1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

China Telecom Corporation Limited (the "Company") and its subsidiaries (hereinafter, collectively referred to as the "Group") offers a comprehensive range of wireline and mobile telecommunications services including wireline voice, mobile voice, Internet, managed data and leased line, value-added services, integrated information application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People's Republic of China (the "PRC"). Following the acquisition of Code Division Multiple Access ("CDMA") mobile telecommunications business in October 2008, the Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region ("Macau") of the PRC. The Group also provides leased line and other related services in certain countries of the Asia Pacific, South America and North America regions.

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

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").

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.

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

Organisation (continued)

On 1 August 2011 and 1 December 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd and E-surfing Media Co., Ltd., acquired the e-commerce business and video media business (collectively the "Fifth Acquired Group") from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 million (hereinafter, referred to as the "Fifth Acquisition"). The purchase price has not been fully settled at the end of the reporting period.

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

Basis of presentation

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

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 available-for-sale equity securities (Note 2(m)). The accounting policies described below have been consistently applied by the Group, except those disclosed in Note 3.

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

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 39.

(b) Basis of consolidation

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

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

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

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

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

All significant intercompany balances and transactions and unrealised gains arising from intercompany transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Translation of foreign currencies

The accompanying consolidated financial statements are presented in Renminbi ("RMB"). The functional currency of the Company and its subsidiaries in mainland China is RMB. The functional currency of CT (HK), CT Americas, China Telecom (Macau) Company Limited ("CT Macau"), China Telecom (Singapore) Pte. Limited ("CT Singapore") and China Telecom (Australia) Pty Ltd ("CT Australia") is Hong Kong dollars (HK$), US dollars (US$), Macau Pataca (MOP), Singapore dollars (S$) and Australia dollars (AUD), respectively. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those 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, CT Singapore and CT Australia are translated into RMB at average rate prevailing during the year. Assets and liabilities of CT (HK), CT Americas, CT Macau, CT Singapore and CT Australia are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(d) Cash and cash equivalents

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

(e) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for doubtful debts (Note 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.

(g) Property, plant and equipment

Property, plant and equipment are 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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 2011, the carrying amount of assets held under finance leases was RMB76 million (2010: RMB64 million).

Gains or losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit or loss on the date of disposal.

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

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

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

(h) Lease prepayments

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 6) acquisition.

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

(k) Intangible assets

The Group's intangible assets comprise computer software and customer relationships acquired in the CDMA business (as defined in Note 6) acquisition (Note 7).

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

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

(l) Investments in subsidiaries

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

(m) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value being recognised in other comprehensive income and accumulated separately in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 2(o)).

(n) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

(ii) Impairment of long-lived assets

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment (continued)

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised as an expense in profit or loss. Impairment loss recognised in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

(p) Revenue recognition

The revenue recognition methods of the Group are as follows:

(i) Revenue derived from local, domestic long distance and international, Hong Kong, Macau and Taiwan long distance usage are recognised as the services are provided.

(ii) 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 installation 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. Revenue from repair and maintenance of equipment is recognised when the service is provided to customers.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB27,498 million for the year ended 31 December 2011 (2010: RMB23,363 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 2011, research and development expense was RMB558 million (2010: RMB540 million).

(t) Employee benefits

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

Compensation expense in respect of the stock appreciation rights granted is accrued as a charge to the profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is re-measured to fair value at the end of each reporting period with the effect of changes in the fair value of the liability charged or credited to profit or loss. Further details of the Group's stock appreciation rights scheme are set out in Note 38.

(u) Interest-bearing borrowings

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

(v) Trade and other payables

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Provisions and contingent liabilities

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

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

(x) Income tax

Income tax for the year comprises current tax and movement in deferred tax assets and liabilities. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, 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) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);

(iii) The entity and the Group are joint ventures of the same third party;

(iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;

(v) The entity is controlled or jointly controlled by a person identified in (a);

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, management has determined that the Group has one operating segment as the Group is only engaged in an integrated telecommunications business. The location of the Group's assets and operating revenues derived from activities outside mainland China are less than 1% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amount is immaterial. No single external customer accounts for 10 percent or more of the Group's operating revenues.

3. CHANGES IN ACCOUNTING POLICIES

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

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

3. CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current accounting period (Note 40).

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

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

(ii) Improvements to IFRSs (2010)

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

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

– property, plant and equipment were recognised at carrying amounts determined in accordance with IAS 16 at the respective dates of transition to IFRS and subsequently carried at revalued amount, being its fair value at the dates of revaluations; and

– lease prepayments were recognised at historical cost and therefore, the related revaluation gains arising from the revaluation in 2001, 2002 and 2003 as mentioned above were not recognised.

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

– retrospectively adjusted the amounts reported for previous periods in the respective IFRS financial statements to be consistent with the retrospective recognition of property, plant and equipment and lease prepayments acquired during the Restructuring, the First Acquisition and the Second Acquisition at their deemed costs in the respective first IFRS financial statements based on the results of valuations, with consequential adjustments for depreciation and amortisation charged in subsequent periods; and

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

– changed its accounting policy for property, plant and equipment from the revaluation model to the cost model. The revaluation surplus and deficit related to the revaluations performed in 2004 and 2007, has also been adjusted retrospectively. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's consolidated financial statements and to eliminate the differences between the Group's financial statements under IFRS and those under PRC GAAP.

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

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

	2011 RMB millions	2010 RMB millions
Increase/(decrease) on items of consolidated statement of comprehensive income		
Depreciation and amortisation	**498**	559
Network operations and support	**30**	5
Investment income	**–**	(33)
Income tax	**(133)**	(185)
Profit attributable to equity holders of the Company	**(395)**	(412)
Total comprehensive income	**(395)**	(412)
Basic earnings per share for profit attributable to equity holders of the Company	**(0.01)**	(0.01)

4. PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings and improvements RMB millions	Telecommunications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/Deemed cost:				
Balance at 1 January 2010, as previously reported	87,178	622,138	22,230	731,546
Change in accounting policy	(4,972)	(10,511)	3	(15,480)
Balance at 1 January 2010, as restated	82,206	611,627	22,233	716,066
Additions	186	1,055	722	1,963
Transferred from construction in progress	2,560	33,427	1,420	37,407
Disposals, as restated	(428)	(18,400)	(1,328)	(20,156)
Reclassification	(46)	(47)	93	–
Balance at 31 December 2010, as restated	84,478	627,662	23,140	735,280
Additions through acquisition of a subsidiary	**49**	**370**	**20**	**439**
Additions	**213**	**1,058**	**1,045**	**2,316**
Transferred from construction in progress	**1,768**	**39,221**	**1,241**	**42,230**
Disposals	**(200)**	**(14,234)**	**(811)**	**(15,245)**
Reclassification	**1**	**124**	**(125)**	**–**
Balance at 31 December 2011	**86,309**	**654,201**	**24,510**	**765,020**
Accumulated depreciation and impairment:				
Balance at 1 January 2010, as previously reported	(26,914)	(403,991)	(14,313)	(445,218)
Change in accounting policy	898	11,783	21	12,702
Balance at 1 January 2010, as restated	(26,016)	(392,208)	(14,292)	(432,516)
Depreciation charge for the year, as restated	(3,538)	(42,254)	(2,141)	(47,933)
Provision for impairment	(3)	(135)	(1)	(139)
Written back on disposal, as restated	341	16,208	1,237	17,786
Reclassification	42	50	(92)	–
Balance at 31 December 2010, as restated	(29,174)	(418,339)	(15,289)	(462,802)
Additions through acquisition of a subsidiary	**(40)**	**(251)**	**(14)**	**(305)**
Depreciation charge for the year	**(3,634)**	**(41,111)**	**(2,149)**	**(46,894)**
Written back on disposal	**154**	**13,019**	**685**	**13,858**
Reclassification	**(2)**	**(1)**	**3**	**–**
Balance at 31 December 2011	**(32,696)**	**(446,683)**	**(16,764)**	**(496,143)**
Net book value at 31 December 2011	**53,613**	**207,518**	**7,746**	**268,877**
Net book value at 31 December 2010, as restated	55,304	209,323	7,851	272,478
Net book value at 1 January 2010, as restated	56,190	219,419	7,941	283,550

4. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Company

	Buildings and improvements RMB millions	Telecommunications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/Deemed cost:				
Balance at 1 January 2010, as previously reported	86,281	618,072	21,412	725,765
Change in accounting policy	(4,972)	(10,513)	3	(15,482)
Balance at 1 January 2010, as restated	81,309	607,559	21,415	710,283
Additions	659	1,936	693	3,288
Transferred from construction in progress	2,518	33,335	1,387	37,240
Disposals, as restated	(362)	(16,905)	(1,035)	(18,302)
Reclassification	(2)	24	(22)	–
Balance at 31 December 2010, as restated	84,122	625,949	22,438	732,509
Additions	**128**	**859**	**740**	**1,727**
Transferred from construction in progress	**1,683**	**39,064**	**1,171**	**41,918**
Disposals	**(184)**	**(14,188)**	**(780)**	**(15,152)**
Reclassification	**1**	**124**	**(125)**	**–**
Balance at 31 December 2011	**85,750**	**651,808**	**23,444**	**761,002**
Accumulated depreciation and impairment:				
Balance at 1 January 2010, as previously reported	(26,535)	(401,723)	(13,879)	(442,137)
Change in accounting policy	898	11,785	22	12,705
Balance at 1 January 2010, as restated	(25,637)	(389,938)	(13,857)	(429,432)
Depreciation charge for the year, as restated	(3,471)	(41,927)	(2,018)	(47,416)
Provision for impairment	(3)	(135)	(1)	(139)
Written back on disposal, as restated	28	14,572	955	15,555
Reclassification	(2)	–	2	–
Balance at 31 December 2010, as restated	(29,085)	(417,428)	(14,919)	(461,432)
Depreciation charge for the year	**(3,574)**	**(40,973)**	**(2,000)**	**(46,547)**
Written back on disposal	**138**	**13,005**	**682**	**13,825**
Reclassification	**(2)**	**(1)**	**3**	**–**
Balance at 31 December 2011	**(32,523)**	**(445,397)**	**(16,234)**	**(494,154)**
Net book value at 31 December 2011	**53,227**	**206,411**	**7,210**	**266,848**
Net book value at 31 December 2010, as restated	55,037	208,521	7,519	271,077
Net book value at 1 January 2010, as restated	55,672	217,621	7,558	280,851

5. CONSTRUCTION IN PROGRESS

	The Group RMB millions	The Company RMB millions
Balance at 1 January 2010	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
Additions	**47,442**	**47,020**
Transferred to property, plant and equipment	**(42,230)**	**(41,918)**
Transferred to intangible assets	**(1,209)**	**(1,171)**
Balance at 31 December 2011	**18,448**	**18,174**

6. GOODWILL

	The Group		The Company	
	2011 RMB millions	2010 RMB millions	**2011 RMB millions**	2010 RMB millions
Cost:				
Goodwill arising from acquisition of CDMA business	**29,918**	29,920	**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 telecommunications 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 telecommunications business. The recoverable amount of the Group's telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period and a pre-tax discount rate of 11.5% (2010: 11.2%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1%. Management performed impairment tests for the goodwill and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

7. INTANGIBLE ASSETS

The Group

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2010	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
Additions	**199**	**–**	**199**
Transferred from construction in progress	**1,209**	**–**	**1,209**
Disposals	**(140)**	**–**	**(140)**
Balance at 31 December 2011	**9,893**	**11,238**	**21,131**
Accumulated amortisation and impairment:			
Balance at 1 January 2010	(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)
Amortisation charge for the year	**(1,372)**	**(2,248)**	**(3,620)**
Provision for impairment	**(8)**	**–**	**(8)**
Written back on disposal	**107**	**–**	**107**
Balance at 31 December 2011	**(6,110)**	**(7,306)**	**(13,416)**
Net book value at 31 December 2011	**3,783**	**3,932**	**7,715**
Net book value at 31 December 2010	3,788	6,180	9,968

7. INTANGIBLE ASSETS (continued)

The Company

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2010	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
Additions	**101**	**–**	**101**
Transferred from construction in progress	**1,171**	**–**	**1,171**
Disposals	**(59)**	**–**	**(59)**
Balance at 31 December 2011	**9,561**	**11,238**	**20,799**
Accumulated amortisation and impairment:			
Balance at 1 January 2010	(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)
Amortisation charge for the year	**(1,329)**	**(2,248)**	**(3,577)**
Provision for impairment	**(8)**	**–**	**(8)**
Written back on disposal	**54**	**–**	**54**
Balance at 31 December 2011	**(5,959)**	**(7,306)**	**(13,265)**
Net book value at 31 December 2011	**3,602**	**3,932**	**7,534**
Net book value at 31 December 2010	3,672	6,180	9,852

8. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011 RMB millions	2010 RMB millions
Unquoted investments, at cost	**6,178**	5,272

8. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries at 31 December 2011 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 activities
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 telecommunications services
China Telecom Best Tone Information Service Co., Limited	Limited Company	15 August 2007	PRC	350	Provision of Best Tone information services
China Telecom (Macau) Company Limited	Limited Company	15 October 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunications services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
China Telecom (Singapore) Pte. Limited	Limited Company	5 October 2006	Singapore	S$1	Provision of international value-added network services
Besttone E-Commerce Co., Ltd	Limited Company	17 December 2010	PRC	100	Provision of e-commerce and booking services
E-surfing Pay Co., Ltd	Limited Company	3 March 2011	PRC	300	Provision of e-commerce services
E-surfing Media Co., Ltd	Limited Company	11 March 2011	PRC	250	Provision of video media services
Shenzhen Shekou Telecommunications Company Limited	Limited Company	5 May 1984	PRC	91	Provision of telecommunications services
China Telecom (Australia) Pty Ltd	Limited Company	10 January 2011	Australia	AUD1	Provision of international value-added network services

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

9. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Unlisted equity investments, at cost	**233**	385	**619**	777
Share of post-acquisition changes in net assets	**752**	738	**–**	–
	985	1,123	**619**	777

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

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

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

10. INVESTMENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Available-for-sale equity securities	**617**	822	**617**	822
Other unlisted equity investments	**31**	32	**27**	27
	648	854	**644**	849

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.

11. DEFERRED TAX ASSETS AND LIABILITIES

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

The Group

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

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

11. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The Group (continued)

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

The Company

	Note	Assets			Liabilities			Net balance		
		31 December 2011 RMB millions	31 December 2010 RMB millions (restated)	1 January 2010 RMB millions (restated)	31 December 2011 RMB millions	31 December 2010 RMB millions (restated)	1 January 2010 RMB millions (restated)	31 December 2011 RMB millions	31 December 2010 RMB millions (restated)	1 January 2010 RMB millions (restated)
Current										
Provisions and impairment losses, primarily for doubtful debts		965	997	895	–	–	–	965	997	895
Non-current										
Property, plant and equipment		1,066	2,833	4,647	(401)	(526)	(639)	665	2,307	4,008
Deferred revenues and installations costs		914	1,093	1,229	(562)	(660)	(732)	352	433	497
Land use rights	(i)	–	–	–	–	–	–	–	–	–
Available-for-sale equity securities		–	–	–	(39)	(90)	(27)	(39)	(90)	(27)
Deferred tax assets/(liabilities)		2,945	4,923	6,771	(1,002)	(1,276)	(1,398)	1,943	3,647	5,373

11. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The Company (continued)

	Note	Balance at 1 January 2010 RMB millions (restated)	Recognised in statement of comprehensive income RMB millions (restated)	Balance at 31 December 2010 RMB millions (restated)
Current				
Provisions and impairment losses, primarily for doubtful debts		895	102	997
Non-current				
Property, plant and equipment		4,008	(1,701)	2,307
Deferred revenues and installation costs		497	(64)	433
Land use rights	(i)	–	–	–
Available-for-sale equity securities		(27)	(63)	(90)
Net deferred tax assets		5,373	(1,726)	3,647

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

Note:

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

As a result of the adoption of amendment to IFRS 1 (Note 3), the revalued amounts of land use rights of the Predecessor Operations, the First Acquired Group and the Second Acquired Group were adopted as deemed costs. Therefore, the tax bases and the amounts for financial reporting purpose of the land use rights were the same, and accordingly the respective deferred tax assets were eliminated retrospectively.

12. INVENTORIES

Inventories represent:

	The Group		The Company	
	2011	2010	2011	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Materials and supplies	970	874	951	861
Goods for resale	3,870	2,296	1,413	1,139
	4,840	3,170	2,364	2,000

13. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

		The Group		The Company	
		2011	2010	2011	2010
	Note	RMB millions	RMB millions	RMB millions	RMB millions
Accounts receivable					
Third parties		18,040	17,466	16,680	16,398
China Telecom Group	(i)	1,803	1,182	1,358	565
Other telecommunications operators in the PRC		570	704	554	692
Subsidiaries		–	–	395	223
		20,413	19,352	18,987	17,878
Less: Allowance for doubtful debts		(1,942)	(2,024)	(1,873)	(1,955)
		18,471	17,328	17,114	15,923

Note:

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

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

	The Group		The Company	
	2011	2010	2011	2010
	RMB millions	RMB millions	RMB millions	RMB millions
At beginning of year	2,024	2,073	1,955	1,994
Allowance for doubtful debts	1,383	1,567	1,365	1,553
Accounts receivable written off	(1,465)	(1,616)	(1,447)	(1,592)
At end of year	1,942	2,024	1,873	1,955

13. ACCOUNTS RECEIVABLE, NET (continued)

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

	The Group		The Company	
	2011	2010	2011	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Current, within 1 month	10,872	10,769	10,767	10,665
1 to 3 months	2,120	2,049	2,054	2,033
4 to 12 months	1,444	1,384	1,435	1,374
More than 12 months	432	495	431	492
	14,868	14,697	14,687	14,564
Less: Allowance for doubtful debts	(1,797)	(1,831)	(1,787)	(1,822)
	13,071	12,866	12,900	12,742

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

	The Group		The Company	
	2011	2010	2011	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Current, within 1 month	2,763	1,844	2,271	1,481
1 to 3 months	899	1,161	852	756
4 to 12 months	1,287	998	745	633
More than 12 months	596	652	432	444
	5,545	4,655	4,300	3,314
Less: Allowance for doubtful debts	(145)	(193)	(86)	(133)
	5,400	4,462	4,214	3,181

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

	The Group		The Company	
	2011	2010	2011	2010
	RMB millions	RMB millions	RMB millions	RMB millions
Not past due	16,687	15,694	15,395	14,309
Less than 1 month past due	1,081	1,086	1,053	1,074
1 to 3 months past due	703	548	666	540
Amounts past due	1,784	1,634	1,719	1,614
	18,471	17,328	17,114	15,923

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

14. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets represent:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Amounts due from China Telecom Group	**1,091**	1,044	**1,088**	996
Amounts due from subsidiaries	**–**	–	**491**	470
Amounts due from other telecommunications operators in the PRC	**195**	232	**195**	232
Prepayments in connection with construction work and equipment purchases	**765**	716	**396**	443
Prepaid expenses and deposits	**1,578**	1,384	**1,186**	1,128
Other receivables	**1,035**	1,697	**816**	1,451
	4,664	5,073	**4,172**	4,720

15. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Cash at bank and in hand	**24,470**	24,071	**18,942**	19,452
Time deposits with original maturity within three months	**2,902**	1,753	**963**	487
	27,372	25,824	**19,905**	19,939

16. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Loans from banks – unsecured	**8,123**	11,578	**8,123**	11,578
Other loans – unsecured	**244**	80	**244**	80
Loans from China Telecom Group – unsecured	**820**	9,017	**820**	9,017
Total short-term debt	**9,187**	20,675	**9,187**	20,675

The weighted average interest rate of the Group's and the Company's total short-term debt as at 31 December 2011 was 5.9% (2010: 4.3%) and 5.9% (2010: 4.3%) respectively. As at 31 December 2011, the loans from banks and other loans bear interest at rates ranging from 3.9% to 7.2% (2010: 3.5% to 5.8%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at fixed rates ranging from 3.9% to 4.9% (2010: 3.9%) per annum and are repayable within one year.

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

Long-term debt comprises:

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

Note:

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

On 23 October 2008, the Company issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum.

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

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

All of the above medium-term notes are unsecured.

16. 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 2011 are as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within 1 year	**11,766**	10,352	**11,766**	10,352
Between 1 to 2 years	**10,188**	11,518	**10,188**	11,518
Between 2 to 3 years	**20,049**	10,015	**20,049**	10,015
Between 3 to 4 years	**89**	20,040	**89**	20,040
Between 4 to 5 years	**89**	92	**89**	92
Thereafter	**735**	884	**735**	884
	42,916	52,901	**42,916**	52,901

The Group's short-term and long-term debt do not contain any financial covenants. As at 31 December 2011, the Group and the Company have unutilised committed credit facilities amounting to RMB118,970 million (2010: RMB98,576 million) and RMB118,970 million (2010: RMB98,576 million) respectively.

17. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties	**34,748**	30,838	**30,182**	27,697
China Telecom Group	**8,911**	8,571	**8,199**	8,021
Other telecommunications operators in the PRC	**699**	630	**697**	629
Subsidiaries	**–**	–	**1,445**	1,273
	44,358	40,039	**40,523**	37,620

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

Ageing analysis of accounts payable is as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Due within 1 month or on demand	**13,074**	10,308	**10,568**	8,967
Due after 1 month but within 3 months	**11,610**	8,626	**11,260**	8,047
Due after 3 months but within 6 months	**8,054**	9,830	**7,794**	9,693
Due after 6 months	**11,620**	11,275	**10,901**	10,913
	44,358	40,039	**40,523**	37,620

18. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables represent:

	The Group		The Company	
	2011 RMB millions	2010 RMB millions	2011 RMB millions	2010 RMB millions
Amounts due to China Telecom Group	312	389	222	319
Amounts due to subsidiaries	–	–	272	125
Amounts due to other telecommunications operators in the PRC	78	85	78	85
Accrued expenses	14,280	14,401	13,509	13,691
Customer deposits and receipts in advance	44,695	37,577	43,282	36,587
Dividend payable	7	433	–	418
	59,372	52,885	57,363	51,225

19. DEFERRED REVENUES

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

	The Group		The Company	
	2011 RMB millions	2010 RMB millions	2011 RMB millions	2010 RMB millions
Balance at beginning of year	6,203	8,462	6,203	8,457
Additions for the year				
– installation fees	373	395	373	395
– calling cards	1,275	1,568	1,267	1,568
	1,648	1,963	1,640	1,963
Reductions for the year				
– amortisation of connection fees	(98)	(497)	(98)	(497)
– amortisation of installation fees	(1,660)	(2,021)	(1,660)	(2,021)
– usage of calling cards	(1,288)	(1,704)	(1,282)	(1,699)
Balance at end of year	4,805	6,203	4,803	6,203
Representing:				
– current portion	2,093	2,645	2,091	2,645
– non-current portion	2,712	3,558	2,712	3,558
	4,805	6,203	4,803	6,203

Included in other assets are primarily capitalised direct costs associated with the installation of wireline services. As at 31 December 2011, the unamortised portion of these costs was RMB2,444 million (2010: RMB3,236 million).

20. SHARE CAPITAL

	The Group and the Company	
	2011	2010
	RMB millions	RMB millions
Registered, issued and fully paid		
67,054,958,321 ordinary domestic shares of RMB1.00 each	**67,055**	67,055
13,877,410,000 overseas listed H shares of RMB1.00 each	**13,877**	13,877
	80,932	80,932

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

21. RESERVES

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Revaluation reserve RMB millions	Statutory reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Exchange reserve RMB millions	Retained earnings RMB millions (Note (i))	Total RMB millions
Balance as at 1 January 2010, as previously reported	(2,804)	10,746	10,863	60,606	2,907	(667)	59,149	140,800
Change in accounting policy (Note 3)	19,571	–	(10,863)	–	(2,525)	–	8,389	14,572
Balance as at 1 January 2010, as restated	16,767	10,746	–	60,606	382	(667)	67,538	155,372
Acquisition of non-controlling interests	–	–	–	–	(3)	–	–	(3)
Dividends (Note 31)	–	–	–	–	–	–	(6,031)	(6,031)
Appropriations (Note (iii))	–	–	–	2,028	–	–	(2,028)	–
Total comprehensive income for the year, as restated	–	–	–	–	59	(48)	15,347	15,358
Balance as at 31 December 2010, as restated	16,767	10,746	–	62,634	438	(715)	74,826	164,696
Dividends (Note 31)	**–**	**–**	**–**	**–**	**–**	**–**	**(5,763)**	**(5,763)**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Acquisition of the Fifth Acquired Group (Note 1)	**–**	**–**	**–**	**–**	**–**	**–**	**(19)**	**(19)**
Appropriations (Note (iii))	**–**	**–**	**–**	**1,682**	**–**	**–**	**(1,682)**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(154)**	**(103)**	**16,502**	**16,245**
Balance as at 31 December 2011	**16,767**	**10,746**	**–**	**64,316**	**283**	**(818)**	**83,864**	**175,158**

21. RESERVES (continued)

The Company

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Statutory reserves RMB millions (Note (iii))	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2010, as previously reported	29,168	10,746	60,606	37,922	138,442
Change in accounting policy	–	–	–	14,460	14,460
Balance as at 1 January 2010, as restated	29,168	10,746	60,606	52,382	152,902
Total comprehensive income for the year, as restated	–	–	–	15,241	15,241
Appropriations (Note (iii))	–	–	2,028	(2,028)	–
Dividends (Note 31)	–	–	–	(6,031)	(6,031)
Balance as at 31 December 2010, as restated	29,168	10,746	62,634	59,564	162,112
Total comprehensive income for the year	**–**	**–**	**–**	**15,504**	**15,504**
Appropriations (Note (iii))	**–**	**–**	**1,682**	**(1,682)**	**–**
Dividends (Note 31)	**–**	**–**	**–**	**(5,763)**	**(5,763)**
Balance as at 31 December 2011	**29,168**	**10,746**	**64,316**	**67,623**	**171,853**

Note:

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

The difference between the consideration paid by the Company and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.

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

(ii) Other reserves of the Group represent primarily the change in the fair value of available-for-sale equity securities and the deferred tax liabilities recognised due to the change in fair value of available-for-sale equity securities.

(iii) The statutory reserves consist of statutory surplus reserve and discretionary surplus reserve.

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRS, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2011, the Company transferred RMB1,572 million, being 10% of the year's net profit determined in accordance with IFRS, to this reserve. 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.

According to the Company's Articles of Association, the Company transferred RMB110 million for the year ended 31 December 2011, being 0.7% of the year's net profit determined in accordance with IFRS, to the discretionary surplus reserve. The Company transferred 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.

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

(iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As at 31 December 2011, the amount of retained earnings available for distribution was RMB67,623 million (2010: RMB59,564 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB5,583 million in respect of the financial year 2011 proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period (Note 31).

22. OPERATING REVENUES

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

		The Group	
		2011	2010
	Note	RMB millions	RMB millions
Wireline voice	(i)	49,764	62,498
Mobile voice	(ii)	38,628	28,906
Internet	(iii)	74,992	63,985
Value-added services	(iv)	25,529	22,571
Integrated information application services	(v)	20,473	15,519
Managed data and leased line	(vi)	14,273	12,389
Others	(vii)	21,284	13,499
Upfront connection fees	(viii)	98	497
		245,041	219,864

Note:

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

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

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

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

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

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

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

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

23. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	The Group	
	2011	2010
	RMB millions	RMB millions
Network operations and support	25,924	23,129
Selling, general and administrative	13,243	12,400
	39,167	35,529

24. OTHER OPERATING EXPENSES

Other operating expenses consist of:

	Note	The Group 2011 RMB millions	2010 RMB millions
Interconnection charges	(i)	**13,042**	11,130
Cost of goods sold	(ii)	**15,728**	7,909
Donations		**13**	21
Others		**85**	46
		28,868	19,106

Note:

(i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.

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

25. TOTAL OPERATING EXPENSES

Total operating expenses for the year ended 31 December 2011 were RMB220,912 million (2010: RMB196,412 million) which include auditor's remuneration in relation to audit and non-audit services are RMB68 million and RMB4 million respectively (2010: RMB67 million and RMB7 million).

26. NET FINANCE COSTS

Net finance costs comprise:

	The Group 2011 RMB millions	2010 RMB millions
Interest expense incurred	**3,023**	4,057
Less: Interest expense capitalised*	**(313)**	(262)
Net interest expense	**2,710**	3,795
Interest income	**(405)**	(287)
Foreign exchange losses	**48**	178
Foreign exchange gains	**(99)**	(86)
	2,254	3,600
* Interest expense was capitalised in construction in progress at the following rates per annum	**2.5% – 5.6%**	2.5% – 4.7%

27. INCOME TAX

Income tax in the profit or loss comprises:

	The Group 2011 RMB millions	The Group 2010 RMB millions (restated)
Provision for PRC income tax	**3,635**	3,165
Provision for income tax in other tax jurisdictions	**29**	47
Deferred taxation	**1,752**	1,634
	5,416	4,846

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

	Note	The Group 2011 RMB millions	The Group 2010 RMB millions (restated)
Profit before taxation		**22,014**	20,311
Expected income tax expense at statutory tax rate of 25%	(i)	**5,503**	5,078
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(255)**	(579)
Differential tax rate on other subsidiaries' income	(ii)	**(3)**	(11)
Non-deductible expenses	(iii)	**489**	832
Non-taxable income	(iv)	**(291)**	(444)
Other tax benefits		**(27)**	(30)
Actual income tax expense		**5,416**	4,846

Note:

(i) Except for certain subsidiaries and branches which are taxed at preferential rates of 15% or 24%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

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

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

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

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

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

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

28. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

	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						
Executive directors						
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
Non-executive director						
Li Jinming	–	–	–	–	–	–
Independent non-executive directors						
Wu Jichuan	150	–	–	–	–	150
Qin Xiao	150	–	–	–	–	150
Tse Hau Yin	426	–	–	–	–	426
Cha May Lung	170	–	–	–	–	170
Xu Erming	150	–	–	–	–	150
Supervisors						
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
Independent supervisor						
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, in 2010 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 in 2010.

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.

29. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group for the year ended 31 December 2011, three of them were directors of the Company and whose remuneration was disclosed in Note 28. 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 28.

The aggregate of the emoluments in respect of the other two (2010: two) individuals (non-directors) are as follows:

	2011 RMB thousands	2010 RMB thousands
Salaries, allowances and benefits in kind	2,035	2,461
Discretionary bonuses	931	1,204
Retirement scheme contributions	226	202
Share-based payment	1,201	–
	4,393	3,867

The emoluments of the other two (2010: two) individuals (non-directors) with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
RMB1,000,001 – RMB1,500,000	0	0
RMB1,500,001 – RMB2,000,000	0	1
RMB2,000,001 – RMB2,500,000	2	1

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

30. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2011, the consolidated profit attributable to equity holders of the Company includes a profit of RMB15,722 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2010, the consolidated profit attributable to equity holders of the Company includes a profit of RMB15,052 million which has been dealt with in the stand-alone financial statements of the Company.

31. DIVIDENDS

Pursuant to a resolution passed at the Directors' meeting on 20 March 2012, a final dividend of equivalent to HK$0.085 per share totaling approximately RMB5,583 million for the year ended 31 December 2011 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2011.

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

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 totaling approximately RMB6,031 million in respect of the year ended 31 December 2009 was declared and of which RMB5,608 million was paid on 30 June 2010 and the remaining amounts were settled by June 2011.

32. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2011 and 2010 is based on the profit attributable to equity holders of the Company of RMB16,502 million and RMB15,347 million respectively, divided by 80,932,368,321 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the periods presented.

33. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

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

As at 31 December 2011 and 2010, the Group's and the Company's future minimum lease payments under non-cancellable operating leases were as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within 1 year	**18,182**	13,525	**18,076**	13,447
Between 1 to 2 years	**782**	11,531	**711**	11,479
Between 2 to 3 years	**600**	577	**560**	542
Between 3 to 4 years	**413**	439	**391**	414
Thereafter	**1,126**	1,108	**1,111**	1,095
Total minimum lease payments	**21,103**	27,180	**20,849**	26,977

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2011 was RMB22,536 million (2010: RMB16,332 million).

33. COMMITMENTS AND CONTINGENCIES (continued)

Capital commitments

As at 31 December 2011 and 2010, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB millions	RMB millions	**RMB millions**	RMB millions
Authorised and contracted for				
– property	**674**	395	**674**	394
– telecommunications network plant and equipment	**5,695**	4,729	**5,669**	4,720
	6,369	5,124	**6,343**	5,114
Authorised but not contracted for				
– property	**801**	716	**801**	716
– telecommunications network plant and equipment	**5,927**	4,928	**5,830**	4,928
	6,728	5,644	**6,631**	5,644

Contingent liabilities

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

(b) As at 31 December 2011 and 2010, 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 2011 and 2010, 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.

34. FINANCIAL INSTRUMENTS

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

(a) Fair Value

The amendments to IFRS 7, *Financial Instruments: Disclosures*, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

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

The Group's available-for-sale equity investment securities are categorised as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities is RMB617 million as at 31 December 2011 (2010: RMB822 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.

34. FINANCIAL INSTRUMENTS (continued)

(a) Fair Value (continued)

The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The interest rates used in estimating the fair values of long-term debt, having considered the foreign currency denomination of the debt, ranged from 1.0% to 7.51% (2010: 1.0% to 5.88%). As at 31 December 2010 and 2011, the carrying amounts and fair values of the Group's long-term debt were as follows:

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

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

(b) Risks

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

(i) *Credit risk*

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunications services. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for accounts receivable are set out in Note 13.

(ii) *Liquidity risk*

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

34. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

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

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

	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)

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

34. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(iii) *Interest rate risk*

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

	2011		2010	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	5.8	7,471	4.2	19,842
Long-term debt	4.1	42,712	4.3	52,646
		50,183		72,488
Variable rate debt:				
Short-term debt	6.1	1,716	4.5	833
Long-term debt	1.5	204	4.9	255
		1,920		1,088
Total debt		52,103		73,576
Fixed rate debt as a percentage of total debt		96.3%		98.5%

As at 31 December 2011, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group's net profit for the year and retained earnings by approximately RMB14 million (2010: RMB8 million).

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2010.

(iv) *Foreign currency exchange rate risk*

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

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 94.4% (2010: 91.2%) of the Group's cash and cash equivalents and 94.7% (2010: 96.0%) of the Group's short-term and long-term debt as at 31 December 2011 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 16.

35. CAPITAL MANAGEMENT

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

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

Management monitors its capital structure on the basis of total debt-to-total assets ratio. For this purpose the Group defines total debt as the sum of short-term debt and long-term debt. As at 31 December 2011, the Group's total debt-to-total assets ratio was 12.4% (2010: 17.5%), which is within the range of management's expectation.

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

36. RELATED PARTY TRANSACTIONS

(a) Transactions with China Telecom Group

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

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

	Note	**2011** **RMB millions**	2010 RMB millions
Purchases of telecommunications equipment and materials	(i)	**2,764**	2,215
Sales of telecommunications equipment and materials	(i)	**1,642**	993
Construction and engineering services	(ii)	**8,293**	6,415
Provision of IT services	(iii)	**365**	295
Receiving IT services	(iii)	**692**	556
Receiving community services	(iv)	**2,362**	2,185
Receiving ancillary services	(v)	**7,878**	6,838
Operating lease expenses	(vi)	**395**	385
Net transaction amount of centralised services	(vii)	**625**	466
Interconnection revenues	(viii)	**48**	55
Interconnection charges	(viii)	**498**	571
Interest on loans from China Telecom Group	(ix)	**208**	896
CDMA network capacity lease fee	(x)	**19,011**	13,320
Reimbursement of capacity maintenance related costs of CDMA network	(xi)	**3,151**	1,755

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

Note:

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

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

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

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

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

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

(vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.

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

(ix) Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 16).

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

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

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

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

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

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

As at 31 December 2011 and 2010, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

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

(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:

	2011 RMB thousands	2010 RMB thousands
Short-term employee benefits	**9,037**	13,778
Post-employment benefits	**696**	802
Equity-based compensation benefits	**8,959**	5,351
	18,692	19,931

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal, autonomous regional and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 37.

36. RELATED PARTY TRANSACTIONS (continued)

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

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

Apart from transactions with parent company and its affiliates (Note 36(a)), the Group has, collectively but not individually, significant transactions with other government-related entities, which include but not limited to the following:

- rendering and receiving services, including but not limited to telecommunications services
- sales and purchases of goods, properties and other assets
- lease of assets
- depositing and borrowing money
- use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

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

37. 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 2011 were RMB3,498 million (2010: RMB3,144 million).

The amount payable for contributions to defined contribution retirement plans as at 31 December 2011 was RMB210 million (2010: RMB206 million).

38. STOCK APPRECIATION RIGHTS

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

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 2011, 412 million (2010: 483 million) stock appreciation right units were exercised. For the year ended 31 December 2011, compensation expense of RMB328 million was recognised by the Group in respect of stock appreciation rights. For the year ended 31 December 2010, compensation expense of RMB592 million was recognised by the Group in respect of stock appreciation rights.

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

39. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Revenue recognition for upfront connection and installation fees

The Group defers the recognition of upfront fees for activation of wireline services and wireline installation fees and amortises such fees over the expected customer relationship period of ten years. The related direct 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 doubtful debts

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

Impairment of long-lived assets

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

39. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment on long-lived assets (continued)

For the year ended 31 December 2011, no provision for impairment losses was made against the carrying value of property, plant and equipment (2010: RMB139 million) (Note 4). 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.

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

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2011:

	Effective for accounting period beginning on or after
Amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	1 July 2011
Amendments to IFRS 7, "Financial instruments: Disclosures – Transfers of Financial Assets"	1 July 2011
Amendments to IAS 12, "Income taxes – Deferred Tax: Recovery of Underlying Assets"	1 January 2012
Amendments to IAS 1, "Presentation of financial statements – Presentation of Items of Other Comprehensive Income"	1 July 2012
IFRS 10, "Consolidated Financial Statements"	1 January 2013
IFRS 11, "Joint Arrangements"	1 January 2013
IFRS 12, "Disclosure of Interests in Other Entities"	1 January 2013
IFRS 13, "Fair Value Measurement"	1 January 2013
IAS 27, "Separate Financial Statements (2011)"	1 January 2013
IAS 28, "Investments in Associates and Joint Ventures (2011)"	1 January 2013
Revised IAS 19, "Employee Benefits"	1 January 2013
IFRIC Interpretation 20, "Stripping costs in the production phase of a surface mine"	1 January 2013
Amendments to IFRS 7, "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities"	1 January 2013
Amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards – Government Loans"	1 January 2013
Amendments to IAS32, "Financial instruments: Presentation – Offsetting financial assets and financial liabilities"	1 January 2014
IFRS 9, "Financial Instruments"	1 January 2015

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

The Group is in the process of making an assessment of the impact that will result from adopting the amendments, new standards and interpretations issued by the IASB which are not yet effective for the accounting period ended on 31 December 2011. So far the Group believes that the adoption of these amendments, new standards and interpretations may result in new or amended disclosures, it is unlikely to have a significant impact on its financial position and the results of operations.

41. COMPARATIVE FIGURES

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

42. PARENT AND ULTIMATE HOLDING COMPANY

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