



Consolidated Statement of Financial Position

at 31 December 2010 (Amounts in millions)

	Note	2010 RMB	2009 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	275,248	286,328
Construction in progress	4	14,445	11,567
Lease prepayments		5,377	5,517
Goodwill	5	29,920	29,922
Intangible assets	6	9,968	12,311
Interests in associates	8	1,123	997
Investments	9	854	722
Deferred tax assets	10	10,779	12,898
Other assets	18	4,396	5,322
Total non-current assets		352,110	365,584
Current assets			
Inventories	11	3,170	2,628
Income tax recoverable		1,882	1,714
Accounts receivable, net	12	17,328	17,438
Prepayments and other current assets	13	5,073	3,910
Time deposits with original maturity over three months		1,968	442
Cash and cash equivalents	14	25,824	34,804
Total current assets		55,245	60,936
Total assets		407,355	426,520
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	15	20,675	51,650
Current portion of long-term debt	15	10,352	1,487
Accounts payable	16	40,039	34,321
Accrued expenses and other payables	17	52,885	52,193
Income tax payables		327	395
Current portion of finance lease obligations		-	18
Current portion of deferred revenues	18	2,645	3,417
Total current liabilities		126,923	143,481
Net current liabilities		(71,678)	(82,545)
Total assets less current liabilities		280,432	283,039
Non-current liabilities			
Long-term debt	15	42,549	52,768
Deferred revenues	18	3,558	5,045
Deferred tax liabilities	10	2,361	2,613
Total non-current liabilities		48,468	60,426
Total liabilities		175,391	203,907



Consolidated Statement of Financial Position

at 31 December 2010 (Amounts in millions)

	Note	2010 RMB	2009 RMB
Equity			
Share capital	19	80,932	80,932
Reserves	20	150,536	140,800
Total equity attributable to equity holders of the Company		231,468	221,732
Non-controlling interests		496	881
Total equity		231,964	222,613
Total liabilities and equity		407,355	426,520

Approved and authorised for issue by the Board of Directors on 22 March 2011.

Wang Xiaochu
Chairman
and
Chief Executive Officer

Shang Bing
Executive Director,
President
and
Chief Operating Officer

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



Statement of Financial Position

at 31 December 2010 (Amounts in millions)

	Note	2010 RMB	2009 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	273,845	283,628
Construction in progress	4	14,243	11,475
Lease prepayments		5,373	5,513
Goodwill	5	29,877	29,877
Intangible assets	6	9,852	12,201
Investments in subsidiaries	7	5,272	8,555
Interests in associates	8	777	736
Investments	9	849	148
Deferred tax assets	10	10,679	12,815
Other assets	18	4,367	5,272
Total non-current assets		355,134	370,220
Current assets			
Inventories	11	2,000	1,739
Income tax recoverable		1,878	1,711
Accounts receivable, net	12	15,923	16,230
Prepayments and other current assets	13	4,720	3,805
Time deposits with original maturity over three months		373	135
Cash and cash equivalents	14	19,939	27,526
Total current assets		44,833	51,146
Total assets		399,967	421,366
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	15	20,675	51,650
Current portion of long-term debt	15	10,352	1,487
Accounts payable	16	37,620	32,183
Accrued expenses and other payables	17	51,225	52,713
Income tax payables		198	215
Current portion of finance lease obligations		–	18
Current portion of deferred revenues	18	2,645	3,412
Total current liabilities		122,715	141,678
Net current liabilities		(77,882)	(90,532)
Total assets less current liabilities		277,252	279,688
Non-current liabilities			
Long-term debt	15	42,549	52,768
Deferred revenues	18	3,558	5,045
Deferred tax liabilities	10	2,262	2,501
Total non-current liabilities		48,369	60,314
Total liabilities		171,084	201,992

The notes on pages 98 to 146 form part of these financial statements.



Statement of Financial Position

at 31 December 2010 (Amounts in millions)

	Note	2010 RMB	2009 RMB
Equity			
Share capital	19	80,932	80,932
Reserves	20	147,951	138,442
Total equity		228,883	219,374
Total liabilities and equity		399,967	421,366

Approved and authorised for issue by the Board of Directors on 22 March 2011.

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and
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Executive Vice President
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Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010 (Amounts in millions, except per share data)

	Note	2010 RMB	2009 RMB
Operating revenues	21	219,864	209,370
Operating expenses			
Depreciation and amortisation		(51,656)	(52,243)
Network operations and support		(47,288)	(42,903)
Selling, general and administrative		(42,130)	(40,507)
Personnel expenses	22	(35,529)	(32,857)
Other operating expenses	23	(19,106)	(17,449)
Impairment loss on property, plant and equipment	3	(139)	(753)
Total operating expenses	24	(195,848)	(186,712)
Operating profit		24,016	22,658
Net finance costs	25	(3,600)	(4,375)
Investment income		361	791
Share of profits of associates		131	101
Profit before taxation		20,908	19,175
Income tax	26	(5,031)	(4,549)
Profit for the year		15,877	14,626
Other comprehensive income for the year:			
Change in fair value of available-for-sale equity securities		132	538
Deferred tax on change in fair value of available-for-sale equity securities		(48)	(120)
Exchange difference on translation of financial statements of subsidiaries outside mainland PRC		(48)	(2)
Share of other comprehensive income from associates		(25)	-
Other comprehensive income for the year, net of tax		11	416
Total comprehensive income for the year		15,888	15,042
Profit attributable to:			
Equity holders of the Company		15,759	14,422
Non-controlling interests		118	204
Profit for the year		15,877	14,626
Total comprehensive income attributable to:			
Equity holders of the Company		15,770	14,763
Non-controlling interests		118	279
Total comprehensive income for the year		15,888	15,042
Basic earnings per share	31	0.19	0.18
Weighted average number of shares (in millions)	31	80,932	80,932

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010 (Amounts in millions)

Note	Attributable to equity holders of the Company									Non-controlling interests RMB	Total equity RMB
	Share capital RMB	Capital reserve RMB	Share premium RMB	Re-valuation reserve RMB	Statutory reserves RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB		
Balance as at 1 January 2009	80,932	(2,804)	10,746	11,410	56,085	2,586	(665)	54,746	213,036	1,512	214,548
Profit for the year	-	-	-	-	-	-	-	14,422	14,422	204	14,626
Other comprehensive income	-	-	-	-	-	343	(2)	-	341	75	416
Total comprehensive income	-	-	-	-	-	343	(2)	14,422	14,763	279	15,042
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	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	-	(867)	(867)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(43)	(43)
Dividends	30	-	-	-	-	-	-	(6,067)	(6,067)	-	(6,067)
Appropriations	20	-	-	-	4,521	-	-	(4,521)	-	-	-
Balance as at 31 December 2009	80,932	(2,804)	10,746	10,863	60,606	2,907	(667)	59,149	221,732	881	222,613
Profit for the year	-	-	-	-	-	-	-	15,759	15,759	118	15,877
Other comprehensive income	-	-	-	-	-	59	(48)	-	11	-	11
Total comprehensive income	-	-	-	-	-	59	(48)	15,759	15,770	118	15,888
Deferred tax on revaluation surplus of property, plant and equipment realised	-	-	-	-	-	118	-	(118)	-	-	-
Revaluation surplus realised	-	-	-	(524)	-	-	-	524	-	-	-
Deferred tax on land use rights realised	-	-	-	-	-	(168)	-	168	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	-	(110)	(110)
Acquisition of non-controlling interests	-	-	-	-	-	(3)	-	-	(3)	(41)	(44)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(352)	(352)
Dividends	30	-	-	-	-	-	-	(6,031)	(6,031)	-	(6,031)
Appropriations	20	-	-	-	2,028	-	-	(2,028)	-	-	-
Balance as at 31 December 2010	80,932	(2,804)	10,746	10,339	62,634	2,913	(715)	67,423	231,468	496	231,964



Consolidated Statement of Cash Flows

for the year ended 31 December 2010 (Amounts in millions)

	Note	2010 RMB	2009 RMB
Net cash from operating activities	(a)	75,571	74,988
Cash flows from/(used in) investing activities			
Capital expenditure		(41,597)	(40,311)
Purchase of investments		(41)	(23)
Lease prepayments		(111)	(94)
Proceeds from disposal of property, plant and equipment		2,738	393
Proceeds from disposal of lease prepayments		176	380
Proceeds from disposal of investments		1	735
Purchase of time deposits with maturity over three months		(1,968)	(442)
Maturity of time deposits with maturity over three months		442	397
Payment of purchase price for the acquisition of CDMA business, net of cash acquired		(5,374)	(4,290)
Net cash used in investing activities		(45,734)	(43,255)
Cash flows from/(used in) financing activities			
Principal element of finance lease payments		(18)	(22)
Proceeds from bank and other loans		53,518	88,958
Proceeds from issuance of medium-term notes		–	29,906
Repayments of bank and other loans		(86,001)	(111,084)
Repayment of short-term commercial papers		–	(10,000)
Repayment of amount due to China Telecommunications Corporation in connection with the Second Acquisition	1	–	(15,150)
Payment of dividends		(5,608)	(6,493)
Distribution to China Telecommunications Corporation in connection with the Fourth Acquisition		(535)	–
Payment for acquisition of non-controlling interests		(27)	–
Net cash distributions to non-controlling interests		(100)	(908)
Net cash used in financing activities		(38,771)	(24,793)
Net (decrease)/increase in cash and cash equivalents		(8,934)	6,940
Cash and cash equivalents at 1 January		34,804	27,866
Effect of changes in foreign exchange rate		(46)	(2)
Cash and cash equivalents at 31 December		25,824	34,804



Consolidated Statement of Cash Flows

for the year ended 31 December 2010 (Amounts in millions)

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

	2010	2009
	RMB	RMB
Profit before taxation	20,908	19,175
Adjustments for:		
Depreciation and amortisation	51,656	52,243
Impairment loss on property, plant and equipment	139	753
Impairment losses for doubtful debts	1,593	1,791
Write down of inventory	87	108
Investment income	(361)	(791)
Share of profits of associates	(131)	(101)
Interest income	(287)	(282)
Interest expense	3,795	4,724
Unrealised foreign exchange loss/(gain)	92	(67)
(Gain)/loss on retirement and disposal of property, plant and equipment	(435)	1,352
Operating profit before changes in working capital	77,056	78,905
Increase in accounts receivable	(1,475)	(1,906)
Increase in inventories	(629)	(175)
Increase in prepayments and other current assets	(1,203)	(78)
Decrease in other assets	928	1,290
Increase in accounts payable	4,120	2,178
Increase in accrued expenses and other payables	6,003	7,105
Decrease in deferred revenues	(2,259)	(2,982)
Cash generated from operations	82,541	84,337
Interest received	292	271
Interest paid	(3,824)	(5,053)
Investment income received	10	58
Income tax paid	(3,448)	(4,625)
Net cash from operating activities	75,571	74,988



Notes to the Financial Statements

For the year ended 31 December 2010

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

As part of the reorganisation (the “Restructuring”) of China Telecommunications Corporation, the Company was incorporated in the PRC on 10 September 2002. In connection with the Restructuring, China Telecommunications Corporation transferred to the Company the wireline telecommunications business and related operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province together with the related assets and liabilities (the “Predecessor Operations”) in consideration for 68,317 million ordinary domestic shares of the Company. The shares issued to China Telecommunications Corporation have a par value of RMB1.00 each and represented the entire registered and issued share capital of the Company at that date.

On 31 December 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (collectively the “First Acquired Group”) and certain network management and research and development facilities from China Telecommunications Corporation for a total purchase price of RMB46,000 million (hereinafter, referred to as the “First Acquisition”).

On 30 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the “Second Acquired Group”) from China Telecommunications Corporation for a total purchase price of RMB27,800 million (hereinafter, referred to as the “Second Acquisition”).

On 30 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”).



Notes to the Financial Statements

For the year ended 31 December 2010

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

Organisation (continued)

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

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

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

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



Notes to the Financial Statements

For the year ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(a) Basis of preparation (*continued*)

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

Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 38.

The IASB has issued a number of new and revised IFRS and Interpretations that are effective for accounting periods beginning on or after 1 January 2010. The Group has adopted these new and revised IFRS in the preparation of the Group's financial statements for the year ended 31 December 2010, but has not applied any new and revised IFRS that is not yet effective for the current accounting period (Note 39). The adoption of Amendments to IAS 27 "Consolidated and separate financial statements" has resulted in a change in the presentation of the financial statements. The term "minority interest" has been changed to "non-controlling interest" in these financial statements.

(b) Basis of consolidation

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

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

For the year ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(b) Basis of consolidation (*continued*)

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

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

All significant intercompany balances and transactions and 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), 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, the estimated costs to make the sale and the related tax expenses.

Notes to the Financial Statements

For the year ended 31 December 2010

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.

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 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 2010, the carrying amount of assets held under finance leases was RMB64 million (2009: RMB80 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.

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

For the year ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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 charge, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA 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 6).

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.

(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)).

Notes to the Financial Statements

For the year ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(n) Operating lease charges

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

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

(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 RMB23,363 million for the year ended 31 December 2010 (2009: RMB22,360 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 2010, research and development expense was RMB540 million (2009: RMB545 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 36.

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 37.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(u) Interest-bearing borrowings

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

(v) Trade and other payables

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

(w) Provisions and contingent liabilities

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

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

(x) Income tax

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

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

(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 an entity in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, management has determined that the Group has no operating segments as the Group is only engaged in an integrated telecommunication business. The location of the Group's assets and operating revenues derived from activities 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 amount is immaterial.

Notes to the Financial Statements

For the year ended 31 December 2010

3. PROPERTY, PLANT AND EQUIPMENT, NET

The Group:

	Buildings and improvements RMB millions	Telecom- munications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/valuation:				
Balance at 1 January 2009	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
Additions	186	1,055	722	1,963
Transferred from construction in progress	2,560	33,427	1,420	37,407
Disposals	(553)	(18,091)	(1,458)	(20,102)
Reclassification	(46)	(47)	93	-
Balance at 31 December 2010	89,325	638,482	23,007	750,814
Accumulated depreciation and impairment:				
Balance at 1 January 2009	(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)
Depreciation charge for the year	(3,776)	(42,011)	(2,152)	(47,939)
Provision for impairment	(3)	(135)	(1)	(139)
Written back on disposal	415	15,923	1,392	17,730
Reclassification	42	50	(92)	-
Balance at 31 December 2010	(30,236)	(430,164)	(15,166)	(475,566)
Net book value at 31 December 2010	59,089	208,318	7,841	275,248
Net book value at 31 December 2009	60,264	218,147	7,917	286,328

Notes to the Financial Statements

For the year ended 31 December 2010

3. PROPERTY, PLANT AND EQUIPMENT, NET (*continued*)**The Company:**

	Buildings and improvements RMB millions	Telecom- munications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/valuation:				
Balance at 1 January 2009	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
Additions	659	1,936	693	3,288
Transferred from construction in progress	2,518	33,335	1,387	37,240
Disposals	(488)	(16,596)	(1,165)	(18,249)
Reclassification	(2)	24	(22)	-
Balance at 31 December 2010	88,968	636,771	22,305	748,044
Accumulated depreciation and impairment:				
Balance at 1 January 2009	(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)
Depreciation charge for the year	(3,707)	(41,686)	(2,029)	(47,422)
Provision for impairment	(3)	(135)	(1)	(139)
Written back on disposal	103	14,287	1,109	15,499
Reclassification	(2)	-	2	-
Balance at 31 December 2010	(30,144)	(429,257)	(14,798)	(474,199)
Net book value at 31 December 2010	58,824	207,514	7,507	273,845
Net book value at 31 December 2009	59,746	216,349	7,533	283,628

Notes to the Financial Statements

For the year ended 31 December 2010

4. CONSTRUCTION IN PROGRESS

	The Group RMB millions	The Company RMB millions
Balance at 1 January 2009	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
Additions	41,386	41,102
Transferred to property, plant and equipment	(37,407)	(37,240)
Transferred to intangible assets	(1,101)	(1,094)
Balance at 31 December 2010	14,445	14,243

5. GOODWILL

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Cost:				
Goodwill arising from acquisition of CDMA business	29,920	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 which was fully settled as at 31 December 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of CDMA business for a net settlement amount of RMB3,471 million due from China Unicom. This amount was subsequently settled by China Unicom in 2009. The business combination was accounted for using the purchase method.

The goodwill recognised in the business combination is attributable to the skills and technical talent of the acquired business's workforce, and the synergies expected to be achieved from integrating and combining the CDMA mobile communication business into the Group's telecommunication business.

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's 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 11.2%. Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1%. Management performed impairment tests for the goodwill and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

Notes to the Financial Statements

For the year ended 31 December 2010

6. INTANGIBLE ASSETS

The Group:

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2009	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
Additions	119	–	119
Transferred from construction in progress	1,101	–	1,101
Disposals	(182)	–	(182)
Balance at 31 December 2010	8,625	11,238	19,863
Accumulated amortisation:			
Balance at 1 January 2009	(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)
Amortisation charge for the year	(1,303)	(2,248)	(3,551)
Provision for impairment	(1)	–	(1)
Written back on disposal	171	–	171
Balance at 31 December 2010	(4,837)	(5,058)	(9,895)
Net book value at 31 December 2010	3,788	6,180	9,968
Net book value at 31 December 2009	3,883	8,428	12,311



Notes to the Financial Statements

For the year ended 31 December 2010

6. INTANGIBLE ASSETS (continued)

The Company:

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2009	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
Additions	82	–	82
Transferred from construction in progress	1,094	–	1,094
Disposals	(148)	–	(148)
Balance at 31 December 2010	8,348	11,238	19,586
Accumulated amortisation:			
Balance at 1 January 2009	(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)
Amortisation charge for the year	(1,266)	(2,248)	(3,514)
Provision for impairment	(1)	–	(1)
Written back on disposal	138	–	138
Balance at 31 December 2010	(4,676)	(5,058)	(9,734)
Net book value at 31 December 2010	3,672	6,180	9,852
Net book value at 31 December 2009	3,773	8,428	12,201

7. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 RMB millions	2009 RMB millions
Unquoted investments, at cost	5,272	8,555

Notes to the Financial Statements

For the year ended 31 December 2010

7. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries at 31 December 2010 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	Limited Company	15 October 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunication services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
China Telecom (Singapore) Pte. Limited	Limited Company	5 October 2006	Singapore	S\$1	Provision of international value-added network services
Besttone E-Commerce Co., Ltd.	Limited Company	17 December 2010	PRC	100	Provision of e-commerce and booking services

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

Notes to the Financial Statements

For the year ended 31 December 2010

8. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Unlisted equity investments, at cost	385	344	777	736
Share of post-acquisition changes in net assets	738	653	–	–
	1,123	997	777	736

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.

9. INVESTMENTS

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Available-for-sale equity securities	822	690	822	138
Other unlisted equity investments	32	32	27	10
	854	722	849	148

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

Notes to the Financial Statements

For the year ended 31 December 2010

10. DEFERRED TAX ASSETS AND LIABILITIES

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

The Group:

	Assets		Liabilities		Net balance	
	2010	2009	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions and impairment losses, primarily for doubtful debts	1,047	931	-	-	1,047	931
<i>Non-current</i>						
Property, plant and equipment	3,214	5,145	(1,520)	(1,748)	1,694	3,397
Deferred revenues and installation costs	1,093	1,229	(660)	(732)	433	497
Land use rights	5,425	5,593	-	-	5,425	5,593
Available-for-sale equity securities	-	-	(181)	(133)	(181)	(133)
Deferred tax assets/(liabilities)	10,779	12,898	(2,361)	(2,613)	8,418	10,285

Movements in temporary differences are as follows:

	Note	Balance at	Recognised in	Balance at
		1 January 2009	statement of comprehensive income	31 December 2009
		RMB millions	RMB millions	RMB millions
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		726	205	931
<i>Non-current</i>				
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

	Note	Balance at	Recognised in	Balance at
		1 January 2010	statement of comprehensive income	31 December 2010
		RMB millions	RMB millions	RMB millions
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		931	116	1,047
<i>Non-current</i>				
Property, plant and equipment		3,397	(1,703)	1,694
Deferred revenues and installation costs		497	(64)	433
Land use rights	(i)	5,593	(168)	5,425
Available-for-sale equity securities		(133)	(48)	(181)
Net deferred tax assets		10,285	(1,867)	8,418

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For the year ended 31 December 2010

10. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The Company:

	Assets		Liabilities		Net balance	
	2010	2009	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions and impairment losses, primarily for doubtful debts	997	895	-	-	997	895
<i>Non-current</i>						
Property, plant and equipment	3,165	5,113	(1,512)	(1,742)	1,653	3,371
Deferred revenues and installation costs	1,093	1,229	(660)	(732)	433	497
Land use rights	5,424	5,578	-	-	5,424	5,578
Available-for-sale equity securities	-	-	(90)	(27)	(90)	(27)
Deferred tax assets/(liabilities)	10,679	12,815	(2,262)	(2,501)	8,417	10,314

Movements in temporary differences are as follows:

	Note	Balance at	Recognised in	Balance at
		1 January	statement of	31 December
		2009	comprehensive	2009
		RMB millions	income	RMB millions
			RMB millions	RMB millions
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		695	200	895
<i>Non-current</i>				
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	Balance at	Recognised in	Balance at
		1 January	statement of	31 December
		2010	comprehensive	2010
		RMB millions	income	RMB millions
			RMB millions	RMB millions
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		895	102	997
<i>Non-current</i>				
Property, plant and equipment		3,371	(1,718)	1,653
Deferred revenues and installation costs		497	(64)	433
Land use rights	(i)	5,578	(154)	5,424
Available-for-sale equity securities		(27)	(63)	(90)
Net deferred tax assets		10,314	(1,897)	8,417

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.

Notes to the Financial Statements

For the year ended 31 December 2010

11. INVENTORIES

Inventories represent:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Materials and supplies	874	873	861	844
Goods for resale	2,296	1,755	1,139	895
	3,170	2,628	2,000	1,739

12. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	Note	The Group		The Company	
		2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Accounts receivable					
Third parties		17,466	17,767	16,398	16,692
China Telecom Group	(i)	1,182	917	565	552
Other state-controlled telecommunications operators in the PRC		704	827	692	820
Subsidiaries		-	-	223	160
		19,352	19,511	17,878	18,224
Less: Allowance for impairment of doubtful debts		(2,024)	(2,073)	(1,955)	(1,994)
		17,328	17,438	15,923	16,230

Note:

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

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
At beginning of year	2,073	2,118	1,994	2,022
Allowance for impairment of doubtful debts	1,567	1,787	1,553	1,780
Accounts receivable written off	(1,616)	(1,832)	(1,592)	(1,808)
At end of year	2,024	2,073	1,955	1,994

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For the year ended 31 December 2010

12. ACCOUNTS RECEIVABLE, NET (continued)

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Current, within 1 month	10,769	10,895	10,665	10,807
1 to 3 months	2,049	2,067	2,033	1,992
4 to 12 months	1,384	1,514	1,374	1,507
More than 12 months	495	499	492	498
	14,697	14,975	14,564	14,804
Less: Allowance for impairment of doubtful debts	(1,831)	(1,920)	(1,822)	(1,911)
	12,866	13,055	12,742	12,893

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Current, within 1 month	1,844	1,918	1,481	1,582
1 to 3 months	1,161	1,071	756	839
4 to 12 months	998	922	633	567
More than 12 months	652	625	444	432
	4,655	4,536	3,314	3,420
Less: Allowance for impairment of doubtful debts	(193)	(153)	(133)	(83)
	4,462	4,383	3,181	3,337

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

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Not past due	15,694	16,021	14,309	14,846
Less than 1 month past due	1,086	869	1,074	852
1 to 3 months past due	548	548	540	532
Amounts past due	1,634	1,417	1,614	1,384
	17,328	17,438	15,923	16,230

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

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For the year ended 31 December 2010

13. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets represent:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due from China Telecom Group	1,044	935	996	892
Amounts due from subsidiaries	–	–	470	498
Amounts due from other state-controlled telecommunications operators in the PRC	232	240	232	240
Prepayments in connection with construction work and equipment purchases	716	745	443	543
Prepaid expenses and deposits	1,384	1,177	1,128	962
Other receivables	1,697	813	1,451	670
	5,073	3,910	4,720	3,805

14. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Cash at bank and in hand	24,071	27,235	19,452	20,246
Time deposits with original maturity within three months	1,753	7,569	487	7,280
	25,824	34,804	19,939	27,526

15. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Loans from state-controlled banks – unsecured	11,578	11,138	11,578	11,138
Other loans – unsecured	80	245	80	245
Loans from China Telecom Group – unsecured	9,017	40,267	9,017	40,267
Total short-term debt	20,675	51,650	20,675	51,650

The weighted average interest rate of the Group's and the Company's total short-term debt as at 31 December 2010 was 4.3% (2009: 4.0%) and 4.3% (2009: 4.0%) respectively. As at 31 December 2010, the loans from state-controlled banks and other loans bear interest at rates ranging from 3.5% to 5.8% (2009: 2.0% to 7.5%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at fixed rates ranging from 3.9% (2009: 2.8% to 5.3%) per annum and are repayable within one year.

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For the year ended 31 December 2010

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

Long-term debt comprises:

Interest rates and final maturity	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Bank loans – unsecured				
Renminbi denominated	279	1,362	279	1,362
US Dollars denominated	733	816	733	816
Japanese Yen denominated	1,447	1,609	1,447	1,609
Euro denominated	559	658	559	658
Other currencies denominated	36	40	36	40
	3,054	4,485	3,054	4,485
Other loans – unsecured				
Renminbi denominated	1	1	1	1
Medium-term notes – unsecured (Note (i))	49,846	49,769	49,846	49,769
Total long-term debt	52,901	54,255	52,901	54,255
Less: current portion	(10,352)	(1,487)	(10,352)	(1,487)
Non-current portion	42,549	52,768	42,549	52,768

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. On 23 October 2008, the Company issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum. On 16 November 2009, the Group issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 3.65% per annum. 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. All of the above medium-term notes are unsecured.

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For the year ended 31 December 2010

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

The aggregate maturities of the Group's and the Company's long-term debt subsequent to 31 December 2010 are as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Within 1 year	10,352	1,487	10,352	1,487
Between 1 to 2 years	11,518	10,322	11,518	10,322
Between 2 to 3 years	10,015	11,372	10,015	11,372
Between 3 to 4 years	20,040	9,986	20,040	9,986
Between 4 to 5 years	92	20,020	92	20,020
Thereafter	884	1,068	884	1,068
	52,901	54,255	52,901	54,255

The Group's short-term and long-term debt do not contain any financial covenants. As at 31 December 2010, the Group and the Company has unutilised committed credit facilities amounted to RMB98,576 million (2009: RMB102,555 million) and RMB98,576 million (2009: RMB102,555 million) respectively.

16. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Third parties	30,838	26,402	27,697	23,291
China Telecom Group	8,571	7,526	8,021	7,396
Other state-controlled telecommunications operators in the PRC	630	393	629	390
Subsidiaries	–	–	1,273	1,106
	40,039	34,321	37,620	32,183

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

Notes to the Financial Statements

For the year ended 31 December 2010

16. ACCOUNTS PAYABLE (*continued*)

Ageing analysis of accounts payable is as follows:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Due within 1 month or on demand	10,308	11,321	8,967	10,210
Due after 1 month but within 3 months	8,626	7,472	8,047	7,042
Due after 3 months but within 6 months	9,830	5,641	9,693	5,137
Due after 6 months	11,275	9,887	10,913	9,794
	40,039	34,321	37,620	32,183

17. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables represent:

	The Group		The Company	
	2010	2009	2010	2009
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due to China Telecom Group	389	1,694	319	1,425
Amounts due to subsidiaries	–	–	125	2,089
Amounts due to other state-controlled telecommunications operators in the PRC	85	103	85	103
Accrued expenses	14,401	14,608	13,691	14,111
Customer deposits and receipts in advance	37,577	30,407	36,587	29,604
Dividend payable	433	–	418	–
Purchase price payable to China Unicom for the acquisition of CDMA business	–	5,381	–	5,381
	52,885	52,193	51,225	52,713

Notes to the Financial Statements

For the year ended 31 December 2010

18. DEFERRED REVENUES

Deferred revenues represent the unearned portion of upfront connection fees and installation fees for wireline services received from customers and the unused portion of calling cards. Connection fees and installation fees are 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	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Balance at beginning of year	8,462	11,444	8,457	11,441
Additions for the year				
– installation fees	395	458	395	458
– calling cards	1,568	3,253	1,568	3,248
	1,963	3,711	1,963	3,706
Reductions for the year				
– amortisation of connection fees	(497)	(1,151)	(497)	(1,151)
– amortisation of installation fees	(2,021)	(2,311)	(2,021)	(2,310)
– usage of calling cards	(1,704)	(3,231)	(1,699)	(3,229)
Balance at end of year	6,203	8,462	6,203	8,457
Representing:				
– current portion	2,645	3,417	2,645	3,412
– non-current portion	3,558	5,045	3,558	5,045
	6,203	8,462	6,203	8,457

Included in other assets are primarily capitalised direct costs associated with the installation of wireline services. As at 31 December 2010, the unamortised portion of these costs was RMB3,236 million (2009: RMB4,312 million).

19. SHARE CAPITAL

	The Group and the Company	
	2010 RMB millions	2009 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

For the year ended 31 December 2010

20. RESERVES

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Revaluation 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 2009	(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 30)	-	-	-	-	-	-	(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
Deferred tax on revaluation surplus of property, plant and equipment realised	-	-	-	-	118	-	(118)	-
Revaluation surplus realised	-	-	(524)	-	-	-	524	-
Deferred tax on land use rights realised	-	-	-	-	(168)	-	168	-
Acquisition of non-controlling interests	-	-	-	-	(3)	-	-	(3)
Dividends (Note 30)	-	-	-	-	-	-	(6,031)	(6,031)
Appropriations (Note (iii))	-	-	-	2,028	-	-	(2,028)	-
Total comprehensive income for the year	-	-	-	-	59	(48)	15,759	15,770
Balance as at								
31 December 2010	(2,804)	10,746	10,339	62,634	2,913	(715)	67,423	150,536

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 2009	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 30)	-	-	-	(6,067)	(6,067)
Balance as at 31 December 2009	29,168	10,746	60,606	37,922	138,442
Total comprehensive income for the year	-	-	-	15,540	15,540
Appropriations (Note (iii))	-	-	2,028	(2,028)	-
Dividends (Note 30)	-	-	-	(6,031)	(6,031)
Balance as at 31 December 2010	29,168	10,746	62,634	45,403	147,951

Notes to the Financial Statements

For the year ended 31 December 2010

20. RESERVES (continued)

Note:

- (i) Capital reserve of the Group represents the sum of (a) the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation; and (b) the difference between the consideration paid by the Company for the entities acquired 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 10(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 2010, the Company transferred RMB1,525 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 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.

According to the Company's Articles of Association, the Directors authorised, subject to shareholders' approval, the transfer of RMB503 million for the year ended 31 December 2010, being 3.3% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to the discretionary surplus reserve. The Company transferred RMB3,229 million for the year ended 31 December 2009, being 25% of the year's net profit.

The statutory and discretionary surplus reserves are non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilised for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

- (iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. At 31 December 2010, the amount of retained earnings available for distribution was RMB45,403 million (2009: RMB37,922 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB5,778 million in respect of the financial year 2010 proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period (Note 30).

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21. OPERATING REVENUES

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

	Note	The Group	
		2010 RMB millions	2009 RMB millions
Wireline voice	(i)	62,498	78,432
Mobile voice	(ii)	28,906	20,027
Internet	(iii)	63,985	51,567
Value-added services	(iv)	22,571	21,533
Integrated information application services	(v)	15,519	12,659
Managed data and leased line	(vi)	12,389	11,499
Others	(vii)	13,499	12,502
Upfront connection fees	(viii)	497	1,151
		219,864	209,370

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 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.

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22. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	The Group	
	2010	2009
	RMB millions	RMB millions
Network operations and support	23,129	21,210
Selling, general and administrative	12,400	11,647
	35,529	32,857

23. OTHER OPERATING EXPENSES

Other operating expenses consist of:

	Note	The Group	
		2010	2009
		RMB millions	RMB millions
Interconnection charges	(i)	11,130	9,634
Cost of goods sold	(ii)	7,909	7,721
Donations		21	8
Others		46	86
		19,106	17,449

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.

24. TOTAL OPERATING EXPENSES

Total operating expenses for the year ended 31 December 2010 were RMB195,848 million (2009: RMB186,712 million) which include auditor's remuneration in relation to audit and non-audit services are RMB67 million and RMB7 million respectively (2009: RMB68 million and RMB3 million).

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25. NET FINANCE COSTS

Net finance costs comprise:

	The Group	
	2010	2009
	RMB millions	RMB millions
Interest expense incurred	4,057	5,051
Less: Interest expense capitalised*	(262)	(327)
Net interest expense	3,795	4,724
Interest income	(287)	(282)
Foreign exchange losses	178	108
Foreign exchange gains	(86)	(175)
	3,600	4,375
* Interest expense was capitalised in construction in progress at the following rates per annum	2.5% – 4.7%	2.5% – 6.9%

26. INCOME TAX

Income tax in the profit or loss comprises:

	The Group	
	2010	2009
	RMB millions	RMB millions
Provision for PRC income tax	3,165	3,105
Provision for income tax in other tax jurisdictions	47	37
Deferred taxation	1,819	1,407
	5,031	4,549

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

		The Group	
		2010	2009
	Note	RMB millions	RMB millions
Profit before taxation		20,908	19,175
Expected income tax expense at statutory tax rate of 25%	(i)	5,227	4,794
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(543)	(433)
Differential tax rate on other subsidiaries' income	(ii)	(11)	(17)
Non-deductible expenses	(iii)	832	1,013
Non-taxable income	(iv)	(444)	(776)
Other tax benefits		(30)	(32)
Actual income tax expense		5,031	4,549

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26. INCOME TAX (continued)

Note:

- (i) The provision for mainland PRC current income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland PRC 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 22%.
- (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 amortisation of connection fees and installation fees received from customers prior to the Restructuring, First Acquisition and Second Acquisition which are not subject to income tax.

27. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Directors' / supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary ⁽¹⁾ bonuses RMB thousands	Retirement scheme contributions RMB thousands	Share-based ⁽²⁾ payments RMB thousands	Total RMB thousands
2010						
<i>Executive directors</i>						
Wang Xiaochu	-	340	1,083	73	1,414	2,910
Shang Bing	-	340	692	73	-	1,105
Wu Andi	-	289	920	63	352	1,624
Zhang Jiping	-	289	920	63	352	1,624
Zhang Chenshuang	-	289	773	63	-	1,125
Yang Xiaowei	-	289	588	62	-	939
Yang Jie	-	289	920	61	1,131	2,401
Sun Kangmin	-	289	920	62	1,131	2,402
<i>Non-executive director</i>						
Li Jinming	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
Wu Jichuan	150	-	-	-	-	150
Qin Xiao	150	-	-	-	-	150
Tse Hau Yin	426	-	-	-	-	426
Cha May Lung	170	-	-	-	-	170
Xu Erming	150	-	-	-	-	150
<i>Supervisors</i>						
Miao Jianhua	-	289	589	63	-	941
Ma Yuzhu	-	166	415	61	294	936
Xu Cailiao	-	93	289	48	162	592
Han Fang	-	91	286	47	162	586
<i>Independent supervisor</i>						
Zhu Lihao	75	-	-	-	-	75
	1,121	3,053	8,395	739	4,998	18,306

(1) Including deferred performance bonus for the term of office from 2007 to 2009. According to the Company's remuneration guideline for senior management approved by the Board of Directors and the Remuneration Committee, this year the Company conducted appraisals of the relevant personnel based on their performance during such term of office and the Board of Directors approved the deferred performance bonus being paid this year.

(2) The respective stock appreciation rights were granted in 2005 and 2006. The fair value of the liability related to share-based payments was affected by the increase in the share prices of the Company in 2010.

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For the year ended 31 December 2010

27. 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
2009						
<i>Executive directors</i>						
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
<i>Non-executive director</i>						
Li Jinming	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
Wu Jichuan	150	-	-	-	-	150
Qin Xiao	150	-	-	-	-	150
Tse Hau Yin	440	-	-	-	-	440
Cha May Lung	176	-	-	-	-	176
Xu Erming	150	-	-	-	-	150
<i>Supervisors</i>						
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
<i>Independent supervisor</i>						
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

For the year ended 31 December 2010

28. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group for the year ended 31 December 2010, three of them were directors of the Company and whose remuneration was disclosed in Note 27. Of the five highest paid individuals of the Group for the year ended 31 December 2009, none of them was director of the Company.

The aggregate of the emoluments in respect of the two (2009: five) individuals are (non-directors) as follows:

	2010 RMB thousands	2009 RMB thousands
Salaries, allowances and benefits in kind	2,461	4,745
Discretionary bonuses	1,204	2,704
Retirement scheme contributions	202	106
	3,867	7,555

The emoluments of the two (2009: five) individuals (non-directors) with the highest emoluments are within the following bands:

	2010 Number of individuals	2009 Number of individuals
RMB1,000,001 – RMB1,500,000	0	3
RMB1,500,001 – RMB2,000,000	1	1
RMB2,000,001 – RMB2,500,000	1	1

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

29. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2010, the consolidated profit attributable to equity holders of the Company includes a profit of RMB15,468 million which has been dealt with in the stand-alone financial statements 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.

30. DIVIDENDS

Pursuant to a resolution passed at the Directors' meeting on 22 March 2011, a final dividend of equivalent to HK\$0.085 per share totalling approximately RMB5,778 million for the year ended 31 December 2010 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 2010.

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

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.

Notes to the Financial Statements

For the year ended 31 December 2010

31. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2010 and 2009 is based on the profit attributable to equity holders of the Company of RMB15,759 million and RMB14,422 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.

32. 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 35(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 2010 and 2009, the Group's and the Company's future minimum lease payments under non-cancellable operating leases were as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Within 1 year	13,525	8,531	13,447	8,451
Between 1 to 2 years	11,531	643	11,479	614
Between 2 to 3 years	577	505	542	488
Between 3 to 4 years	439	417	414	405
Thereafter	1,108	1,014	1,095	1,009
Total minimum lease payments	27,180	11,110	26,977	10,967

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2010 was RMB16,332 million (2009: RMB10,757 million).

Capital commitments

As at 31 December 2010 and 2009, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2010 RMB millions	2009 RMB millions	2010 RMB millions	2009 RMB millions
Authorised and contracted for				
– property	395	376	394	376
– telecommunications network plant and equipment	4,729	4,166	4,720	4,089
	5,124	4,542	5,114	4,465
Authorised but not contracted for				
– property	716	739	716	739
– telecommunications network plant and equipment	4,928	4,364	4,928	4,354
	5,644	5,103	5,644	5,093

Notes to the Financial Statements

For the year ended 31 December 2010

32. COMMITMENTS AND CONTINGENCIES (*continued*)

Contingent liabilities

- (a) The Company and the Group were advised by their PRC lawyers that, except for liabilities arising out of or relating to the businesses of the 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 2010 and 2009, 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 2010 and 2009, the Company did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to subsidiaries.

Legal contingencies

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

33. 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 RMB822 million as at 31 December 2010 (2009: RMB690 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.

Notes to the Financial Statements

For the year ended 31 December 2010

33. FINANCIAL INSTRUMENTS (continued)

(a) Fair Value (continued)

The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The interest rates used in estimating the fair values of long-term debt, having considered the foreign currency denomination of the debt, ranged from 1.0% to 5.88% (2009: 1.0% to 5.76%). As at 31 December 2009 and 2010, the carrying amounts and fair values of the Group's long-term debt were as follows:

	2010		2009	
	Carrying amount RMB millions	Fair value RMB millions	Carrying amount RMB millions	Fair value RMB millions
Long-term debt	52,901	50,630	54,255	52,213

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

(b) Risks

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

(i) Credit risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunication services. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade receivables are set out in Note 12.

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.

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For the year ended 31 December 2010

33. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(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.

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:

	2010					
	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	20,675	(20,924)	(20,924)	-	-	-
Long-term debt	52,901	(59,560)	(12,802)	(13,261)	(32,556)	(941)
Accounts payable	40,039	(40,039)	(40,039)	-	-	-
Accrued expenses and other payables	52,885	(52,885)	(52,885)	-	-	-
	166,500	(173,408)	(126,650)	(13,261)	(32,556)	(941)

	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)

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 15) will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

Notes to the Financial Statements

For the year ended 31 December 2010

33. 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 level of fixed rate debts.

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

	2010		2009	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	4.2	19,842	4.0	47,732
Long-term debt	4.3	52,646	4.5	53,592
		72,488		101,324
Variable rate debt:				
Short-term debt	4.5	833	4.1	3,918
Long-term debt	4.9	255	4.9	663
Total debt		73,576		105,905
Fixed rate debt as a percentage of total debt		98.5%		95.7%

As at 31 December 2010, 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 RMB8 million (2009: RMB34 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 2009.

(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 91.2% (2009: 94.7%) of the Group's cash and cash equivalents and 96.0% (2009: 96.9%) of the Group's short-term and long-term debt as at 31 December 2010 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 15.

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34. 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 2010, the Group's total debt-to-total assets ratio was 18.1% (2009: 24.8%), which is within the range of management's expectation.

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

35. 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 are as follows. The majority of these transactions also constitute continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the report of directors.

	Note	2010 RMB millions	2009 RMB millions
Purchases of telecommunications equipment and materials	(i)	2,215	1,956
Sales of telecommunications equipment and materials	(i)	993	940
Construction and engineering services	(ii)	6,415	5,970
Provision of IT services	(iii)	295	249
Receiving IT services	(iii)	556	520
Receiving community services	(iv)	2,185	2,324
Receiving ancillary services	(v)	6,838	6,044
Operating lease expenses	(vi)	385	387
Net transaction amount of centralised services	(vii)	466	534
Interconnection revenues	(viii)	55	69
Interconnection charges	(viii)	571	667
Interest on amounts due to and loans from			
China Telecom Group	(ix)	896	2,933
CDMA network capacity lease fee	(x)	13,320	8,383
Reimbursement of capacity maintenance related costs of			
CDMA network	(xi)	1,755	1,163

Notes to the Financial Statements

For the year ended 31 December 2010

35. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group

Note:

- (i) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (iii) Represent IT services provided by and received 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) Represent net amounts paid and payable to China Telecom Group for leases of business premises and inter-provincial transmission optic fibres.
- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (viii) Represent amounts charged from/to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the amounts due to and loans from China Telecom Group (Note 15).
- (x) Represent amounts paid and payable to China Telecom Group for lease of CDMA mobile communication network capacity ("CDMA network") (Note 35).
- (xi) Represent amounts shared between the Company and China Telecom Group for the capacity maintenance related costs in connection with the CDMA network capacity used by the Company.

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

	2010 RMB millions	2009 RMB millions
Accounts receivable	1,182	917
Prepayments and other current assets	1,044	935
Total amounts due from China Telecom Group	2,226	1,852
Accounts payable	8,571	7,526
Accrued expenses and other payables	389	1,694
Short-term debt	9,017	40,267
Total amounts due to China Telecom Group	17,977	49,487

Notes to the Financial Statements

For the year ended 31 December 2010

35. 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 terms and conditions associated with short-term debt and long-term debt payable to China Telecom Group are set out in Note 15.

As at 31 December 2010 and 2009, no material 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 telecommunications 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.

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For the year ended 31 December 2010

35. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

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%.

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.

On 25 August 2010, the Company and China Telecommunications Corporation entered into supplemental agreements to renew the CDMA Network Lease (“the 2010 CDMA Network Lease”) for a further term of two years expiring on 31 December 2012. “The 2010 CDMA Network Lease” contains the same key terms, including the option to purchase the CDMA network, the calculation basis of the constructed capacity related costs shared between the Company and China Telecommunications Corporation and the calculation basis of the CDMA network capacity lease fee, as “the CDMA Network Lease”.

(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:

	2010 RMB thousands	2009 RMB thousands
Short-term employee benefits	13,778	8,142
Post-employment benefits	802	726
Equity-based compensation benefits	5,351	–
	19,931	8,868

The above remuneration is included in personnel expenses.

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For the year ended 31 December 2010

35. RELATED PARTY TRANSACTIONS (continued)

(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 36.

(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:

	2010 RMB millions	2009 RMB millions
Interconnection revenues	11,230	11,342
Interconnection charges	9,150	7,377
Leased line revenues	696	596

Notes to the Financial Statements

For the year ended 31 December 2010

35. 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 are summarised as follows:

	2010 RMB millions	2009 RMB millions
Accounts receivable	704	827
Prepayments and other current assets	232	240
Total amounts due from other state-controlled telecommunications operators in the PRC	936	1,067
Accounts payable	630	393
Accrued expenses and other payables	85	5,484
Total amounts due to other state-controlled telecommunications operators in the PRC	715	5,877

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 2010 and 2009, 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:

	2010 RMB millions	2009 RMB millions
Interest income	284	281
Interest expense	821	827

Notes to the Financial Statements

For the year ended 31 December 2010

35. 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:

	2010 RMB millions	2009 RMB millions
Cash at bank	23,005	26,867
Time deposits with original maturity within three months	1,753	7,569
Time deposits with original maturity over three months	1,968	442
Total deposits with state-controlled banks in the PRC	26,726	34,878
Short-term loans	11,578	11,138
Long-term loans	3,054	4,485
Total loans with state-controlled banks in the PRC	14,632	15,623

Further details of the interest rates and repayment terms of loans from state-controlled banks are set out in Note 15.

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

36. POST-EMPLOYMENT BENEFITS PLANS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 18% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. 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 2010 were RMB3,144 million (2009: RMB2,933 million).

The amount payable for contributions to defined contribution retirement plans as at 31 December 2010 was RMB206 million (2009: RMB235 million).



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37. STOCK APPRECIATION RIGHTS

The Group implemented a stock appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, stock appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of stock appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise. The Company recognises compensation expense of the stock appreciation rights over the applicable vesting period.

In 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 sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In January 2006, the Company's compensation committee approved the granting of 837.3 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of six years from date of grant and an exercise price of HK\$2.85 per unit. A recipient of stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As 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 2010, 483 million (2009: 0.2 million) stock appreciation right units, which were granted in April 2005 and January 2006, were exercised. For the year ended 31 December 2010, compensation expense of RMB592 million was recognised by the Group in respect of stock appreciation rights. For the year ended 31 December 2009, compensation expense of RMB56 million was recognised by the Group in respect of stock appreciation rights.

As at 31 December 2010, the carrying amount of the liability arising from stock appreciation rights was RMB412 million (2009: RMB422 million). As at 31 December 2010, 417 million (2009: 555 million) stock appreciation right units vested but were not exercised. The carrying amount of the corresponding liability was RMB412 million (2009: RMB276 million).



For the year ended 31 December 2010

38. 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 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2010

38. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Impairment of long-lived assets (continued)**

For the year ended 31 December 2010, provision for impairment losses of RMB139 million were made against the carrying value of property, plant and equipment (Note 3) (2009: RMB753 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.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2010

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 2010:

	Effective for accounting period beginning on or after
Amendment to IAS 32, "Financial Instruments: Presentation – Classification of Rights Issues"	1 February 2010
IFRIC Interpretation 19, "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010
Amendment to IFRS 1, "First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
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
Amendments to IFRS 7, Financial Instruments: Disclosures – Transfer of Financial Assets	1 July 2011
Amendments to IAS 12, "Income Taxes – Deferred Tax: Recovery of Underlying Assets"	1 January 2012
IFRS 9, "Financial Instruments"	1 January 2013



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39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2010 *(continued)*

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 amendment to IAS 32, IFRIC Interpretation 19, amendment to IFRS 1 and amendments to IFRIC 14, IAS 19 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.

40. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Group as at 31 December 2010 is China Telecommunications Corporation, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.