

Notes to the Financial Statements

for the year ended 31 December 2013

1. Principal Activities, Organisation and Basis of Presentation

Principal activities

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

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

Organisation

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

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

Organisation (continued)

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

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

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

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

On 1 August 2011 and 1 December 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd and E-surfing Media Co., Ltd., acquired the e-commerce business and video media business (collectively the “Fifth Acquired Group”) from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 million (hereinafter, referred to as the “Fifth Acquisition”).

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

Notes to the Financial Statements

for the year ended 31 December 2013

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

Organisation (continued)

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

Analysis of assets and liabilities of the disposed subsidiary:

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

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

Gain on disposal of a subsidiary:

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

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

Net cash inflow from disposal of a subsidiary:

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

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

Basis of presentation

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

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

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

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

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

Set up of subsidiaries

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

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

Merger with subsidiaries

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

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

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

(b) Basis of consolidation

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

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

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

2. Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(c) Foreign currencies

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

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

(d) Cash and cash equivalents

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

(e) Accounts and other receivables

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

2. Significant Accounting Policies (continued)

(f) Inventories

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

Inventories that are held for resale are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs to make the sale and the related tax expenses.

(g) Property, plant and equipment

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

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as assets under finance leases. Assets held under finance leases are initially recorded at amounts equivalent to the lower of the fair value of the leased assets at the inception of the lease or the present value of the minimum lease payments (computed using the rate of interest implicit in the lease). The net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation. Assets held under finance leases are amortised over their estimated useful lives on a straight-line basis. As at 31 December 2013, the carrying amount of assets held under finance leases was RMB28 million (2012: RMB3 million).

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(g) Property, plant and equipment (continued)

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

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

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

(h) Lease prepayments

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

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 2(o)). The cost of an item comprises direct costs of construction, capitalisation of interest charge, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Goodwill

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

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

2. Significant Accounting Policies (continued)

(k) Intangible assets

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

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

The customer relationships acquired in the CDMA business acquisition are recorded at the acquisition-date fair value and amortised on a straight-line basis over the expected customer relationship of five years. By the end of the expected customer relationship period, fully amortised customer relationships were written off.

(l) Investments in subsidiaries

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

(m) Investments

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

(n) Operating lease charges

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(o) Impairment

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

2. Significant Accounting Policies (continued)

(o) Impairment (continued)

(ii) Impairment of long-lived assets

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(p) Revenue recognition

The revenue recognition methods of the Group are as follows:

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

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

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

2. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(q) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB36,490 million for the year ended 31 December 2013 (2012: RMB34,905 million), among which, the costs of terminal equipment offered as part of a promotional package to our customers for free or at a nominal amount to promote the Group's telecommunication service amounted to RMB22,795 million for the year ended 31 December 2013 (2012: RMB21,754 million).

(r) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, and foreign exchange gains and losses. Interest income from bank deposits is recognised as it accrues using the effective interest method.

Interest costs incurred in connection with borrowings are calculated using the effective interest method and are expensed as incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(s) Research and development expense

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

(t) Employee benefits

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

Compensation expense in respect of the stock appreciation rights granted is accrued as a charge to the profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is re-measured to fair value at the end of each reporting period with the effect of changes in the fair value of the liability charged or credited to profit or loss. Further details of the Group's stock appreciation rights scheme are set out in Note 39.

(u) Interest-bearing borrowings

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

(v) Accounts and other payables

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

2. Significant Accounting Policies (continued)

(w) Provisions and contingent liabilities

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

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

(x) Income tax

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

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

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

(y) Dividends

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

Notes to the Financial Statements

for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

(z) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);
 - (iii) The entity and the Group are joint ventures of the same third party;
 - (iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;
 - (v) The entity is controlled or jointly controlled by a person identified in (a);
 - (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(aa) Segmental reporting

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

3. Application of New and Revised International Financial Reporting Standards

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

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

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

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

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

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

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

IFRS 10, “Consolidated Financial Statements”

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

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

IFRS 12, “Disclosure of Interests in Other Entities”

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

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

IFRS 13, “Fair Value Measurement”

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

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

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

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

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

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

Revised IAS 19, “Employee Benefits”

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

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

4. Property, Plant and Equipment, Net

The Group

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

Notes to the Financial Statements

for the year ended 31 December 2013

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

The Company

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

5. Construction in Progress

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

6. Goodwill

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

On 1 October 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the “CDMA business”) from China Unicom. The purchase price of the business combination was RMB43,800 million, which was fully settled as at 31 December 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of CDMA business for a net settlement amount of RMB3,471 million due from China Unicom. This amount was subsequently settled by China Unicom in 2009. The business combination was accounted for using the purchase method.

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

Notes to the Financial Statements

for the year ended 31 December 2013

6. Goodwill (continued)

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

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

7. Intangible Assets

The Group

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

7. Intangible Assets (continued)

The Company

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

Notes to the Financial Statements

for the year ended 31 December 2013

8. Investments in Subsidiaries

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

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

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

8. Investments in Subsidiaries (continued)

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

Notes to the Financial Statements

for the year ended 31 December 2013

8. Investments in Subsidiaries (continued)

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

9. Interests in Associates

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

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

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

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

9. Interests in Associates (continued)

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

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

10. Investments

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

11. Deferred Tax Assets and Liabilities

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

The Group

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

12. Inventories

Inventories represent:

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

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

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

Note:

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

13. Accounts Receivable, Net (continued)

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

13. Accounts Receivable, Net (continued)

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

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

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

14. Prepayments and Other Current Assets

Prepayments and other current assets represent:

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

15. Cash and Cash Equivalents

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

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

Short-term debt comprises:

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

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

Long-term debt and payable comprises:

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

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

Note:

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

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

All of the above medium-term notes are unsecured.

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

17. Accounts Payable

Accounts payable are analysed as follows:

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

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

Ageing analysis of accounts payable is as follows:

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

18. Accrued Expenses and Other Payables

Accrued expenses and other payables represent:

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

Note:

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

19. Deferred Revenues

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

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

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

20. Share Capital

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

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

21. Reserves

The Group

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

Notes to the Financial Statements

for the year ended 31 December 2013

21. Reserves (continued)

The Company

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

Note:

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

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

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

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

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRS, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2013, the Company transferred RMB1,663 million, being 10% of the year's net profit determined in accordance with IFRS, to this reserve. For the year ended 31 December 2012, the Company transferred RMB1,413 million, being 10% of the year's net profit determined in accordance with the IFRS.

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

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

21. Reserves (continued)

Note: (continued)

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

22. Operating Revenues

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

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

Note:

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

Notes to the Financial Statements

for the year ended 31 December 2013

23. Network Operations and Support Expenses

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

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

24. Personnel Expenses

Personnel expenses are attributable to the following functions:

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

25. Other Operating Expenses

Other operating expenses consist of:

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

25. Other Operating Expenses (continued)

Note:

- (i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.
- (ii) Cost of goods sold primarily represents cost of telecommunications equipment sold.

26. Total Operating Expenses

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

27. Net Finance Costs

Net finance costs comprise:

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

28. Income Tax

Income tax in the profit or loss comprises:

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

Notes to the Financial Statements

for the year ended 31 December 2013

28. Income Tax (continued)

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

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

Note:

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

29. Directors' and Supervisors' Remuneration

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

29. Directors' and Supervisors' Remuneration (continued)

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

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

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

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

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

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

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

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

30. Individuals With Highest Emoluments and Senior Management Remuneration

(a) Five highest paid individuals

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

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

(b) Senior management remuneration

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

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

31. Profit Attributable to Equity Holders of the Company

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

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

32. Dividends

Pursuant to a resolution passed at the Directors' meeting on 19 March 2014, a final dividend of equivalent to HK\$0.095 per share totaling approximately RMB6,098 million for the year ended 31 December 2013 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2013.

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

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

33. Basic Earnings Per Share

The calculation of basic earnings per share for the years ended 31 December 2013 and 2012 is based on the profit attributable to equity holders of the Company of RMB17,545 million and RMB14,949 million respectively, divided by 80,932,368,321 shares.

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

34. Commitments and Contingencies

Operating lease commitments

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

34. Commitments and Contingencies (continued)

Capital commitments

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

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

Contingent liabilities

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

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

Legal contingencies

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

35. Financial Instruments

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

(a) Fair Value Measurements

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

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

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

The Group and the Company's available-for-sale equity investment securities are categorised as level 1 financial instruments. As at 31 December 2013, the fair value of the Group and the Company's available-for-sale equity investment securities are RMB999 million (2012: RMB585 million) and RMB998 million (2012: RMB585 million), respectively, based on quoted market price on a PRC stock exchange. The Group and the Company's long-term investments, other than the available-for-sale equity investment securities, are unlisted equity interests for which no quoted market prices exist in the PRC and accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs.

Notes to the Financial Statements

for the year ended 31 December 2013

35. Financial Instruments (continued)

(a) Fair Value Measurements (continued)

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

The Group

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

The Company

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

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

35. Financial Instruments (continued)

(b) Risks

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

(i) Credit risk

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

(ii) Liquidity risk

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

Notes to the Financial Statements

for the year ended 31 December 2013

35. Financial Instruments (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

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

The Group

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

35. Financial Instruments (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

The Company

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

35. Financial Instruments (continued)

(b) Risks (continued)

(iii) Interest rate risk

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

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

The Group

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

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

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

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

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group and the Company's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2012.

(iv) Foreign currency exchange rate risk

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

Notes to the Financial Statements

for the year ended 31 December 2013

35. Financial Instruments (continued)

(b) Risks (continued)

(iv) Foreign currency exchange rate risk (continued)

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

36. Capital Management

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

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

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

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

37. Related Party Transactions

(a) Transactions with China Telecom Group

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

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

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

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

Note:

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

37. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Note: (continued)

- (v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (vi) Represent net amounts paid and payable to China Telecom Group for leases of business premises and the amounts paid and payable to China Telecom Group for inter-provincial transmission optic fibres.
- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 16).
- (x) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region.
- (xi) Represent amounts received and receivable from/paid and payable to China Telecom Group for leases of land use rights.
- (xii) Represent amounts paid and payable to China Telecom Group for lease of CDMA network capacity.
- (xiii) Represent amounts shared between the Company and China Telecom Group for the capacity maintenance related costs in connection with the CDMA network capacity used by the Company.
- (xiv) Represent the final consideration of the Mobile Network Acquisition (Note 16).

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

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

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

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

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

(b) Key management personnel compensation

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

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

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

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

37. Related Party Transactions (continued)

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

Apart from transactions with parent company and its fellow subsidiaries (Note 37(a)), the Group has, collectively but not individually, significant transactions with other government-related entities, which include but not limited to the following:

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

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

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

38. Post-Employment Benefits Plans

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

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

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

39. Stock Appreciation Rights

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

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

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

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

40. Accounting Estimates and Judgements

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

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

Notes to the Financial Statements

for the year ended 31 December 2013

40. Accounting Estimates and Judgements (continued)

Allowance for doubtful debts

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

Impairment of long-lived assets

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

For the year ended 31 December 2013, no provision for impairment losses were made against the carrying value of property, plant and equipment (2012 Nil). In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Depreciation and amortisation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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

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

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

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

The Group is in the process of making an assessment of the impact that will result from adopting the amendments, new standards and interpretations issued by the IASB which are not yet effective for the accounting period ended on 31 December 2013. So far the Group believes that the adoption of these amendments, new standards and interpretations may result in new or amended disclosures, it is unlikely to have a significant impact on its financial position and the results of operations.

42. Comparative Figures

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

43. Parent and Ultimate Holding Company

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