recognised in profit or loss as incurred. Further information is set out in Note 37.

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 38.

(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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

2. Significant Accounting Policies *(continued)*

(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.

(y) Dividends

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

(z) Segmental reporting

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's 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 no operating segments as the Group is only engaged in the integrated telecommunication business. The Group's assets and operating revenues derived from activities located outside the PRC are less than 1% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such information is immaterial.

3. Changes in Accounting Policy, Financial Statement Presentation and Disclosures

The IASB has issued a number of new and revised IFRS and Interpretations that are effective or available for early adoption for accounting periods beginning on or after 1 January 2009. The Group has adopted these new and revised IFRS in the preparation of the Group's financial statements for the year ended 31 December 2009. The Group has not applied any new standard or interpretations that is not yet effective for the current accounting period (Note 40).

The accounting policies of the Group after the adoption of these new and revised IFRS have been summarised in Note 2. The following sets out further information on the changes in accounting policies, financial statement presentation and disclosures for the annual accounting period beginning on 1 January 2009 which have been reflected in these financial statements.

(i) IAS 1 (revised 2007), "Presentation of financial statements"

In prior years, the Group's consolidated financial statements comprised the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and other explanatory notes. Income and expenses recognised in profit or loss were presented in the consolidated income statement. All changes in equity during the year arising from transactions with equity shareholders in their capacity and other income and expenses that the Group recognised directly in equity in accordance with IFRS were presented in the consolidated statement of changes in equity.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

3. Changes in Accounting Policy, Financial Statement Presentation and Disclosures *(continued)*

(i) IAS 1 (revised 2007), "Presentation of financial statements" *(continued)*

As a result of the adoption of IAS 1 (revised 2007), the Group's consolidated income statement is replaced by the consolidated statement of comprehensive income. All income and expenses recognised in profit or loss, together with other income and expenses that were previously recognised directly in equity in accordance with IFRS are now presented in the consolidated statement of comprehensive income. Comparative amounts have been restated to conform with the new presentation. This change in presentation has no effect on reported profit or loss, total income and expenses or net assets for any periods presented. In addition, the term "consolidated balance sheet" has been changed to "consolidated statement of financial position" in accordance with IAS 1 (revised 2007).

(ii) IFRIC 13, "Customer loyalty programmes"

The Group has launched a customer loyalty scheme to its telephony and Internet service subscribers that provides subscribers with bonus point credits. The bonus point credits can be redeemed for free telecommunication services or other gifts.

In prior years, the Group recognised bonus point credits associated with the customer loyalty scheme as a current liability based on the estimated fair value of the bonus point credits granted to subscribers, with a corresponding charge to selling, general and administrative expense. When the subscribers redeemed the awards or when the bonus point credits expired, the liability was reduced accordingly to reflect the change in outstanding obligations.

As a result of the adoption of IFRIC 13 which is effective for accounting period beginning on or after 1 July 2008, the Group accounts for bonus point credits associated with the customer loyalty scheme as a separately identifiable component of the sales transaction in which bonus point credits are granted. The fair value of the consideration received or receivable is allocated between bonus point credits and other components of the sale transaction based on their relative fair values. Consideration allocated to bonus point credits is initially recorded as a current liability which is subsequently recognised as revenue when the bonus point credits are redeemed by subscribers or the bonus point credits expire. The costs of gifts redeemed by subscribers is recognised as other operating expenses.

The following table summarises the retrospective adjustments that have been made in accordance with IFRIC 13 to each of the line items in the consolidated statement of comprehensive income for the year ended 31 December 2008:

	Effect of adoption of IFRIC 13 ((decrease)/increase for the year) RMB millions
Operating revenues	(272)
Selling, general and administrative expenses	(434)
Other operating expenses	162

As a result of the adoption of IFRIC 13, the Group's operating revenues and selling, general and administrative expenses decreased by RMB92 million and RMB227 million respectively while other operating expenses increased by RMB135 million for the year ended 31 December 2009. The adoption of IFRIC 13 did not have any effect on the Group's net profit and total comprehensive income for the periods presented.

(iii) Amendments to IFRS 7, "Financial Instruments: Disclosure"

As a result of the adoption of the amendments to IFRS 7, Note 34(a) contains disclosures about the fair value measurement of the Group's financial instruments, including categorising these fair value measurements into a three-level fair value hierarchy.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

4. Property, Plant and Equipment, Net

The Group:

	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/valuation:				
Balance at 1 January 2008	81,881	576,153	20,208	678,242
Additions	100	1,014	871	1,985
Transferred from construction in progress	2,511	40,784	1,584	44,879
Acquisition of CDMA business	920	1,622	91	2,633
Disposals	(148)	(14,564)	(991)	(15,703)
Reclassification	—	174	(174)	—
Balance at 31 December 2008	85,264	605,183	21,589	712,036
Additions	**185**	**852**	**745**	**1,782**
Transferred from construction in progress	**2,013**	**33,596**	**1,277**	**36,886**
Disposals	**(293)**	**(17,535)**	**(1,330)**	**(19,158)**
Reclassification	**9**	**42**	**(51)**	**—**
Balance at 31 December 2009	**87,178**	**622,138**	**22,230**	**731,546**
Accumulated depreciation and impairment:				
Balance at 1 January 2008	(20,117)	(316,560)	(12,273)	(348,950)
Acquisition of CDMA business	—	(27)	(9)	(36)
Depreciation charge for the year	(3,436)	(46,661)	(2,160)	(52,257)
Provision for impairment	(36)	(24,131)	—	(24,167)
Written back on disposal	76	11,545	912	12,533
Reclassification	—	(99)	99	—
Balance at 31 December 2008	(23,513)	(375,933)	(13,431)	(412,877)
Depreciation charge for the year	**(3,643)**	**(42,889)**	**(2,165)**	**(48,697)**
Provision for impairment	**—**	**(753)**	**—**	**(753)**
Written back on disposal	**239**	**15,605**	**1,265**	**17,109**
Reclassification	**3**	**(21)**	**18**	**—**
Balance at 31 December 2009	**(26,914)**	**(403,991)**	**(14,313)**	**(445,218)**
Net book value at 31 December 2009	**60,264**	**218,147**	**7,917**	**286,328**
Net book value at 31 December 2008	61,751	229,250	8,158	299,159

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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/valuation:				
Balance at 1 January 2008	216	468	177	861
Transferred from subsidiaries	80,852	570,381	19,506	670,739
Additions	93	954	755	1,802
Transferred from construction in progress	2,422	40,647	1,523	44,592
Acquisition of CDMA business	913	1,511	36	2,460
Disposals	(148)	(14,393)	(954)	(15,495)
Reclassification	—	177	(177)	—
Balance at 31 December 2008	84,348	599,745	20,866	704,959
Additions	**172**	**771**	**688**	**1,631**
Transferred from construction in progress	**1,967**	**33,474**	**1,201**	**36,642**
Disposals	**(233)**	**(15,950)**	**(1,284)**	**(17,467)**
Reclassification	**27**	**32**	**(59)**	**—**
Balance at 31 December 2009	**86,281**	**618,072**	**21,412**	**725,765**
Accumulated depreciation:				
Balance at 1 January 2008	(2)	(145)	(73)	(220)
Transferred from subsidiaries	(19,769)	(313,326)	(11,855)	(344,950)
Depreciation charge for the year	(3,409)	(46,320)	(2,090)	(51,819)
Provision for impairment	(36)	(24,131)	—	(24,167)
Written back on disposal	76	11,438	884	12,398
Reclassification	—	(83)	83	—
Balance at 31 December 2008	(23,140)	(372,567)	(13,051)	(408,758)
Depreciation charge for the year	**(3,584)**	**(42,564)**	**(2,072)**	**(48,220)**
Provision for impairment	**—**	**(753)**	**—**	**(753)**
Written back on disposal	**190**	**14,179**	**1,225**	**15,594**
Reclassification	**(1)**	**(18)**	**19**	**—**
Balance at 31 December 2009	**(26,535)**	**(401,723)**	**(13,879)**	**(442,137)**
Net book value at 31 December 2009	**59,746**	**216,349**	**7,533**	**283,628**
Net book value at 31 December 2008	61,208	227,178	7,815	296,201

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

In accordance with the Group's accounting policy (Note 2(g)), the property, plant and equipment of the Group as at 31 December 2007 were revalued for each asset class by the Group on a depreciated replacement cost basis. The property, plant and equipment as at 31 December 2007 was revalued at RMB326,123 million. The surplus on revaluation of certain property, plant and equipment totalling RMB4,809 million was credited to the other comprehensive income for the year ended 31 December 2007 and accumulated separately in equity in the revaluation reserve while the deficit on revaluation of certain property, plant and equipment totalling RMB2,755 million was recognised as an expense in profit or loss for the year ended 31 December 2007.

The following is a summary of the carrying value of the Group's property, plant and equipment (excluding Beijing Telecom) before the revaluation and the revalued amounts of these assets as at 31 December 2007:

	Carrying value before the revaluation RMB millions	**Revaluation surplus** RMB millions	**Revaluation deficit** RMB millions	**Revalued amounts** RMB millions
Buildings and improvements	56,913	3,578	—	60,491
Telecommunications network plant and equipment	259,349	1,231	(2,754)	257,826
Furniture, fixture, motor vehicles and other equipment	7,807	—	(1)	7,806
	324,069	4,809	(2,755)	326,123

For the year ended 31 December 2008, an impairment loss on property, plant and equipment of RMB24,167 million was recognised, which included an impairment loss on wireless access service ("PHS") specific equipment of RMB23,954 million. The recoverable amounts of the PHS specific equipment were determined based on the asset held in use model that estimated the future cash flows and outflows to be derived from continuing use of the asset for three years and from its ultimate disposal and applying a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. The primary factor resulting in the impairment loss was due to lower revenue expected to be generated from this equipment following the acquisition of the CDMA business and execution of full services integrated operations.

For the year ended 31 December 2009, an impairment loss on property, plant and equipment of RMB753 million was recognised which mainly represented impairment made in respect of the Digital Data Network ("DDN") specific equipment. The recoverable amounts of the DDN specific equipment were determined based on the asset held in use model that estimated the future cash flows and outflows to be derived from continuing use of the asset lives and from its ultimate disposal and applying a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. The primary factor resulting in the impairment loss was due to the decrease in customer demand for DDN service and its technology being gradually substituted by other technologies.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

5. Construction in Progress

	The Group RMB millions	The Company RMB millions
Balance at 1 January 2008	13,626	202
Additions	46,328	46,024
Transferred from subsidiaries	—	13,338
Transferred to property, plant and equipment	(44,879)	(44,592)
Transferred to intangible assets	(1,460)	(1,447)
Balance at 31 December 2008	13,615	13,525
Additions	**36,220**	**35,961**
Transferred to property, plant and equipment	**(36,886)**	**(36,642)**
Transferred to intangible assets	**(1,382)**	**(1,369)**
Balance at 31 December 2009	**11,567**	**11,475**

6. Goodwill

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Cost:				
Goodwill arising from acquisition of CDMA business	**29,922**	29,922	**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 Limited (currently known as China Unicom (Hong Kong) Limited) and China Unicom Corporation Limited (currently known as China United Network Communications Corporation Limited) (collectively "China Unicom"). The purchase price of the business combination was RMB43,800 million. 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

6. Goodwill *(continued)*

The fair value of the identifiable assets acquired and liabilities assumed on acquisition date and the purchase price allocation are as follows:

	Pre-acquisition carrying amounts RMB millions	Fair value adjustments RMB millions	Recognised values on acquisition RMB millions
Property, plant and equipment	2,892	(295)	2,597
Lease prepayments	181	—	181
Deferred tax assets	23	—	23
Intangible assets	15	11,286	11,301
Other non-current assets	208	30	238
Inventories	487	(234)	253
Accounts receivable	737	—	737
Prepayment and other current assets	16	—	16
Cash and cash equivalents	1,150	—	1,150
Accounts payable	(385)	—	(385)
Accrued expenses and other payables	(5,583)	—	(5,583)
Tax payable	(32)	—	(32)
Identifiable net assets acquired			10,496
Minority interest			(5)
Goodwill			29,922
Total cost of acquisition, including direct transaction cost of RMB84 million			40,413
Consideration payable			(13,223)
Settlement amount due from China Unicom in relation to the acquisition (reduction to the original purchase price)			3,471
Cash acquired			(1,150)
Net cash outflow			29,511

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

6. Goodwill *(continued)*

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 telecommunication business.

For purposes of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's telecommunication business. The recoverable amount of the Group's telecommunication 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%. Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1%. Management performed impairment tests for the goodwill and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

The operating revenue from CDMA mobile services for the period from 1 October 2008 to 31 December 2008 was RMB6,154 million. The amount of net income or loss of the acquired CDMA business since the acquisition date included in the consolidated statements of comprehensive income for the year ended 31 December 2008 and the amounts of operating revenues and net income or loss of the Group for the year ended 31 December 2008 as though the CDMA business was acquired as of 1 January 2008 have not been provided because the disclosure of such information was impracticable. The reason why such disclosure was considered impracticable was because no discrete and/or historical profit or loss or operating revenues information of the CDMA business for the relevant periods was available or existed to determine the disclosure amounts. The Group has made every reasonable effort to provide such information, however, after considering the number of significant adjustments and estimates that would be required to be made, the Group determine that, without any objective information, it was impossible to provide such information that is reliable and meaningful.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

7. Intangible Assets

The Group:

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2008	4,600	—	4,600
Additions	148	—	148
Acquisition of CDMA business	63	11,238	11,301
Transferred from construction in progress	1,460	—	1,460
Disposals	(113)	—	(113)
Balance at 31 December 2008	6,158	11,238	17,396
Additions	**111**	**—**	**111**
Transferred from construction in progress	**1,382**	**—**	**1,382**
Disposals	**(64)**	**—**	**(64)**
Balance at 31 December 2009	**7,587**	**11,238**	**18,825**
Accumulated amortisation:			
Balance at 1 January 2008	(1,786)	—	(1,786)
Amortisation charge for the year	(917)	(562)	(1,479)
Provision for impairment	(5)	—	(5)
Written back on disposal	109	—	109
Balance at 31 December 2008	(2,599)	(562)	(3,161)
Amortisation charge for the year	**(1,162)**	**(2,248)**	**(3,410)**
Provision for impairment	**(3)**	**—**	**(3)**
Written back on disposal	**60**	**—**	**60**
Balance at 31 December 2009	**(3,704)**	**(2,810)**	**(6,514)**
Net book value at 31 December 2009	**3,883**	**8,428**	**12,311**
Net book value at 31 December 2008	3,559	10,676	14,235

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

7. Intangible Assets *(continued)*

The Company:

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2008	68	—	68
Transferred from subsidiaries	4,364	—	4,364
Additions	115	—	115
Transferred from construction in progress	1,447	—	1,447
Acquisition of CDMA business	51	11,238	11,289
Disposals	(104)	—	(104)
Balance at 31 December 2008	5,941	11,238	17,179
Additions	**70**	**—**	**70**
Transferred from construction in progress	**1,369**	**—**	**1,369**
Disposals	**(60)**	**—**	**(60)**
Balance at 31 December 2009	**7,320**	**11,238**	**18,558**
Accumulated amortisation:			
Balance at 1 January 2008	(44)	—	(44)
Transferred from subsidiaries	(1,628)	—	(1,628)
Amortisation charge for the year	(893)	(562)	(1,455)
Provision for impairment	(5)	—	(5)
Written back on disposal	100	—	100
Balance at 31 December 2008	(2,470)	(562)	(3,032)
Amortisation charge for the year	**(1,131)**	**(2,248)**	**(3,379)**
Provision for impairment	**(3)**	**—**	**(3)**
Written back on disposal	**57**	**—**	**57**
Balance at 31 December 2009	**(3,547)**	**(2,810)**	**(6,357)**
Net book value at 31 December 2009	**3,773**	**8,428**	**12,201**
Net book value at 31 December 2008	3,471	10,676	14,147

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

8. Investments in Subsidiaries

	The Company	
	2009 RMB millions	2008 RMB millions
Unquoted investments, at cost	**8,555**	8,435

Pursuant to the resolution passed by the Company's shareholders at an Extraordinary General Meeting held on 25 February 2008, certain of the Company's subsidiaries were merged into the Company in an internal reorganisation. Details of the Company's principal subsidiaries at 31 December 2009 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 (Hong Kong) International Limited	Limited Company	25 February 2000	Hong Kong Special Administrative Region of the PRC	HK$10,000	Provision of international value-added network services
China Telecom (Americas) Corporation	Limited Company	22 November 2001	The United States of America	US$43 million	Provision of telecommunication 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 (formerly known as "China Unicom (Macau) Company Limited")	Limited Company	15 October 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunication services
Tianyi Telecom Terminals Company Limited (formerly known as "Unicom Huasheng Telecommunications Technology 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

All of the above subsidiaries are directly or indirectly wholly-owned by the Company.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

9. Interests in Associates

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Unlisted equity investments, at cost	**344**	330	**736**	737
Share of post-acquisition changes in net assets	**653**	552	**—**	—
	997	882	**736**	737

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 associates are as follows:

Name of company	Attributable equity interest	Principal activities
Shenzhen Shekou Telecommunications Company Limited	50%	Provision of telecommunications services
Shanghai Information Investment Incorporation	24%	Provision of information technology consultancy services

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

10. Investments

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Available-for-sale equity securities	**690**	85	**138**	85
Other unlisted equity investments	**32**	92	**10**	92
	722	177	**148**	177

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

11. Deferred Tax Assets and Liabilities

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

The Group:

	Assets		Liabilities		Net balance	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Current						
Provisions and impairment losses, primarily for doubtful debts	**931**	726	**—**	—	**931**	726
Non-current						
Property, plant and equipment	**5,145**	6,738	**(1,748)**	(1,982)	**3,397**	4,756
Deferred revenues and installation costs	**1,229**	1,424	**(732)**	(821)	**497**	603
Land use rights	**5,593**	5,740	**—**	—	**5,593**	5,740
Available-for-sale equity securities	**—**	—	**(133)**	(13)	**(133)**	(13)
Deferred tax assets/(liabilities)	**12,898**	14,628	**(2,613)**	(2,816)	**10,285**	11,812

Movements in temporary differences are as follows:

	Note	Balance at 1 January 2008 RMB millions	Acquisition of CDMA business RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 31 December 2008 RMB millions
Current					
Provisions and impairment losses, primarily for doubtful debts		559	23	144	726
Non-current					
Property, plant and equipment		(1,003)	—	5,759	4,756
Deferred revenues and installation costs		768	—	(165)	603
Land use rights	(i)	5,872	—	(132)	5,740
Available-for-sale equity securities		(36)	—	23	(13)
Net deferred tax assets		6,160	23	5,629	11,812

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

	Note	Balance at 1 January 2009 RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 31 December 2009 RMB millions
Current				
Provisions and impairment losses, primarily for doubtful debts		726	205	931
Non-current				
Property, plant and equipment		4,756	(1,359)	3,397
Deferred revenues and installation costs		603	(106)	497
Land use rights	(i)	5,740	(147)	5,593
Available-for-sale equity securities		(13)	(120)	(133)
Net deferred tax assets		11,812	(1,527)	10,285

The Company:

	Assets		Liabilities		Net balance	
	2009 RMB millions	2008 RMB millions	2009 RMB millions	2008 RMB millions	2009 RMB millions	2008 RMB millions
Current						
Provisions and impairment losses, primarily for doubtful debts	895	695	—	—	895	695
Non-current						
Property, plant and equipment	5,113	6,702	(1,742)	(1,978)	3,371	4,724
Deferred revenues and installation costs	1,229	1,398	(732)	(811)	497	587
Land use rights	5,578	5,725	—	—	5,578	5,725
Available-for-sale equity securities	—	—	(27)	(13)	(27)	(13)
Deferred tax assets/(liabilities)	12,815	14,520	(2,501)	(2,802)	10,314	11,718

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

Movements in temporary differences are as follows:

	Note	Balance at 1 January 2008 RMB millions	Transferred from subsidiaries RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 31 December 2008 RMB millions
Current					
Provisions and impairment losses, primarily for doubtful debts		—	527	168	695
Non-current					
Property, plant and equipment		—	(889)	5,613	4,724
Deferred revenues and installation costs		—	631	(44)	587
Land use rights	(i)	—	5,856	(131)	5,725
Available-for-sale equity securities		—	(36)	23	(13)
Net deferred tax assets	(ii)	—	6,089	5,629	11,718

	Note	Balance at 1 January 2009 RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 31 December 2009 RMB millions
Current				
Provisions and impairment losses, primarily for doubtful debts		695	200	895
Non-current				
Property, plant and equipment		4,724	(1,353)	3,371
Deferred revenues and installation costs		587	(90)	497
Land use rights	(i)	5,725	(147)	5,578
Available-for-sale equity securities		(13)	(14)	(27)
Net deferred tax assets		11,718	(1,404)	10,314

Note:

(i) In connection with the Restructuring and the Acquisitions, the land use rights of the Predecessor Operations, the First Acquired Group and the Second Acquired Group were revalued as required by the relevant PRC rules and regulations. The tax bases of the land use rights were adjusted to conform to such revalued amounts. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets were created with corresponding increases in other comprehensive income in previous years and accumulated in shareholders' equity under the caption of other reserves.

(ii) As described in Note 1, the assets and liabilities of provincial subsidiaries were transferred to the Company's branches in the respective regions. As the tax bases of certain of these assets and liabilities were not conformed with the accounting bases after the merger, deferred tax assets of RMB9,198 million and deferred tax liabilities of RMB3,109 million in respect of these temporary differences were recognised in the Company's statement of financial position as at the effective date of transfer.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

12. Inventories

Inventories represent:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Materials and supplies	**873**	1,067	**844**	1,043
Goods for resale	**1,755**	1,494	**895**	864
	2,628	2,561	**1,739**	1,907

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Accounts receivable				
Third parties	**17,767**	17,923	**16,692**	16,907
China Telecom Group	**917**	372	**552**	218
Other state-controlled telecommunications operators in the PRC	**827**	1,112	**820**	1,082
Subsidiaries	**—**	—	**160**	—
	19,511	19,407	**18,224**	18,207
Less: Allowance for impairment of doubtful debts	**(2,073)**	(2,118)	**(1,994)**	(2,022)
	17,438	17,289	**16,230**	16,185

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

13. Accounts Receivable, Net *(continued)*

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

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
At beginning of year	**2,118**	1,443	**2,022**	—
Transferred from subsidiaries	**—**	—	**—**	1,368
Acquisition of CDMA business	**—**	491	**—**	481
Allowance for impairment of doubtful debts	**1,787**	1,797	**1,780**	1,754
Accounts receivable written off	**(1,832)**	(1,613)	**(1,808)**	(1,581)
At end of year	**2,073**	2,118	**1,994**	2,022

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

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Current, within 1 month	**10,895**	11,282	**10,807**	11,125
1 to 3 months	**2,067**	2,170	**1,992**	2,132
4 to 12 months	**1,514**	1,514	**1,507**	1,504
More than 12 months	**499**	495	**498**	494
	14,975	15,461	**14,804**	15,255
Less: Allowance for impairment of doubtful debts	**(1,920)**	(2,009)	**(1,911)**	(1,998)
	13,055	13,452	**12,893**	13,257

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

13. Accounts Receivable, Net *(continued)*

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

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Current, within 1 month	**1,918**	1,397	**1,582**	1,008
1 to 3 months	**1,071**	1,210	**839**	1,076
4 to 12 months	**922**	834	**567**	487
More than 12 months	**625**	505	**432**	381
	4,536	3,946	**3,420**	2,952
Less: Allowance for impairment of doubtful debts	**(153)**	(109)	**(83)**	(24)
	4,383	3,837	**3,337**	2,928

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

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Not past due	**16,021**	15,402	**14,846**	14,370
Less than 1 month past due	**869**	1,220	**852**	1,157
1 to 3 months past due	**548**	667	**532**	658
	1,417	1,887	**1,384**	1,815
	17,438	17,289	**16,230**	16,185

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

14. Prepayments and Other Current Assets

Prepayments and other current assets represent:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Amounts due from China Telecom Group	**935**	700	**892**	698
Amounts due from subsidiaries	**—**	—	**498**	344
Amounts due from other state-controlled telecommunications operators in the PRC	**240**	1,052	**240**	1,052
Amount due from China Unicom in relation to the acquisition of CDMA business	**—**	3,471	**—**	3,471
Prepayments in connection with construction work and equipment purchases	**745**	836	**543**	720
Prepaid expenses and deposits	**1,177**	720	**962**	649
Other receivables	**813**	607	**670**	492
	3,910	7,386	**3,805**	7,426

15. Cash and Cash Equivalents

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Cash at bank and in hand	**27,235**	21,916	**20,246**	17,546
Time deposits with original maturity within three months	**7,569**	5,950	**7,280**	4,010
	34,804	27,866	**27,526**	21,556

16. Short-term and Long-term Debt

Short-term debt comprises:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Loans from state-controlled banks — unsecured	**11,138**	9,693	**11,138**	9,688
Other loans — unsecured	**245**	—	**245**	—
Short-term commercial paper — unsecured	**—**	9,979	**—**	9,979
Loans from China Telecommunications Corporation — unsecured	**40,267**	63,776	**40,267**	63,776
Total short-term debt	**51,650**	83,448	**51,650**	83,443

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

The weighted average interest rate of the Group's and the Company's total short-term debt as at 31 December 2009 was 4.0% (2008: 5.1%) and 4.0% (2008: 5.1%) respectively. As at 31 December 2009, the loans from state-controlled banks bear interest at rates ranging from 2.0% to 7.5% (2008: 2.5% to 7.5%) per annum and are repayable within one year; the commercial paper bears interest at a fixed rate of 4.72% per annum and was repaid in August 2009; the loans from China Telecommunications Corporation bear interest at fixed rates ranging from 2.8% to 5.3% (2008: 3.9% to 7.3%) per annum and are repayable within one year.

Long-term debt comprises:

		The Group		The Company	
	Interest rates and final maturity	**2009 RMB millions**	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Bank loans — unsecured					
Renminbi denominated	Interest rates ranging from 3.60% to 7.56% per annum with maturities through 2050	**1,362**	1,533	**1,362**	1,524
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060	**816**	877	**816**	877
Japanese Yen denominated	Interest rates ranging from 1.49% to 3.50% per annum with maturities through 2026	**1,609**	1,690	**1,609**	1,690
Euro denominated	Interest rates ranging from 2.30% to 4.75% per annum with maturities through 2032	**658**	686	**658**	686
Other currencies denominated		**40**	43	**40**	43
		4,485	4,829	**4,485**	4,820
Other loans — unsecured					
Renminbi denominated		**1**	1	**1**	1
Medium-term notes — unsecured (Note (i))		**49,769**	19,811	**49,769**	19,811
Amount due to China Telecommunications Corporation — unsecured					
In connection with the Second Acquisition — Renminbi denominated (Note (ii))		**—**	15,150	**—**	15,150
Total long-term debt		**54,255**	39,791	**54,255**	39,782
Less: current portion		**(1,487)**	(565)	**(1,487)**	(556)
Non-current portion		**52,768**	39,226	**52,768**	39,226

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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

Note:

(i) On 22 April 2008, the Group issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 5.3% per annum. The medium-term note is unsecured. 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. The medium-term note is unsecured. On 16 November 2009, the Group issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 3.65% per annum. The medium-term note is unsecured. On 28 December 2009, the Group issued two batches of five-year, 10 billion RMB denominated medium-term notes with annual interest rate of 4.61% per annum. The medium-term note is unsecured.

(ii) Represented the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the Second Acquisition (Note 1). In March 2009, the Company repaid the remaining balance of RMB15,150 million to China Telecommunications Corporation.

The aggregate maturities of the Group's and the Company's long-term debts subsequent to 31 December 2009 are as follows:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Within 1 year	**1,487**	565	**1,487**	556
Between 1 to 2 years	**10,322**	1,676	**10,322**	1,676
Between 2 to 3 years	**11,372**	10,391	**11,372**	10,391
Between 3 to 4 years	**9,986**	190	**9,986**	190
Between 4 to 5 years	**20,020**	10,081	**20,020**	10,081
Thereafter	**1,068**	16,888	**1,068**	16,888
	54,255	39,791	**54,255**	39,782

The Group's short-term and long-term debts do not contain any financial covenants. As at 31 December 2009, the Group and the Company unutilised committed credit facilities amounted to RMB102,555 million (2008: RMB128,231 million) and RMB102,555 million (2008: RMB128,231 million) respectively.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

17. Accounts Payable

Accounts payable are analysed as follows:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Third parties	**26,402**	27,698	**23,291**	25,271
China Telecom Group	**7,526**	6,387	**7,396**	6,358
Other state-controlled telecommunications operators in the PRC	**393**	373	**390**	372
Subsidiaries	**—**	—	**1,106**	1,107
	34,321	34,458	**32,183**	33,108

Amounts due to China Telecom Group are repayable 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	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Due within 1 month or on demand	**11,321**	7,530	**10,210**	6,939
Due after 1 month but within 3 months	**7,472**	10,289	**7,042**	9,786
Due after 3 months but within 6 months	**5,641**	6,807	**5,137**	6,990
Due after 6 months	**9,887**	9,832	**9,794**	9,393
	34,321	34,458	**32,183**	33,108

18. Accrued Expenses and Other Payables

Accrued expenses and other payables represent:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Amounts due to China Telecom Group	**1,694**	1,448	**1,425**	1,237
Amounts due to subsidiaries	**—**	—	**2,089**	1,921
Amounts due to other state-controlled telecommunication operators in the PRC	**103**	102	**103**	102
Accrued expenses	**14,608**	15,452	**14,111**	14,953
Customer deposits and receipts in advance	**30,407**	23,060	**29,604**	22,412
Dividend payable	**—**	426	**—**	426
Purchase price payable to China Unicom for the acquisition of CDMA business	**5,381**	13,140	**5,381**	13,089
	52,193	53,628	**52,713**	54,140

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

19. Deferred Revenues

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

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Balance at beginning of year	**11,444**	15,486	**11,441**	—
Transferred from subsidiaries	**—**	—	**—**	15,486
Additions for the year				
— installation fees	**458**	656	**458**	617
— calling cards	**3,253**	4,119	**3,248**	4,111
	3,711	4,775	**3,706**	4,728
Reduction for the year				
— amortisation of connection fees	**(1,151)**	(2,022)	**(1,151)**	(2,022)
— amortisation of installation fees	**(2,311)**	(2,574)	**(2,310)**	(2,535)
— usage of calling cards	**(3,231)**	(4,221)	**(3,229)**	(4,216)
Balance at end of year	**8,462**	11,444	**8,457**	11,441
Representing:				
— current portion	**3,417**	4,505	**3,412**	4,502
— non-current portion	**5,045**	6,939	**5,045**	6,939
	8,462	11,444	**8,457**	11,441

Included in other assets are primarily capitalised direct incremental costs associated with the installation of wireline services. As at 31 December 2009, the unamortised portion of these costs was RMB4,312 million (2008: RMB5,584 million).

20. Share Capital

	The Group and the Company	
	2009 RMB millions	2008 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

21. Reserves

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Re-valuation reserve 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 2008	(2,804)	10,746	11,972	52,367	8,327	(582)	63,563	143,589
Deferred tax on revaluation surplus of property, plant and equipment realised	–	–	–	–	127	–	(127)	–
Revaluation surplus realised	–	–	(562)	–	–	–	562	–
Deferred tax on land use rights realised	–	–	–	–	(132)	–	132	–
Dividends (Note 31)	–	–	–	–	–	–	(6,125)	(6,125)
Distribution to China Telecommunications Corporation	–	–	–	–	(535)	–	–	(535)
Adjustment to statutory reserves (Note (iv))	–	–	–	3,718	–	–	(3,718)	–
Transfer from retained earnings to other reserves	–	–	–	–	425	–	(425)	–
Consideration for the acquisition of the Fourth Acquired Company (Note 1)	–	–	–	–	(5,557)	–	–	(5,557)
Total comprehensive income for the year	–	–	–	–	(69)	(83)	884	732
Balance as at 31 December 2008, as restated	(2,804)	10,746	11,410	56,085	2,586	(665)	54,746	132,104
Deferred tax on revaluation surplus of property, plant and equipment realised	**–**	**–**	**–**	**–**	**125**	**–**	**(125)**	**–**
Revaluation surplus realised	**–**	**–**	**(547)**	**–**	**–**	**–**	**547**	**–**
Deferred tax on land use rights realised	**–**	**–**	**–**	**–**	**(147)**	**–**	**147**	**–**
Dividends (Note 31)	**–**	**–**	**–**	**–**	**–**	**–**	**(6,067)**	**(6,067)**
Appropriations (Note (iii))	**–**	**–**	**–**	**4,521**	**–**	**–**	**(4,521)**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**343**	**(2)**	**14,422**	**14,763**
Balance as at 31 December 2009	**(2,804)**	**10,746**	**10,863**	**60,606**	**2,907**	**(667)**	**59,149**	**140,800**

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

21. Reserves *(continued)*

The Company

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Statutory reserves RMB millions (Note (iii))	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2008	29,168	10,746	52,367	24,414	116,695
Total comprehensive income for the year (Note (v))	—	—	—	20,602	20,602
Appropriations (Note (iii))	—	—	—	—	—
Adjustment to statutory reserves (Note (iv))	—	—	3,718	(3,718)	—
Dividends (Note 31)	—	—	—	(6,125)	(6,125)
Balance as at 31 December 2008	29,168	10,746	56,085	35,173	131,172
Total comprehensive income for the year	**—**	**—**	**—**	**13,337**	**13,337**
Appropriations (Note (iii))	**—**	**—**	**4,521**	**(4,521)**	**—**
Dividends (Note 31)	**—**	**—**	**—**	**(6,067)**	**(6,067)**
Balance as at 31 December 2009	**29,168**	**10,746**	**60,606**	**37,922**	**138,442**

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 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.

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 balance of the deferred tax assets recognised due to the revaluation of land use rights for tax purposes (and not for financial reporting purposes) as described in Note 11(i), the balance of the deferred tax liabilities recognised due to the revaluation of property, plant and equipment for financial reporting purposes (and not for tax purposes) 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 2009, the Company transferred RMB1,292 million, being 10% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to this reserve. For the year ended 31 December 2008, the Company did not transfer any amount to this reserve as it has net loss during the year determined in accordance with the PRC Accounting Standards for Business Enterprises.

According to the Company's Articles of Association, the Directors authorised, subject to shareholders' approval, the transfer of RMB3,229 million for the year ended 31 December 2009, being 25% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to the discretionary surplus reserve. The Company did not transfer any amount to the discretionary surplus reserve for the year ended 31 December 2008.

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) Upon the merger of certain subsidiaries of the Company into the Company in connection with an internal reorganisation, the subsidiaries' non-distributable profits at the date of the internal reorganisation were transferred from retained earnings to statutory reserves of the Company as required by the Company's Articles of Association.

(v) Upon the internal reorganisation, certain subsidiaries of the Company were merged into the Company. Therefore, the Company's profit for the year includes the difference between the net assets of these subsidiaries on the date of merger and the cost of investment in these subsidiaries, which amounted to RMB20,770 million.

(vi) 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. At 31 December 2009, the amount of retained earnings available for distribution was RMB37,922 million (2008: RMB35,173 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB6,076 million in respect of the financial year 2009 proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period (Note 31).

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

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	**2009 RMB millions**	2008 RMB millions
Wireline voice	(i)	**78,432**	96,258
Mobile voice	(ii)	**20,027**	3,955
Internet	(iii)	**51,567**	40,727
Value-added services	(iv)	**21,533**	16,253
Integrated information application services	(v)	**12,659**	10,803
Managed data and leased line	(vi)	**11,499**	10,231
Others	(vii)	**12,502**	6,280
Upfront connection fees	(viii)	**1,151**	2,022
		209,370	186,529

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 and upfront installation fees charged to customers for the provision of wireline telephony services.

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

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

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

(v) Represent primarily the aggregate amount of fees charged to customers for system integration and consulting services and Best Tone information services, which comprise hotline enquiry and booking services.

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

23. Personnel Expenses

Personnel expenses are attributable to the following functions:

	The Group	
	2009 RMB millions	2008 RMB millions
Network operations and support	**21,210**	19,162
Selling, general and administrative	**11,647**	9,784
	32,857	28,946

24. Other Operating Expenses

Other operating expenses consist of:

		The Group	
	Note	**2009 RMB millions**	2008 RMB millions
Interconnection charges	(i)	**9,634**	7,543
Cost of goods sold	(ii)	**7,721**	3,170
Donations		**8**	42
Others		**86**	39
		17,449	10,794

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 wireline and mobile telecommunications networks.

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

25. Total Operating Expenses

Total operating expenses for the year ended 31 December 2009 were RMB186,712 million (2008: RMB181,384 million) which include auditor's remuneration in relation to audit and non-audit services are RMB68 million and RMB3 million respectively (2008: RMB80 million and RMB47 million).

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

26. Net Finance Costs

Net finance costs comprise:

	The Group	
	2009 RMB millions	2008 RMB millions
Interest expense incurred	**5,051**	5,753
Less: Interest expense capitalised*	**(327)**	(417)
Net interest expense	**4,724**	5,336
Interest income	**(282)**	(430)
Foreign exchange losses	**108**	371
Foreign exchange gains	**(175)**	(201)
	4,375	5,076
* Interest expense was capitalised in construction in progress at the following rates per annum	**2.5%-6.9%**	2.7%-7.1%

27. Income Tax

Income tax in the profit or loss comprises:

	The Group	
	2009 RMB millions	2008 RMB millions
Provision for PRC income tax	**3,105**	4,792
Provision for income tax in other tax jurisdictions	**37**	21
Deferred taxation	**1,407**	(5,606)
	4,549	(793)

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

27. Income Tax *(continued)*

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

		The Group	
	Note	**2009 RMB millions**	2008 RMB millions
Profit before taxation		**19,175**	186
Expected income tax expense at statutory tax rate of 25%	(i)	**4,794**	47
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(433)**	248
Differential tax rate on other subsidiaries' income	(ii)	**(17)**	(19)
Non-deductible expenses	(iii)	**1,013**	660
Non-taxable income	(iv)	**(776)**	(1,071)
Tax credit for domestic equipment purchases and other tax benefits		**(32)**	(658)
Actual income tax expense/(benefit)		**4,549**	(793)

Note:

(i) The provision for PRC current income tax is based on the statutory rate of 25% of the assessable income of the Company, its subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries and branches which are taxed at preferential rates of 15% or 20%.

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

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

(iv) Amounts primarily represent connection fees received from customers which are not subject to income tax.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

28. Directors' and Supervisors' Remuneration

The following table sets out the remuneration received or receivable by the Company's directors and supervisors:

	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
2009						
Executive directors						
Wang Xiaochu	—	324	339	71	—	734
Shang Bing	—	324	335	71	—	730
Wu Andi	—	276	288	61	—	625
Zhang Jiping	—	276	288	60	—	624
Zhang Chenshuang	—	276	288	61	—	625
Yang Xiaowei	—	276	285	59	—	620
Yang Jie	—	276	288	59	—	623
Sun Kangmin	—	276	288	60	—	624
Non-executive directors						
Li Jinming	—	—	—	—	—	—
Independent non-executive directors						
Wu Jichuan	150	—	—	—	—	150
Qin Xiao	150	—	—	—	—	150
Tse Hau Yin	440	—	—	—	—	440
Cha May Lung	176	—	—	—	—	176
Xu Erming	150	—	—	—	—	150
Supervisors						
Xiao Jinxue^	—	188	297	15	—	500
Miao Jianhua^	—	—	—	—	—	—
Ma Yuzhu	—	157	387	59	—	603
Xu Cailiao	—	92	259	45	—	396
Han Fang	—	90	264	44	—	398
Independent supervisor						
Zhu Lihao	75	—	—	—	—	75
	1,141	2,831	3,606	665	—	8,243

^ *Mr. Xiao JinXue resigned as a supervisor of the Company and Mr. Miao Jianhua was appointed as the supervisor of the Company on 29 December 2009.*

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

28. Directors' and Supervisors' Remuneration *(continued)*

	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
2008						
Executive directors						
Wang Xiaochu	—	324	446	68	1,060	1,898
Leng Rongquan^	—	219	329	46	898	1,492
Shang Bing^	—	108	108	19	—	235
Wu Andi	—	276	379	58	398	1,111
Zhang Jiping	—	276	379	57	398	1,110
Li Ping^	—	207	310	43	398	958
Yang Xiaowei^	—	92	92	19	—	203
Yang Jie	—	276	379	56	848	1,559
Sun Kangmin	—	276	379	57	848	1,560
Zhang Chenshuang	—	276	319	58	—	653
Non-executive directors						
Li Jinming	—	—	—	—	—	—
Independent non-executive directors						
Wu Jichuan^	50	—	—	—	—	50
Qin Xiao^	50	—	—	—	—	50
Tse Hau Yin	441	—	—	—	—	441
Cha May Lung^	59	—	—	—	—	59
Xu Erming	150	—	—	—	—	150
Zhang Youcai^	100	—	—	—	—	100
Vincent Lo Hong Sui^	118	—	—	—	—	118
Shi Wanpeng^	100	—	—	—	—	100
Supervisors						
Xiao Jinxue	—	159	339	52	332	882
Ma Yuzhu	—	154	394	56	333	937
Xu Cailiao	—	85	266	41	183	575
Wang Haiyun*	—	32	165	28	—	225
Han Fang*	—	28	44	14	—	86
Independent supervisor						
Zhu Lihao	75	—	—	—	—	75
	1,143	2,788	4,328	672	5,696	14,627

^ *Mr. Leng Rongquan and Mr. Li Ping retired as an executive director of the Company and Mr. Zhang Youcai, Mr. Vincent Lo Hong Sui and Mr. Shi Wanpeng retired as independent non-executive directors of the Company on 9 September 2008. Mr. Shang Bing and Mr. Yang Xiaowei were appointed as the executive directors of the Company and Mr. Wu Jichuan, Mr. Qin Xiao and Ms. Cha May Lung were appointed as independent non-executive directors of the Company on 9 September 2008.*

* *Ms. Wang Haiyun retired as a supervisor of the Company on 9 September 2008. Ms. Han Fang was appointed as a supervisor of the Company on 9 September 2008.*

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

29. Individuals with Highest Emoluments

Of the five highest paid individuals of the Group for the year ended 31 December 2009, none of them was director of the Company. Of the five highest paid individuals of the Group for the year ended 31 December 2008, one was director of the Company and whose remuneration was disclosed in Note 28.

The aggregate of the emoluments in respect of the five (2008: four) individuals are as follows:

	2009 RMB thousands	2008 RMB thousands
Salaries, allowances and benefits in kind	**4,745**	3,698
Discretionary bonuses	**2,704**	3,768
Retirement scheme contributions	**106**	122
	7,555	7,588

The emoluments of the five (2008: four) individuals with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
RMB1,000,001 — RMB1,500,000	**3**	—
RMB1,500,001 — RMB2,000,000	**1**	2
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.

30. Profit Attributable to Equity Holders of the Company

For the year ended 31 December 2009, the consolidated profit attributable to equity holders of the Company includes a profit of RMB13,295 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2008, the consolidated profit attributable to equity holders of the Company includes a loss of RMB168 million which has been dealt with in the stand-alone financial statements of the Company.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

31. Dividends

Pursuant to a resolution passed at the Directors' meeting on 22 March 2010, a final dividend of equivalent to HK$0.085 per share totalling approximately RMB6,076 million for the year ended 31 December 2009 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 2009.

Pursuant to the shareholders' approval at the Annual General Meeting held on 26 May 2009, a final dividend of RMB0.074963 (equivalent to HK$0.085) per share totalling approximately RMB6,067 million in respect of the year ended 31 December 2008 was declared and paid on 30 June 2009.

Pursuant to the shareholders' approval at the Annual General Meeting held on 30 May 2008, a final dividend of RMB 0.075747 (equivalent to HK$0.085) per share totalling RMB6,125 million in respect of the year ended 31 December 2007 was declared, of which RMB5,699 million and RMB426 million was paid on 16 June 2008 and 25 February 2009 respectively.

32. Basic Earnings Per Share

The calculation of basic earnings per share for the years ended 31 December 2009 and 2008 is based on the profit attributable to equity holders of the Company of RMB14,422 million and RMB884 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.

33. Commitments and Contingencies

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. Other than the CDMA network lease arrangements as set out in Note 36(a), these operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing.

As at 31 December 2009 and 2008, the Group's and the Company's future minimum lease payments under non-cancellable operating leases were as follows:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Within 1 year	**8,531**	830	**8,451**	746
Between 1 to 2 years	**643**	595	**614**	561
Between 2 to 3 years	**505**	479	**488**	471
Between 3 to 4 years	**417**	380	**405**	380
Thereafter	**1,014**	808	**1,009**	808
Total minimum lease payments	**11,110**	3,092	**10,967**	2,966

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2009 was RMB10,757 million (2008: RMB3,645 million).

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

33. Commitments and Contingencies *(continued)*

Capital commitments

As at 31 December 2009 and 2008, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2009 RMB millions	2008 RMB millions	**2009 RMB millions**	2008 RMB millions
Authorised and contracted for				
— property	**376**	629	**376**	629
— telecommunications network plant and equipment	**4,166**	3,283	**4,089**	3,282
	4,542	3,912	**4,465**	3,911
Authorised but not contracted for				
— property	**739**	764	**739**	764
— telecommunications network plant and equipment	**4,364**	3,857	**4,354**	3,790
	5,103	4,621	**5,093**	4,554

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 Predecessor Operations and the Acquired Groups transferred to the Company in connection with the Restructuring and the Acquisitions, no other liabilities were assumed by the Company or the Group, and the Company or the Group are not jointly and severally liable for other debts and obligations incurred by China Telecom Group prior to the Restructuring and the Acquisitions.

(b) As at 31 December 2009 and 2008, 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 2009 and 2008, 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 believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

34. Financial Instruments

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

(a) Fair Value

The amendments to IFRS 7, *Financial Instruments: Disclosures*, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is 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 available-for-sale equity investment securities) approximate their carrying amounts due to the short-term maturity of these instruments.

The Group's available-for-sale equity investment securities are categorised as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities is RMB690 million as at 31 December 2009 (2008: RMB85 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, having considered the foreign currency denomination of the debt, ranged from 1.0% to 5.76% (2008: 1.5% to 5.94%). As at 31 December 2008 and 2009, the carrying amounts and fair values of the Group's long-term debt were as follows:

	2009		2008	
	Carrying amount RMB millions	**Fair value RMB millions**	Carrying amount RMB millions	Fair value RMB millions
Long-term debt	**54,255**	**52,213**	39,791	38,871

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

34. Financial Instruments *(continued)*

(b) Risks

The Group's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which comprises of interest rate risk and foreign currency exchange rate risk). The Group's overall risk management 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 telecommunication services. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institution 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 trade receivables are set out in Note 13.

The amounts of cash and cash equivalents, time deposits, accounts receivable and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

(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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

34. 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:

	2009					
	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	51,650	(52,294)	(52,294)	—	—	—
Long-term debt	54,255	(62,764)	(3,742)	(12,260)	(45,486)	(1,276)
Accounts payable	34,321	(34,321)	(34,321)	—	—	—
Accrued expenses and other payables	52,193	(52,193)	(52,193)	—	—	—
Finance lease obligations	18	(18)	(18)	—	—	—
	192,437	(201,590)	(142,568)	(12,260)	(45,486)	(1,276)

	2008					
	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	83,448	(85,576)	(85,576)	—	—	—
Long-term debt	39,791	(48,407)	(2,498)	(3,558)	(24,813)	(17,538)
Accounts payable	34,458	(34,458)	(34,458)	—	—	—
Accrued expenses and other payables	53,628	(53,628)	(53,628)	—	—	—
Finance lease obligations	40	(40)	(22)	(18)	—	—
	211,365	(222,109)	(176,182)	(3,576)	(24,813)	(17,538)

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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

34. Financial Instruments *(continued)*

(b) Risks *(continued)*

(iii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts.

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

	2009		2008	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	4.0	47,732	5.1	83,448
Long-term debt	4.5	53,592	4.8	24,012
		101,324		107,460
Variable rate debt:				
Short-term debt	4.1	3,918		—
Long-term debt	4.9	663	5.2	15,779
Total debt		105,905		123,239
Fixed rate debt as a percentage of total debt		95.7%		87.2%

As at 31 December 2009, 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 RMB34 million (2008: RMB118 million).

The above sensitivity analysis has been prepared on the assumptions that the change in interest rate had occurred at the end of the reporting period and the change was applied to the Group's debt in existence at that date with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2008.

(iv) Foreign currency exchange rate risk

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

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 94.7% (2008: 94.2%) of the Group's cash and cash equivalents and 96.9% (2008: 97.2%) of the Group's short-term and long-term debt as at 31 December 2009 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 16.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

35. 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 finance lease obligations. As at 31 December 2009, the Group's total debt-to-total assets ratio was 24.8% (2008: 28.0%), which is within the range of management's expectation.

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

36. Related Party Transactions

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

(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 relationships with members of China Telecom Group.

The principal transactions with China Telecom Group which were carried out in the ordinary course of business are as follows:

	Note	**2009 RMB millions**	2008 RMB millions
Purchases of telecommunications equipment and materials	(i)	**1,956**	145
Sales of telecommunications equipment and materials	(i)	**940**	—
Construction and engineering services	(ii)	**5,970**	7,877
Provision of IT services	(iii)	**249**	—
Receiving IT services	(iii)	**520**	457
Receiving community services	(iv)	**2,324**	2,297
Receiving ancillary services	(v)	**6,044**	4,536
Receiving comprehensive services	(vi)	**—**	1,190
Operating lease expenses	(vii)	**387**	378
Net transaction amount of centralised service	(viii)	**534**	250
Interconnection revenues	(ix)	**69**	78
Interconnection charges	(ix)	**667**	677
Interest on amounts due to and loans from China Telecom Group	(x)	**2,933**	3,537
CDMA network capacity lease fee	(xi)	**8,383**	1,504
Reimbursement of capacity maintenance related costs of CDMA network	(xii)	**1,163**	107

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

36. Related Party Transactions *(continued)*

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

Note:

(i) The amount for the year ended 31 December 2008 represents commission paid and payable for procurement services provided by China Telecom Group. On 15 December 2008, the Company and China Telecommunications Corporation entered into a supplemental agreement, which is effective from 1 January 2009, to expand the scope of procurement services to include the amount of telecommunications equipment and materials purchased from/sold to 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 by China Telecom Group.

(iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, hygiene 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) The amount for the year ended 31 December 2008 represents amounts paid and payable to entities of China Telecom Group which were not within the scope of other related party service agreements in respect of services for procurement of telecommunications equipment, network design, software upgrade, system integration and manufacturing of calling cards. The comprehensive service agreement signed between the Company and China Telecommunications Corporation expired on 31 December 2008 and has not been renewed. The various types of cross-provincial transactions set out under the comprehensive services framework agreement have been classified into other existing related party transactions based on the nature of such transactions. Therefore, no transaction amount is reported in this category for the year ended 31 December 2009.

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

(viii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount for the year ended 31 December 2009 represents amounts received or receivable for the net amount of centralised service. The amount for the year ended 31 December 2008 represents amounts paid or payable for the net amount of centralised service.

(ix) Represent amounts charged from/to China Telecom Group for interconnection of local and domestic long distance calls.

(x) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecom Group and loans from China Telecommunications Corporation (Note 16).

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

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

Amounts due from/to China Telecom Group included in the following balances are summarised as follows:

	2009 RMB millions	2008 RMB millions
Accounts receivable	**917**	372
Prepayments and other current assets	**935**	700
Total amounts due from China Telecom Group	**1,852**	1,072
Accounts payable	**7,526**	6,387
Accrued expenses and other payables	**1,694**	1,448
Short-term debt	**40,267**	63,776
Long-term debt	**—**	15,150
Total amounts due to China Telecom Group	**49,487**	86,761

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

36. Related Party Transactions *(continued)*

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

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

As at 31 December 2009 and 2008, no allowance for impairment of doubtful debts was recognised in respect of amounts due from China Telecom Group.

On 30 August 2006, the Company entered into a strategic agreement ("the Agreement") with China Communication Services Corporation Limited ("CCS"), a company under the common control of China Telecommunications Corporation. The Agreement was approved by the Company's independent shareholders at an Extraordinary General Meeting held on 25 October 2006. The Agreement is effective from 1 January 2007 to 31 December 2009, pursuant to which the Company's subsidiaries (and their successors) in the Shanghai, Guangdong, Zhejiang, Fujian, Hubei and Hainan regions procure design, construction and engineering services provided by CCS for at least 12.5% of these subsidiaries' annual capital expenditure. In return, CCS agreed to provide an additional price discount of at least 5% for the above services. In addition, the above subsidiaries will also procure facilities management services provided by CCS of not less than RMB1,330 million during the effective period of the Agreement.

As a result of the expansion of services areas of CCS, an amendment to the strategic agreement ("the Supplemental Agreement") was approved by the Company's independent shareholders at an Extraordinary General Meeting held on 7 August 2007. The Supplemental Agreement extends the scope of the Agreement to the Company's subsidiaries (and their successors) in the Jiangsu, Anhui, Jiangxi, Hunan, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai and Xinjiang regions, amends that the Company's subsidiaries will on an annual basis, procure design, construction and engineering services provided by CCS for at least 10.6% of these subsidiaries' annual capital expenditure, and increases the commitment for facilities management services provided by CCS by RMB450 million. The Supplemental Agreement is effective from 1 January 2007 to 31 December 2009.

On 29 October 2009, the Company renewed the Agreement and its Supplemental Agreement in accordance with their respective provisions for a further term of three years expiring on 31 December 2012 and to amend certain provisions of the Agreement to reflect the current structure of the Group and CCS.

On 16 September 2008, the Company's independent shareholders approved at an Extraordinary General Meeting the CDMA network capacity lease agreement ("the CDMA Network Lease") with China Telecommunications Corporation. The lease is effective from 1 October 2008 to 31 December 2010 and can be renewed at the option of the Company, pursuant to which the Company agreed to lease the capacity on the constructed CDMA network from China Telecom Group for the provision of CDMA mobile communication services. The lease fee for the capacity on the constructed CDMA network shall be 28% of the CDMA service revenue (which is calculated by the total revenue from the CDMA business minus any upfront non-refundable revenue arising out of the CDMA business and any revenue from sale of telecommunication products) for the period from 1 October 2008 to 31 December 2008 and for each of the years ending 31 December 2009 and 2010. There is no minimum annual lease fee for the period ended 31 December 2008 and the year ending 31 December 2009. For the year ending 31 December 2010, the minimum lease fee is 90% of the total amount of the lease fee paid by the Company to China Telecom Group in the year ending 31 December 2009. The Group accounts for the CDMA Network Lease as an operating lease.

Under the CDMA Network Lease, China Telecommunications Corporation has granted to the Company an option to purchase the CDMA network. The option may be exercised, at the discretion of the Company, at any time during the term of the CDMA Network Lease or within one year after the expiry of the CDMA Network Lease. The purchase price will be determined with reference to the appraised value of the CDMA network in accordance with applicable PRC laws and regulations and taking into account prevailing market conditions and other factors, provided that the purchase price would enable China Telecommunications Corporation to recover its investment in the CDMA network plus an internal rate of return on the investment not to exceed 8%.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

36. Related Party Transactions *(continued)*

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

In addition, in accordance with the CDMA Network Lease, the Company shall be responsible for the operation, management and maintenance of the CDMA network. The capacity maintenance related costs, which comprise the rental fees for the exchange centres and the base stations and other related costs such as water and electricity charges, heating charges and fuel charges for the relevant equipment as well as the maintenance costs of a non-capital nature, shall be shared between the Company and China Telecommunications Corporation. The proportion of the constructed capacity related costs to be borne by the Company shall be calculated on a monthly basis by reference to the followings:

(i) the actual number of cumulative CDMA subscribers of the Company at the end of the month prior to the occurrence of the costs divided by 90%, divided by

(ii) the total capacity available on the CDMA network.

(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:

	2009 RMB thousands	2008 RMB thousands
Short-term employee benefits	**8,142**	8,397
Post-employment benefits	**726**	687
Equity-based compensation benefits	**—**	5,696
	8,868	14,780

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 37.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

36. Related Party Transactions *(continued)*

(d) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the State through government authorities, agencies, affiliations and other organisations (collectively referred to as "state-controlled entities").

Apart from transactions with parent company and its affiliates, the Group has transactions with other state-controlled entities which include but not limited to the following:

— sales and purchases of goods, properties and other assets

— rendering and receiving services

— lease of assets

— depositing and borrowing money

— use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not state-controlled. 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 state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationships on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details:

(i) Transactions with other state-controlled telecommunications operators in the PRC

The Group's telecommunications networks interconnect with the networks of other state-controlled telecommunications operators. The Group also leases telecommunications networks to these operators in the normal course of business. The interconnection and leased line charges are regulated by the MIIT. The extent of the Group's interconnection and leased line transactions with other state-controlled telecommunications operators in the PRC is summarised as follows:

	2009 RMB millions	2008 RMB millions
Interconnection revenues	**11,342**	11,257
Interconnection charges	**7,377**	4,912
Leased line revenues	**596**	786

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

36. Related Party Transactions *(continued)*

(d) Transactions with other state-controlled entities in the PRC *(continued)*

(i) Transactions with other state-controlled telecommunications operators in the PRC (continued)

Amounts due from/to other state-controlled telecommunications operators in the PRC included in the following balances are summarised as follows:

	2009 RMB millions	2008 RMB millions
Accounts receivable	827	1,112
Prepayments and other current assets	240	4,523
Total amounts due from other state-controlled telecommunications operators in the PRC	1,067	5,635
Accounts payable	393	373
Accrued expenses and other payables	5,484	13,242
Total amounts due to other state-controlled telecommunications operators in the PRC	5,877	13,615

Amounts due from/to other state-controlled telecommunications operators in the PRC bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

As at 31 December 2009 and 2008, there were no material allowance for impairment of doubtful debts in respect of amounts due from other state-controlled telecommunications operators in the PRC.

(ii) Transactions with state-controlled banks

The Group deposits its cash balances primarily with several state-controlled banks in the PRC and obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of these bank deposits and loans are regulated by the People's Bank of China. The Group's interest income earned from deposits with and interest expenses incurred on loans from state-controlled banks in the PRC are as follows:

	2009 RMB millions	2008 RMB millions
Interest income	281	428
Interest expense	827	1,550

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

36. Related Party Transactions *(continued)*

(d) Transactions with other state-controlled entities in the PRC *(continued)*

(ii) Transactions with state-controlled banks (continued)

The amounts of cash deposited with and loans from state-controlled banks in the PRC are summarised as follows:

	2009 RMB millions	2008 RMB millions
Cash at bank	**26,867**	21,674
Time deposits with original maturity within three months	**7,569**	5,950
Time deposits with original maturity over three months	**442**	397
Total deposits with state-controlled banks in the PRC	**34,878**	28,021
Short-term loans	**11,138**	9,693
Long-term loans	**4,485**	4,829
Total loans with state-controlled banks in the PRC	**15,623**	14,522

Further details of the interest rates and repayment terms of loans from state-controlled banks are set out in Note 16.

The directors believe the above information provides meaningful disclosure of related party transactions.

37. Post-Employment Benefits Plans

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

The Group's contributions for the year ended 31 December 2009 were RMB2,933 million (2008: RMB2,647 million).

The amount payable for contributions to defined contribution retirement plans as at 31 December 2009 was RMB235 million (2008: RMB257 million).

38. 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

38. Stock Appreciation Rights *(continued)*

In March 2003, the Company's compensation committee approved the granting of 276.5 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$1.48 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 18 months after the date of grant. As 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 April 2005, the Company's compensation committee approved the granting of 560.0 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$2.78 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth, fifth and six anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In January 2006, the Company's compensation committee approved the granting of 837.3 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK$2.85 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As 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.

During the year ended 31 December 2009, 0.2 million (2008: 346 million) stock appreciation right units were exercised. For the year ended 31 December 2009, compensation expense of RMB56 million was recognised by the Group in respect of stock appreciation rights. For the year ended 31 December 2008, reversal of compensation expense of RMB148 million was recognised by the Group in respect of stock appreciation rights as a result of decline in share price of the Company.

As at 31 December 2009, the carrying amount of the relating liability arising from stock appreciation rights was RMB422 million (2008: RMB366 million). As at 31 December 2009, 555 million stock appreciation right units became vested but not yet exercised. The carrying amount of the corresponding liability was RMB276 million. As at 31 December 2008, all vested stock appreciation rights were exercised.

39. Accounting Estimates and Judgements

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

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

Revenue recognition for upfront connection and installation fees

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

39. Accounting Estimates and Judgements *(continued)*

Allowance for impairment of doubtful debts

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

Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(o). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets and construction in progress are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at the end of each reporting period. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the net selling price. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group's long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

For the year ended 31 December 2009, provision for impairment losses of RMB753 million were made against the carrying value of property, plant and equipment (Note 4) (2008: RMB24,167 million). 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2009

40. Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Annual Accounting Period Ended 31 December 2009

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 2009:

	Effective for accounting period beginning on or after
Improvements to IFRSs 2008	1 July 2009
IFRS 1 (revised), "First-time adoption of International Financial Reporting Standards"	1 July 2009
IFRS 3 (revised), "Business combinations"	1 July 2009
Amendments to IAS 27, "Consolidated and separate financial statements"	1 July 2009
Amendments to IAS 39, "Financial instruments: Recognition and measurement — Eligible hedged items"	1 July 2009
IFRIC 17, "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 18, "Transfer of assets from customers"	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010
Amendments to IFRS 1, "First-time adoption of International Financial Reporting Standards — Additional exemptions for first-time adopters"	1 January 2010
Amendments to IFRS 2, "Share-based payment — Group cash-settled share-based payment transactions"	1 January 2010
Amendment to IAS 32, "Financial instruments: Presentation—Classification of rights issues"	1 February 2010
IFRIC 19, "Extinguishing financial liabilities with equity instruments"	1 July 2010
IAS 24 (revised), "Related party disclosures"	1 January 2011
Amendments to IFRIC 14, IAS 19, "The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement"	1 January 2011
IFRS 9, "Financial instruments"	1 January 2013

The Group has not early adopted the above amendments, new standards and new interpretations. Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far management believes that amendments to IFRS 1, amendments to IAS 39, amendment to IAS 32, IFRIC 19 and amendments to IFRIC 14 are not applicable to the Group's operations and the remaining above amendments, new standards and new interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

41. Parent and Ultimate Holding Company

The parent and ultimate holding company of the Group as at 31 December 2009 is China Telecommunications Corporation, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.