CHINA TELECOM CORP LTD
Form 20-F
April 30, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

OR

¨

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 1-31517

(Exact Name of Registrant as Specified in Its Charter)

China Telecom Corporation Limited

(Translation of Registrant s Name into English)

People s Republic of China

(Jurisdiction of Incorporation or Organization)

31 Jinrong Street, Xicheng District

Beijing, People s Republic of China 100033

(Address of Principal Executive Offices)

Ms. Yi Chen

China Telecom Corporation Limited

31 Jinrong Street, Xicheng District

Beijing, People s Republic of China 100033

Email: chenyi@chinatelecom.com.cn

Telephone: (+86-10) 5850 1508

Fax: (+86-10) 5850 1504

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
American depositary shares	**New York Stock Exchange, Inc.**
H shares, par value RMB1.00 per share	**New York Stock Exchange, Inc.***

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, each representing 100 H shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2011, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP ¨

International Financial Reporting Standards as issued by the International Accounting Standards Board x

Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Table of Contents

CHINA TELECOM CORPORATION LIMITED

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

- our business and operating strategies;
- our network expansion and capital expenditure plans;
- our operations and business prospects;
- the expected benefit of any acquisitions or other strategic transactions;
- our financial condition and results of operations;
- the expected impact of new services on our business, financial condition and results of operations;
- the future prospects of and our ability to integrate acquired businesses;
- the industry regulatory environment as well as the industry outlook generally; and
- future developments in the telecommunications industry in the People s Republic of China, or the PRC.

The words anticipate, believe, could, estimate, expect, intend, may, plan, seek, will, would and similar expressions, as they intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We are under no obligation to update these forward-looking statements and do not intend to do so. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information D. Risk Factors and the following:

- any changes in the regulations or policies of the Ministry of Industry and Information Technology, or the MIIT, and other relevant government authorities relating to, among other matters:
  - the granting and approval of licenses;
  - tariff policies;

interconnection and settlement arrangements;

capital investment priorities;

the provision of telephone and other telecommunications services to rural areas in the PRC;

the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence ; and

spectrum and numbering resources allocation;

Table of Contents

the effects of competition on the demand for and price of our services;

effects of our restructuring and integration following the completion of our acquisition of the Code Division Multiple Access technology, or CDMA, telecommunications business, or the CDMA Business in 2008;

any potential further restructuring or consolidation of the PRC telecommunications industry;

changes in the PRC telecommunications industry as a result of the issuance of the third generation mobile telecommunications, or 3G, licenses by the MIIT;

the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business; and

changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government s specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit.

CERTAIN DEFINITIONS AND CONVENTIONS

As used in this annual report, references to us, we, the Company, our Company and China Telecom are to China Telecom Corporation Limit and its consolidated subsidiaries except where we make clear that the term means China Telecom Corporation Limited or a particular subsidiary or business group only. References to matters relating to our H shares or American depositary shares, or ADSs, or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. In respect of any time prior to our incorporation, references to us, we and China Telecom are to the telecommunications business in which our predecessors were engaged and which were subsequently assumed by us. All references to China Telecom Group are to China Telecommunications Corporation, our controlling shareholder. Unless the context otherwise requires, these references include all of its subsidiaries, including us and our subsidiaries. Unless otherwise indicated, references to and statements regarding China and the PRC in this annual report do not apply to Hong Kong Special Administrative Region, Macau Special Administrative Region or Taiwan.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The following table presents our selected financial data. The selected consolidated statement of financial position data as of December 31, 2010 and 2011, and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2009, 2010 and 2011, are derived from our audited consolidated financial statements included elsewhere in this annual report, and should be read in conjunction with those consolidated financial statements. The selected consolidated statement of financial position data as of December 31, 2007, 2008 and 2009 and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2007 and 2008 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS.

Table of Contents

The selected financial data reflect the acquisitions in 2007 and 2008 described under Item 4. Information on the Company A. History and Development of the Company Our Acquisitions from China Telecom Group and Corporate Organization Restructuring and Industry Restructuring and Our Acquisition of the CDMA Business in 2008.

On June 30, 2007, we acquired the entire equity interests in each of China Telecom System Integration Co., Limited, China Telecom (Hong Kong) International Limited and China Telecom (Americas) Corporation (formerly known as China Telecom (USA) Corporation) from China Telecom Group. In 2008, we acquired the entire equity interests in China Telecom Group Beijing Corporation, or Beijing Telecom, from China Telecom Group. Because we and these acquired companies were under the common control of China Telecom Group, our acquisitions of these acquired companies are accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the acquired companies have been accounted for at historical amounts and our financial statements for periods prior to the respective acquisitions have been restated to include the financial position and results of operations of the acquired companies on a combined basis.

On October 1, 2008, we acquired from China Unicom (Hong Kong) Limited (formerly known as China Unicom Limited), or China Unicom, and China Unicom Corporation Limited, or CUCL, the entire CDMA Business and related assets and liabilities for a total consideration of RMB43,800 million. The related direct transaction cost for the acquisition was RMB84 million. The final cost of the acquisition was RMB40,413 million as a result of a RMB3,471 million reduction to the total consideration. The reduction represented a net settlement due from China Unicom in connection with our acquisition of certain customer-related assets and assumption of certain customer-related liabilities relating to the CDMA Business pursuant to the acquisition agreement. China Unicom is a company incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange, or NYSE. Our acquisition of the CDMA Business and related assets and liabilities was accounted for using the purchase method.

	As of or for the year ended December 31,					
	2007 RMB (restated)[1]	**2008 RMB (restated)[1]**	**2009 RMB (restated)[1]**	**2010 RMB (restated)[1]**	**2011 RMB**	**2011 US$**
	(in millions, except share numbers and per share and per ADS data)					
Consolidated Statement of Comprehensive Income Data:						
Operating revenues	180,804	186,529	209,370	219,864	245,041	38,933
Operating expenses[2]	(143,775)	(182,162)	(187,318)	(196,412)	(220,912)	(35,099)
Operating income	37,029	4,367	22,052	23,452	24,129	3,834
Earnings/(losses) before income tax	33,039	(592)	18,569	20,311	22,014	3,498
Income tax	(7,214)	983	(4,382)	(4,846)	(5,416)	(861)
Profit attributable to equity holders of the Company	25,728	296	13,983	15,347	16,502	2,622
Basic earnings per share[3]	0.32	0.00	0.17	0.19	0.20	0.03
Basic earnings per ADS[3]	31.79	0.37	17.28	18.96	20.39	3.24
Cash dividends declared per share	0.08	0.08	0.08	0.07	0.07	0.01
Consolidated Statement of Financial Position Data:						
Cash and cash equivalents	21,427	27,866	34,804	25,824	27,372	4,349
Accounts receivable, net	16,979	17,289	17,438	17,328	18,471	2,935
Total current assets	44,110	55,499	60,936	55,245	59,576	9,466
Property, plant and equipment, net	326,663	296,376	283,550	272,478	268,877	42,720
Total assets	427,541	454,086	439,956	420,529	419,115	66,591
Short-term debt	67,767	83,448	51,650	20,675	9,187	1,460
Current portion of long-term debt	3,811	565	1,487	10,352	11,766	1,869

Table of Contents

	As of or for the year ended December 31,					
	2007 RMB (restated)(1)	2008 RMB (restated)(1)	2009 RMB (restated)(1)	2010 RMB (restated)(1)	2011 RMB	2011 US$
	(in millions, except share numbers and per share and per ADS data)					
Accounts payable	29,013	34,458	34,321	40,039	44,358	7,048
Total current liabilities	140,245	176,790	143,481	126,923	127,258	20,219
Long-term debt	34,148	39,226	52,768	42,549	31,150	4,949
Deferred revenues (including current portion)	15,486	11,444	8,462	6,203	4,805	763
Total liabilities	186,003	224,560	202,804	174,405	162,237	25,777
Equity attributable to equity holders of the Company	240,120	228,047	236,304	245,628	256,090	40,689
Consolidated Cash Flow Data:						
Net cash from operating activities	75,783	76,756	74,988	75,571	73,006	11,599
Net cash used in investing activities(4)	(46,618)	(75,819)	(43,255)	(45,734)	(43,637)	(6,933)
Capital expenditures(4)	(46,847)	(46,652)	(40,311)	(41,597)	(48,495)	(7,705)
Net cash (used in) / generated from financing activities	(30,747)	5,585	(24,793)	(38,771)	(27,720)	(4,404)

(1) Certain comparative financial data prior to January 1, 2011 presented herein have been restated as a result of the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRSs). See Note 3 to our audited financial statements.

(2) Includes an impairment loss in 2008 on property, plant and equipment of RMB24,167 million, which primarily represented an impairment loss on our Personal Handyphone System, or PHS, specific equipment of RMB23,954 million, an impairment loss in 2009 on property, plant and equipment of RMB753 million, which mainly represented impairment made in respect of our Digital Data Network, or DDN, specific equipment and an impairment loss in 2010 on property, plant and equipment of RMB139 million, which mainly represented impairment made in respect of certain of our obsolete telecommunications equipment.

(3) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2007, 2008, 2009, 2010 and 2011 and the weighted average number of shares in issue during each of the relevant years of 80,932,368,321 shares. Basic earnings per ADS have been computed as if all of our issued and outstanding shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 H shares.

(4) Capital expenditures are part of and not an addition to net cash used in investing activities.

Pursuant to the shareholders approval at the annual general meeting held on May 20, 2011, a final dividend of RMB5,763 million (RMB0.071208 equivalent to HK$0.085 per share) for the year ended December 31, 2010 was declared, all of which has been fully paid.

Pursuant to a resolution passed at the Directors meeting on March 20, 2012, a final dividend of approximately RMB5,583 million (RMB0.068984 equivalent to HK$0.085 per share) for the year ended December 31, 2011 was proposed for shareholders approval at the forthcoming annual general meeting.

Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For any date and period, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 30, 2011 (RMB6.2939 to US$1.00 and HK$7.7663 to US$1.00). We make no representation that any Renminbi or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars or vice versa, as the case may be, at any particular rate, the rates stated below, or at all. For a detailed explanation of the risk of currency rate fluctuations, please see Risk Factors Risks Relating to the People s Republic of China Fluctuation of the Renminbi could materially affect our financial condition and results of operations. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. Examples of such government regulations and restrictions are set forth in Risk Factors Risks Relating to the People s Republic of China Government control of currency conversion may adversely affect our financial condition.

Table of Contents

On April 20, 2012, the daily exchange rates reported by the Federal Reserve Board was RMB6.3080 to US$1.00 and HK$7.7613 to US$1.00. The following table sets forth additional information concerning exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our future periodic reports or any information to be provided to you.

	RMB per US$1.00			HK$ per US$1.00	
	High	Low		High	Low
October 2011	6.3825	6.3534	October 2011	7.7884	7.7634
November 2011	6.3839	6.3400	November 2011	7.7957	7.7679
December 2011	6.3733	6.2939	December 2011	7.7851	7.7663
January 2012	6.3330	6.2940	January 2012	7.7674	7.7538
February 2012	6.3120	6.2935	February 2012	7.7559	7.7532
March 2012	6.3315	6.2975	March 2012	7.7678	7.7551
April 2012 (through April 20, 2012)	6.3150	6.2975	April 2012 (through April 20, 2012)	7.7660	7.7580

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2007, 2008, 2009, 2010 and 2011 calculated by averaging the exchange rates on the last day of each month during each of the relevant years.

Average Exchange Rate

	RMB per US$ 1.00	HK$ per US$1.00
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8295	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations.

The telecommunications industry in the PRC is rapidly evolving.

After the industry restructuring in 2008, China Unicom and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile Limited, or China Mobile, continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services.

- 5 -

Table of Contents

In particular, in January 2009, each of China Mobile Communications Corporation, or China Mobile Group, China Telecom Group and China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation prior to its merger with China Network Communications Group Corporation), or Unicom Group, received a license from the MIIT to operate 3G businesses nationwide. The licenses permit China Mobile Group, China Telecom Group and Unicom Group to provide 3G services based on TD-SCDMA, CDMA2000 and WCDMA technologies, respectively. We have been authorized by China Telecom Group to operate 3G business nationwide based on CDMA2000 technology. China Mobile, China Unicom and our Company have all launched 3G services. However, we cannot assure you that: (i) our 3G services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned 3G services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for 3G services for us to deliver these services profitably; (iv) our competitors 3G, or newer technology based, services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in implementing the CDMA2000 technology. The failure of any of these possible developments to occur could impede our growth, which could have a material adverse effect on our business, financial condition and results of operations.

In May 2010, the PRC State Council issued Several Opinions on Encouraging and Guiding the Healthy Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

Increasing competition from other existing telecommunications services providers, including China Mobile and China Unicom, as well as competition from new competitors, could materially and adversely affect our business and prospect by, among other factors, forcing us to lower our tariffs to the extent permitted under relevant laws and regulations, reducing or reversing the growth of our customer base and reducing usage of our services. Any of these developments could materially adversely affect our revenues and profitability. We cannot assure you that the increasingly competitive environment and any change in the competitive landscape of the telecommunications industry in the PRC would not have a material adverse effect on our business, financial condition or results of operations.

We may further lose wireline telephone subscribers and revenues derived from our wireline voice services may continue to decline, which may adversely affect our results of operations, financial condition and prospects.

We continued to lose wireline telephone subscribers and revenues derived from our wireline voice services continued to decline during the past several years mainly due to the increasing popularity of mobile voice services and other alternative means of communication, such as VoIP. Tariffs for mobile services have continued decreasing in recent years, which further accelerated substitution of the wireline voice services by the mobile services. The number of our fixed-line subscribers decreased by 7.2% at the end of 2010 compared to that at the end of 2009 and further decreased by 3.1% at the end of 2011. Revenues from our wireline voice services decreased by 20.3% in 2010 compared to that in 2009 and further decreased by 20.4% in 2011. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 37.5% in 2009 to 28.4% in 2010 and 20.3% in 2011.

We have been taking various measures in order to mitigate the impact of loss of our wireline telephone subscribers and stabilize our revenues from wireline voice services. See Item 4. Information on the Company B. Business Overview Our Products and Services Wireline Voice Services. However, we cannot assure you that we will be successful in mitigating the adverse impact of the substitution of wireline voice services by mobile voice services and other alternative means of communication or in slowing down the decline of our revenues generated from wireline voice services. Migration from wireline voice services to mobile services and other alternative means of communication may further intensify in the future, which may affect the financial performance of our wireline voice services and thus adversely affect our results of operations, financial condition and prospects as a whole.

We will continue to be controlled by China Telecom Group, which could cause us to take actions that may conflict with the best interests of our other shareholders.

Table of Contents

China Telecom Group, a wholly state-owned enterprise, owned approximately 70.89% of our outstanding shares as of April 23, 2012. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

- controlling the election of our Directors and, in turn, indirectly controlling the selection of our senior management;
- determining the timing and amount of our dividend payments;
- approving our annual budgets;
- deciding on increases or decreases in our share capital;
- determining issuance of new securities;
- approving mergers and acquisitions; and
- amending our Articles of Association.

The interests of China Telecom Group as our controlling shareholder could conflict with our interests or the interests of our other shareholders. As a result, China Telecom Group may take actions with respect to our business that may not be in our or our other shareholders best interests.

We depend on China Telecom Group and its other subsidiaries to provide certain services and facilities for which we currently have limited alternative sources of supply.

In addition to being our controlling shareholder, China Telecom Group, by itself and through its other subsidiaries, also provides us with services and facilities necessary for our business activities, including, but not limited to:

- use of international gateway facilities;
- provision of services in areas outside our service regions necessary to enable us to provide end-to-end services to our customers;
- use of certain inter-provincial optic fibers; and
- lease of properties and assets, including lease of the capacity on the CDMA network.

The interests of China Telecom Group and its other subsidiaries as providers of these services and facilities may conflict with our interests. We currently have limited alternative sources of supply for these services and facilities. Therefore, we have limited leverage in negotiating with China Telecom Group and its other subsidiaries over the terms for the provision of these services and facilities. Termination or adverse changes of the terms for the provisions of these services and facilities could materially and adversely affect our business, results of operations and financial condition. See Item 4. Information on the Company A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008 and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a description of the services and facilities provided by China Telecom Group and its other subsidiaries.

Since our services require interconnection with networks of other operators, disruption in interconnections with those networks could have a material adverse effect on our business and results of operations.

Table of Contents

Under the relevant telecommunications regulations, telecommunications operators are required to interconnect with networks of other operators. China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group s networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. The effective provision of our wireline voice, mobile voice and other services requires interaction between our networks and those of China Telecom Group, Unicom Group, China Mobile Group and other telecommunications operators. Any interruption in our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect due to technical or competitive reasons may affect our operations, service quality and customer satisfaction, and, in turn, our business and results of operations. In addition, any obstacles in existing interconnection arrangements and leased line agreements or any change in their terms, as a result of natural events, accidents, or for regulatory, technological, competitive or other reasons, could lead to temporary service disruptions and increased costs that may seriously jeopardize our operations and adversely affect our profitability and growth.

We may be unable to obtain sufficient financing to fund our capital requirements, which could limit our growth potential and prospects.

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. However, we may require additional funds to the extent we have underestimated our capital requirements or overestimated our future cash from operations. In addition, a significant feature of our business strategy is to continue to transform our Company into a modern integrated information services provider, which may require additional capital resources. The cost of implementing new technologies, upgrading our networks, expanding capacity or acquisitions of businesses or assets may be significant. Furthermore, in order for us to effectively respond to technological changes and more intensive competition, we may need to make substantial investments in the future.

Financing may not be available to us on acceptable terms or at all. In addition, any future issuance of equity securities, including securities convertible or exchangeable into or that represent the right to receive equity securities, may require approval from the relevant government authorities. Our ability to obtain additional financing will depend on a number of factors, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by telecommunications companies; and
- economic, political and other conditions in the markets where we operate or plan to operate.

We cannot assure you that we can obtain sufficient financing at commercially reasonable terms or at all. If adequate capital is not available on commercially reasonable terms, our growth potential and prospects could be materially and adversely affected. Furthermore, additional issuances of equity securities will result in dilution to our shareholders. Incurrence of debt would result in increased interest expense and could require us to agree to restrictive operating and financial covenants.

If we are not able to respond successfully and cost-efficiently to technological or industry developments, our business may be materially and adversely affected.

The telecommunications market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. We cannot assure you that we will be successful in responding to these developments. In addition, new services or technologies, such as the three-network convergence, cloud computing and Internet of Things, may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and changes in industry standards, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. For example, we continue to make significant investment to improve our broadband network, including the upgrade of optic fiber coverage capacity. However, we may not be able to recover our investment as expected.

Table of Contents

Our ability to respond to technological developments may also be adversely affected by external factors, some of which are beyond our control. For example, we have started to prepare for the application of Internet Protocol version 6, or IPv6, the next-generation Internet Protocol version, to our networks. However, the deployment of IPv6 depends on a number of external factors, including, among others, PRC domestic industry policies. If the future transition to IPv6 is delayed due to factors beyond our control, we may face obstacles in further developing our Internet-related business in the future. We cannot assure you that we will succeed in integrating these new technologies and industry standards or adapting our network and systems in a timely and cost-effective manner, or at all. Our inability to respond successfully and cost-efficiently to technological or industry developments may materially and adversely affect our business, results of operations and competitiveness.

We face a number of risks relating to our Internet-related services.

We currently provide a range of Internet-related services, including dial-up and broadband Internet access, and Internet-related applications. We face a number of risks in providing these services.

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We cannot assure you that the security measures we have implemented will not be circumvented or otherwise fail to protect the integrity of our network. Unauthorized access could jeopardize the security of confidential information stored in our customers computer systems. Eliminating computer viruses and other security problems may also require interruptions, delays or suspension of our services, reduce our customer satisfaction and cause us to incur costs.

In addition, because we provide connections to the Internet and host websites for customers and develop Internet content and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We cannot and do not screen all of this content and may face litigation claims due to a perceived association with this content. These types of claims have been brought against other providers of online services in the past. Regardless of the merits of the lawsuits, these types of claims can be costly to defend, divert management resources and attention, and may damage our reputation.

We are subject to an anti-monopoly investigation by the PRC National Development and Reform Commission over our pricing practices for Internet dedicated leased line access services to Internet service providers.

In 2011, the PRC National Development and Reform Commission, or the NDRC, initiated an anti-monopoly investigation over our pricing practices with respect to our Internet dedicated leased line access services to Internet service providers. In response to this investigation, we have conducted a self-evaluation of the relevant pricing practices and submitted to the NDRC a proposal for enhancement initiatives as well as an application for suspension of investigation. We plan to carry out capacity expansion and reduce the price for direct interconnection with other backbone network operators, further standardize our tariff arrangement of Internet dedicated leased line access services, continue to upgrade our broadband access capacity and reduce the bandwidth unit price of Internet access for public customers. Our proposal of enhancement initiatives and application for suspension of investigation are being considered by the NDRC. In the event of any adverse determination by the NDRC investigation, we may be required to carry out additional remedial measures and/or subject to penalties being imposed on us.

Risks Relating to the Telecommunications Industry in the PRC

The current and future government regulations and policies that extensively govern the telecommunications industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.

Our business is subject to extensive government regulation. The MIIT, which is the primary telecommunications industry regulator under the PRC s State Council, regulates, among other things:

industry policies and regulations;

Table of Contents

- licensing;
- tariffs;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;
- interconnection and settlement arrangements;
- enforcement of industry regulations;
- universal service obligations;
- network information security;
- network access license approval for telecom equipment and terminals; and
- network construction plans.

Other PRC governmental authorities also take part in regulating tariff policies, capital investment and foreign investment in the telecommunications industry. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our flexibility to respond to market conditions or to changes in our cost structure.

In addition, these regulations and policies that govern the telecommunications industry in the PRC have experienced continuous changes in the past several years. The interpretation and enforcement of the PRC s World Trade Organization commitments regarding telecommunications services may also affect telecommunications regulations. Possible future changes to regulations and policies of the PRC government governing the telecommunications industry could adversely affect our business and operations. For example, to provide a uniform regulatory framework for the orderly development of the telecommunications industry, the PRC government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People s Congress or its Standing Committee, it is expected to provide a new regulatory framework for telecommunications regulation in the PRC. We cannot be certain how this law will affect our business and operations and whether it will contain more stringent regulatory requirements than the current telecommunications regulations. Any significant future changes in regulations or policies that govern the telecommunications industry may have a material adverse effect on our business and operations.

The PRC government may require us, along with other providers in the PRC, to reduce our tariff or to provide universal services with specified obligations, and we may not be compensated adequately for reducing our tariff or providing such services.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to government regulations on tariffs, especially those relating to our basic telecommunications services. See Item 4. Information on the Company B. Business Overview Regulatory and Related Matters Tariff Setting. We derive a substantial portion of our revenues from services that are subject to tariff regulations of the PRC government. Our revenues have been adversely affected by adjustments in tariffs and other changes in the past, and we may be adversely affected by any future tariff regulations mandated by the PRC government. We cannot predict the likelihood, timing or magnitude of tariff adjustments by the government or their potential impact on our business.

Table of Contents

In addition, under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government. The MIIT has the authority to delineate the scope of universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other governmental authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate the expenses incurred in the Village to Village projects before the establishment of a universal service fund. In December 2006, the Ministry of Finance issued the Provisional Rules on Usage and Administration of Telecommunications Universal Service Fund, effective December 21, 2006, which provide a compensation scheme for certain expenses incurred by the telecommunications services providers in undertaking the Village to Village projects. However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the Village to Village projects.

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and we expect to perform our duties thereunder accordingly. We may not be able to realize adequate return on investments for expanding networks to, and providing telecommunications services in, those economically less developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. If the government substantially lowers the tariffs for our services, or if we are required to provide universal services with specified obligations without proper compensation by the government, our business and profitability may be materially adversely affected.

Risks Relating to the People s Republic of China

Substantially all of our assets are located in the PRC and substantially all of our revenues are derived from our operations in the PRC. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in the PRC.

The PRC s economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our business, assets and operations are located in the PRC. The PRC s economy differs from the economies of most developed countries in many respects, including without limitation:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC s economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of the PRC, but may also have a negative effect on us.

During the economic recovery in the PRC that followed the 2008 global financial crisis, the PRC government implemented various policies to control inflation. For example, the PRC government introduced measures in 2011 in certain sectors to avoid overheating of the economy, including tighter bank lending policies and increases in bank interest rates. More recently, the PRC government has announced its intention to relax certain of these policies in response to slowing economic growth in the PRC in the second half of 2011 and the beginning of 2012. However, continued implementation of these or similar measures, or a variety of other factors, may cause a continued slowdown in the PRC economy, which, in turn, could significantly reduce business activities in the PRC, as well as the demand for our products and services, and thus materially and adversely affect our business, financial condition and results of operations.

Table of Contents

Government control of currency conversion may adversely affect our financial condition.

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. These foreign currency-denominated obligations include:

- payment of interest and principal on foreign currency-denominated debt;
- payment for equipment and materials purchased offshore; and
- payment of dividends declared, if any, in respect of our H shares.

Under the PRC s existing foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for both current account transactions and capital account transactions. We may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, if the PRC government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from foreign banks, issuance of foreign currency-denominated debt securities, if any, and principal payments in respect of foreign currency- denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange to meet our payment obligations under the debt securities, if any, or to obtain foreign exchange for capital expenditures.

Fluctuation of the Renminbi could materially affect our financial condition and results of operations.

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC s and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People s Bank of China, which are set daily based on the previous business day s inter- bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In April 2012, the PRC government expanded the floating band of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign currency exchange market from 0.5% to 1.0%. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, in which our obligations are denominated. For further information on our foreign exchange risks and certain exchange rates, see Item 3. Key Information A. Selected Financial Data Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Rate Risk. We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

[Table of Contents](#)

The PRC legal system has inherent uncertainties that could limit the legal protections available to you.

We were incorporated under PRC laws and are governed by our Articles of Association. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited number of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

The ability of our shareholders to enforce their rights in respect of violations of corporate governance procedures may be limited. In this regard, our Articles of Association provide that most disputes between holders of H shares and our Company, directors, supervisors, officers or holders of domestic shares, arising out of our Articles of Association or the PRC Company Law and related regulations concerning the affairs of our Company, are to be resolved through arbitration by an arbitration tribunal in Hong Kong or the PRC, rather than by a court of law. Awards that are made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC. However, to our knowledge, no action has been brought in the PRC by any holder of H shares to enforce an arbitral award, and we are uncertain as to the outcome of any action, if brought in the PRC to enforce an arbitral award made in favor of holders of H shares. See Item 10. Additional Information B. Memorandum and Articles of Association.

To our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under the Articles of Association of a PRC company or the PRC Company Law.

Unlike in the United States, the applicable PRC laws did not specifically allow shareholders to sue the directors, supervisors, senior management or other shareholders on behalf of the corporation to enforce a claim against such party or parties that the corporation has failed to enforce itself until January 1, 2006, when the amendments to the PRC Company Law passed on October 27, 2005 became effective. Although the amended PRC Company Law provides that shareholders, under certain circumstances, may sue the directors, supervisors and senior management on behalf of the company, no detailed implementation rules or judicial interpretations have been issued in this regard. In addition, our minority shareholders may not be able to enjoy protections to the same extent afforded to shareholders of companies incorporated under the state laws of the United States.

Although we will be subject to the Hong Kong Stock Exchange Listing Rules, or the Listing Rules, and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, or the Codes, the holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules or the Codes, and must rely on the Hong Kong Stock Exchange and The Securities and Futures Commission of Hong Kong to enforce the Listing Rules or the Codes, as the case may be.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under PRC laws, and substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside within the PRC, and substantially all of the assets of our directors and officers are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon most of our directors or officers, including with respect to matters arising under applicable laws and regulations. Moreover, our PRC counsel has advised us that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States.

As a result, recognition and enforcement in the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Table of Contents

Holders of H shares may be subject to PRC taxation.

Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementing regulations, holders of our H shares or ADSs which are non-resident enterprises for the EIT Law s purpose are subject to enterprise income tax at the rate of 10.0% with respect to dividends paid by us and income derived from sale of our H shares or ADSs, unless reduced under an applicable tax treaty. In addition, a resident enterprise, including a foreign enterprise whose de facto management body is located in the PRC, is not subject to any PRC income tax with respect to dividends paid to it by us. The capital gains realized by such resident enterprise are subject to the PRC enterprise income tax. Specifically, according to the Notice of the PRC State Administration of Taxation Concerning the Withholding Enterprise Income Tax on Dividend Distributed by PRC Resident Enterprises to Overseas Non-Resident Enterprise Holders of H shares issued in November 2008 and the Approval of the PRC State Administration of Taxation Concerning the Collection of Enterprise Income Tax on Dividend from B-shares Received by Non-Resident Enterprise issued in July 2009, when PRC resident enterprises distribute dividend to overseas non-resident enterprise holders of H shares for the year 2008 and the years thereafter, the 10.0% enterprise income tax will be withhold. The Company will withhold the 10.0% enterprise income tax when it pays dividend to holders of H shares or ADSs who are non-resident enterprises. See Item 10. Additional Information E. Taxation People s Republic of China.

Furthermore, dividends paid by us to holders of our H shares or ADSs who are individuals outside the PRC are subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty. In addition, gains realized by individuals upon the sale or other disposition of our H shares or ADSs are temporarily exempted from PRC capital gains tax. If the exemptions are withdrawn in the future, holders of our H shares or ADSs who are individuals may be required to pay PRC capital gains tax upon the sale or other disposition of our H shares. See Item 10. Additional Information E. Taxation People s Republic of China.

Natural disasters and health hazards in the PRC may severely disrupt our business and operations and may have a material adverse effect on our financial condition and results of operations.

Several natural disasters and health hazards have struck mainland China in recent years. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment and other assets in the affected areas sustained some damage in the earthquakes, leading to service stoppage and other disruptions in our operations in those areas. In March 2011, a major earthquake registering 9.0 on the Richter scale struck Japan, which affected our international communications services. We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in the PRC or other regions in the world may have a material adverse effect on our financial condition and results of operations.

Item 4. Information on the Company.

A. History and Development of the Company

Our Restructuring and Initial Public Offering in 2002

We were incorporated under PRC laws on September 10, 2002 as a joint stock company with limited liability under the name China Telecom Corporation Limited. As part of our initial restructuring, China Telecom Group s telecommunications operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, together with the related assets and liabilities, were transferred to us in consideration of 68,317,270,803 of our shares.

Following our restructuring, China Telecom Group continues to be the holder of the licenses required for operating our telecommunications business. In accordance with the approval of the MIIT (and prior to March 2008, the Ministry of Information Industry, or the MII), we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, and China Telecom Group must hold and maintain all licenses received from the MIIT (and prior to March 2008, the MII) in connection with our business for our benefits. The government currently does not charge license fees for the telecommunications licenses held by China Telecom Group.

Table of Contents

In 2002, we successfully completed our initial public offering of H shares and raised approximately RMB10,659 million in aggregate net proceeds for us. Upon completion of our initial public offering, our H shares have been listed for trading on the Hong Kong Stock Exchange, and ADSs representing our H shares have been listed for trading on the NYSE.

Our Acquisitions from China Telecom Group and Corporate Organization Restructuring

We carried out a series of acquisitions between 2003 and 2011, through which we acquired from China Telecom Group telecommunications operations conducted by its subsidiaries. As a result, we significantly expanded the geographical coverage and services of our operations in Mainland China.

In June 2007, we acquired from China Telecom Group and its wholly owned subsidiary China Huaxin Post and Telecommunications Development Center 100.0% equity interest in each of China Telecom (Hong Kong) International Limited, China Telecom System Integration Co., Limited and China Telecom (Americas) Corporation (formerly known as China Telecom (USA) Corporation).

In 2008, for the purpose of improving our organization structure by managing our businesses through branches instead of subsidiaries, we merged with certain of our wholly owned subsidiaries, with these subsidiaries dissolved and all of their assets, businesses, liabilities, rights and obligations being assumed by us. Our provincial branches have taken over the responsibilities of managing and operating the business in these provinces formerly operated by these subsidiaries.

On August 1, 2011 and December 1, 2011, E-surfing Pay Co., Ltd. and E-surfing Media Co., Ltd., two of our subsidiaries, acquired the e-commerce business and video media business from China Telecom Group.

Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

On May 24, 2008, the MIIT, the National Development and Reform Commission and the Ministry of Finance issued a joint announcement relating to the further reform of the telecommunications industry in the PRC. According to the joint announcement, the principal objectives of the reform include, among others: (i) supporting the formation of three telecommunications service providers, each with nationwide network resources, comparable scale and standing, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications service providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom Group of the CDMA network (including both assets and subscriber base) then owned by China Unicom; (b) the acquisition by China Telecom Group of the basic telecommunications service business operated by China Satellite Communications Corporation, or China Satellite; (c) the merger between China Unicom and China Netcom; and (d) the acquisition of China Railcom by China Mobile. The joint announcement required that detailed implementation plans relating to these restructuring transactions be formulated by the relevant parties involved, subject to, in each case, agreement on terms among the relevant parties and approvals by applicable PRC government authorities, and carried out, as applicable, in accordance with customary practices in the domestic and international capital markets.

Our Acquisition of the CDMA Business

On June 2, 2008, we, China Unicom and CUCL entered into a framework agreement, or the CDMA Business Framework Agreement, which sets forth certain key terms in respect of our acquisition from CUCL of the CDMA Business then owned and operated by CUCL and related assets and liabilities. On July 27, 2008, we, China Unicom and CUCL entered into an acquisition agreement, or the CDMA Acquisition Agreement, which sets forth the terms and conditions in respect of our acquisition of the CDMA Business and related assets and liabilities (including the entire equity interest in China Unicom (Macau) Company Limited and 99.5% of the equity interest in Unicom Huasheng Telecommunications Technology Co. Ltd., or Unicom Huasheng). The CDMA Acquisition Agreement superseded the CDMA Business Framework Agreement. The total consideration for our acquisition of the CDMA Business was RMB43,800 million. The related direct transaction cost for the acquisition was RMB84 million. The final cost of the acquisition was RMB40,413 million as a result of a RMB3,471 million reduction to the total consideration. The reduction represents a net settlement due from China Unicom in connection with our acquisition of certain customer-related assets and assumption of certain customer-related liabilities relating to the CDMA Business pursuant to the acquisition agreement. The cost of the acquisition had been fully paid by us by February, 2010.

Table of Contents

Related Transactions

Acquisition of the CDMA Network by China Telecom Group. On July 27, 2008, China Telecom Group, Unicom Group, and Unicom New Horizon Mobile Telecommunications Company Limited, or Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, entered into a CDMA network disposal agreement, pursuant to which Unicom Group and Unicom New Horizon sold the CDMA cellular telecommunications network constructed by Unicom New Horizon, or the CDMA Network, to China Telecom Group for a consideration of RMB66,200 million, or the CDMA Network Acquisition. On October 1, 2008, China Telecom Group completed the acquisition of the CDMA Network.

Lease of capacity on the CDMA Network by our Company from China Telecom Group. On July 27, 2008, we entered into a CDMA network capacity lease agreement with China Telecom Group to lease the capacity on the CDMA Network from China Telecom Group. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group CDMA Network Capacity Lease Agreement for details of this agreement.

Transfer of Certain Basic Telecommunications Business from China Satellite to China Telecom Group

Following the approval by the SASAC and the MIIT, the transfer of basic telecommunications business of China Satellite to China Telecom Group, our controlling shareholder, without consideration was fully completed in January 2009. The business transferred from China Satellite to China Telecom Group included voice over internet protocol, or VoIP, services, satellite international private line services, very small aperture terminal, or VSAT, services, digital trunking communications services and other services related to basic telecommunications services in 21 service regions. These service regions consist of Beijing Municipality, Anhui Province, Chongqing Municipality, Fujian Province, Gansu Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Hainan Province, Hubei Province, Hunan Province, Jiangsu Province, Jiangxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Shaanxi Province, Shanghai Municipality, Sichuan Province, Xinjiang Uygur Autonomous Region, Yunnan Province and Zhejiang Province.

In connection with our restructuring and acquisitions set forth above, we entered into various arrangements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. These arrangements include agreements for trademark licensing, centralized services, interconnection arrangements, optic fiber leasing, property leasing, IT services, CDMA network capacity lease and other services. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a more detailed description of these arrangements.

Our Proposed Sale of Besttone E-Commerce Co., Ltd.

On April 28, 2011, we entered into an asset restructuring agreement with China Satcom Guomai Communications Co., Ltd., or Satcom Guomai, which is a subsidiary of China Telecommunications Corporation and listed on the Shanghai Stock Exchange. We have agreed to sell to Satcom Guomai our 100.0% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services, for an estimated consideration of RMB350 million, subject to adjustment. Satcom Guomai will pay the consideration by issuing to us a certain number of its shares with reference to the average trading price for the twenty trading days to April 1, 2011 (inclusive) of RMB14.92 per share, representing around 4.0% of its enlarged share capital. In March 2012, the relevant government approval for the transaction has been obtained, which approval will remain in effect for 12 months. We intend to complete the transaction within such period.

Table of Contents

Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 23, 2012:

(1) Formerly known as China Unicom (Macau) Company Limited.
(2) Formerly known as Unicom Huasheng Telecommunications Technology Co., Ltd.
(3) Formerly known as Bestpay Co., Ltd.
(4) We have agreed to sell our 100.0% equity interest in this company to Satcom Guomai. See Item 4-Information on the Company A. History and Development of the Company Our Proposed Sale of Besttone E-Commerce Co., Ltd.

In addition, our Company has a branch in each of 22 provinces, five autonomous regions and four centrally administered municipalities in the PRC. See Our Acquisition from China Telecom Group and Corporate Organization Restructuring included elsewhere under this Item.

General Information

Our principal executive offices are located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033 and our telephone number is (+86-10) 6642-8166. Our website address is www.chinatelecom-h.com. The information on our website is not a part of this annual report. We have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

B. Business Overview

We are an integrated information service provider in the PRC with full-service capabilities. Following our acquisition of the CDMA Business in 2008, we began to offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, managed data and leased line services and other related services. See A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008.

Since 2005, we have started to implement our business strategy of transformation from a traditional basic telecommunications service provider to a modern integrated information services provider. Specifically, we have enhanced our efforts in developing our non-voice services, such as Internet access services, value-added services and integrated information application services, while we continue to strengthen our traditional services such as the wireline voice services, in achieving a more structurally optimized business and enhanced competitive strength. We aim to provide differentiated and innovative services to create value for customers by leveraging on our integrated resources.

In January 2009, the MIIT issued to China Telecom Group, our controlling shareholder, a license to operate 3G business nationwide based on CDMA2000 technology. We have been authorized by China Telecom Group to operate CDMA2000 3G mobile business in the PRC. We launched our CDMA2000 3G mobile services in March 2009 and have extended our CDMA2000 3G mobile services nationwide in the PRC.

Our Operation Strategy

In 2011, facing a complex economic situation and increasing market competition, we continued to pursue the strategy of differentiation, integration and innovation to achieve the scale development of our full-service operations. By taking advantage of the opportunities created by the rapid development of 3G services, smartphones and wireless Internet access services in 2011, we have further developed our high-growth services such as mobile, wireline broadband, and wireline integrated information application services. We have maintained the high growth rate of our mobile services and further solidified the competitive advantage of our broadband services. While continuing to optimize our business structure, we have effectively managed the risks related to our declining wireline voice services. Focusing on 3G services, we continued to improve our wireless Internet access services in 2011. We will continue the scale development of our business through innovation and quality services.

Table of Contents

Subscribers and Service Usage

Our operating revenues depend largely on the size of our customer base, usage volume and the level and structure of our tariffs. The following table shows our selected operating data as of the dates and for the periods indicated.

	As of or for the year ended December 31,		
	2009	2010	2011
Wireline Voice Services:			
Local wireline access lines in service (in millions)	188.6	175.1	169.6
Residential	112.2	110.2	108.0
Government and enterprises	32.1	34.0	36.8
Public telephones	15.1	14.5	13.9
Wireless local access	29.2	16.4	10.9
Wireline local voice usage (in billion pulses)(1)	320.6	251.4	206.4
Domestic long distance wireline usage (in billion minutes) (2)	83.9	68.5	52.9
International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes)(3)	1.2	1.2	1.1
Mobile Voice Services:			
Mobile subscribers (in millions)	56.1	90.5	126.5
Mobile voice usage (in billion minutes)	155.4	295.9	407.8
Internet Access Services:			
Wireline broadband subscribers (in millions)	53.5	63.5	76.8
Value-added Services			
Mobile SMS Usage (in billion messages)	15.1	33.1	49.9
Mobile Color Ring Tone subscribers (in millions)	32.6	54.2	75.4
Wireline caller ID service subscribers (in millions)	128.5	119.0	115.6
Wireline Color Ring Tone subscribers (in millions)	74.1	73.9	73.8

(1) Pulses are the billing units for calculating local telephone usage fees.
(2) Includes calls originated by mobile subscribers that are carried over our long distance networks.
(3) Includes calls originated by subscribers of other operators that are carried through the international gateways of China Telecom Group.

Our Products and Services

Wireline Voice Services

The total number of wireline telephone subscribers decreased to 169.6 million as of December 31, 2011 from 175.1 million as of December 31, 2010. As of December 31, 2011, we had less than 11 million PHS subscribers which contributed to 0.8% of our operating revenues in 2011.

Our wireline voice services include local wireline services, domestic long distance wireline services and international, Hong Kong, Macau and Taiwan long distance wireline services. The total local wireline usage decreased by approximately 17.9% from 251.4 billion pulses in 2010 to 206.4 billion pulses in 2011. Total domestic long distance wireline usage was 52,937 million minutes in 2011, representing a decrease of approximately 22.8% from 68,544 million minutes in 2010. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2011 was 1,130 million minutes, representing a decrease of approximately 6.4% from 1,207 million minutes in 2010.

The decrease in the number of wireline telephone subscribers and our wireline voice service usage was primarily attributable to the continuing decline in tariffs for mobile services and the increasing penetration of mobile voice and other alternative communications means, such as VoIP. The rate of decrease has slowed down in 2011 compared to 2010 primarily as a result of our in-depth integration of wireline voice services with mobile, broadband, value-added and integrated information services, as well as marketing initiatives to promote usage.

Mobile Voice Services

Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2011, we continued to experience rapid growth in our mobile services. In 2011, the number of subscribers of our mobile services increased by 36.0 million to 126.5 million as of December 31, 2011. The number of subscribers of our 3G services increased by 24.0 million to 36.3 million as of December 31, 2011, representing 28.7% of our mobile subscribers. The mobile voice usage increased to 407.8 billion minutes in 2011 from 295.9 billion minutes in 2010.

In 2011, we continued to focus on further developing our 3G services. We seek to further expand our mobile subscriber base through marketing efforts in open channel sales of mobile handsets, in particular 3G smartphone models. In March 2012, we began to offer iPhone 4S and launched related marketing initiatives, which are expected to benefit our long term growth but may have an adverse effect on our profitability in the short term.

In addition, we continued to enhance the scale development of industry-specific applications to attract government and enterprise subscribers.

Internet Access Services

Our Internet access services consist of wireline Internet access services, including dial-up and broadband services, and wireless Internet access services. Internet access services have become increasingly important in our revenue structure. We offer Internet access services through integrated and customizable service plans along with other services, which creates the synergy that mutually benefits our Internet access, mobile and other services.

In 2011, we launched the project of Broadband China Fiber Cities to accelerate the optic fiber upgrade of our network and to increase the broadband connection speed. As of December 31, 2011, we provided 8Mbps broadband access in substantially all of our service regions. The number of our wireline broadband subscribers increased by 21.0% from 63.5 million as of December 31, 2010 to 76.8 million as of December 31, 2011. In addition, by utilizing our competitive wireline broadband access capacity, we continued to develop and incorporate new applications and services in order to build customer loyalty and increase the overall value of our services. Moreover, we further enhanced the coverage and access capabilities of our wireless broadband network. As of December 31, 2011, we have established close to 0.6 million Wi-Fi access points in the PRC, where our customers can have Internet access.

Table of Contents

Value-Added Services

Our value-added services comprise primarily wireline and mobile value-added services.

Our wireline value-added services include our wireline voice related services, such as caller ID services, Color Ring Tone services and short messaging services, or SMS. Color Ring Tone refers to a service where subscribers can customize the answer ring tone heard by the caller from a wide selection of songs, melodies, sound effects or voice recordings to replace the monotonous ring connecting tone. Our wireline value-added services also include wireline Internet related services, such as Internet data center, or IDC, services, IP-virtual private dial-up network, or IP-VPDN, services, and Internet protocol TV, or IPTV, services.

Our mobile value-added products primarily consist of (i) function-based services, such as mobile Color Ring Tone services, multimedia messaging services, or MMS and email services, (ii) content-based services and applications, such as content services relating to music, videos and books, as well as (iii) industry-specific applications for government and enterprises, such as government administration and supervision, transport and logistics, digital hospital and integrated eSurfing Radio-frequency identification, or RFID. Our broad portfolio of mobile Internet products and applications has gained wide market acceptance and contributed to the development of our mobile value-added services. The usage volumes of music and video content services through our mobile network increased significantly. Our industry-specific applications continue to gain market acceptance.

The number of subscribers to our wireline caller ID services was 115.6 million as of December 31, 2011, a decrease from 119.0 million as of December 31, 2010. The usage volume of our mobile SMS increased by 50.8% from 33.1 billion messages in 2010 to 49.9 billion messages in 2011. The number of subscribers to our mobile Color Ring Tone services increased to 75.4 million as of December 31, 2011 from 54.2 million as of December 31, 2010.

Integrated Information Application Services

Our integrated information application services consist of Best Tone services, IT services and IT application services as well as V-Net services. Best Tone service provides our customers with phone number storage, enquiry and call transfer services, as well as various information needed in daily life. IT services and IT application services include information technology-based integrated solutions such as system integration, outsourcing, special advisory, information application, knowledge services and software development. V-Net services refer to products and applications, such as music, video, software and recharge of online game cards, provided through broadband access and operated on a nationwide basis.

In 2011, our integrated information application services continued to expand. To further enhance these services, we seek to develop services incorporating new technologies such as cloud computing and Internet of Things.

Managed Data and Leased Line Services

Our managed data services primarily include services relating to our optic fiber and circuits, such as optic fiber and circuit leasing; virtual private network, or VPN, and bandwidth leasing. We offer managed data services as certain of our total telecommunications solutions to large enterprise customers, including government agencies, large corporations and institutions. Many of these customers choose to lease our circuits to form VPNs based on various technologies, and links their local area networks at different locations. We also collaborate with a number of international telecommunications service providers to provide global communications services for multinational corporations.

In 2011, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop shop, tailored services and comprehensive solutions to these customers. These customers can enjoy a full range of consulting, trouble-shooting, billing and collection, and technical support services by contacting any designated account manager in our Company.

Other Services

Our other services primarily include sales, rental, repairs and maintenance of equipment.

Our Customers and Brand Management

In 2011, we continued to promote our full-service brand names under our enterprise brand China Telecom, improved our brand management system, and further enhanced eSurfing as our leading brand name through, among others, providing contents for our eSurfing 3G smartphones. Benefiting from the leading eSurfing brand name, we promoted the coordinated development of our other customer-based brands such as BizNavigator and One Home. We also launched eSurfing Fly Young to target the youth market. As of the end of 2011, the number of subscribers of BizNavigator increased to approximately 6.1 million, or a 22.1% increase over 2010. The number of our One Home subscribers increased to approximately 56.0 million, or a 15.6% increase over 2010.

Through providing contents to our services on a multi-dimensional level and our coordinated marketing efforts, we continue to enhance the brand recognition and market influence for eSurfing.

Tariffs

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities. The MIIT has gradually liberalized the tariff level by allowing telecommunications service providers to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the plan. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Wireline Voice Services

For our local wireline telephone services, we charge a fixed monthly fee and usage fees based on call usage in terms of pulses. The tariffs are regulated by the PRC government. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item. In addition, we also charge installation fees for installing a telephone for our subscribers. We charge the installation fee based on the actual cost of the installation.

Currently, all domestic long distance wireline services using public switched telephone network, or PSTN, are charged at the unified rate with a discount rate during off-peak hours.

We offer international, Hong Kong, Macau and Taiwan long distance wireline services through the international gateways of China Telecom Group. China Telecom Group negotiates bilateral settlement arrangements and rates based on the international settlement standards in the telecommunications industry, and we follow those settlement arrangements and rates.

Table of Contents

Mobile Voice Services

The tariffs for our CDMA mobile voice services are generally regulated by the State. Generally we charge subscribers of our CDMA mobile voice services the following categories of tariffs: basic monthly fees, local usage charges, roaming charges and long- distance call charges.

With respect to international roaming of our mobile voice services, we settle roaming revenues with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators.

To accelerate the growth in our CDMA subscriber base, we offer CDMA handset promotion plans, providing discounts towards our customers CDMA handset purchase prices on the basis of their committed minimum amount of service fees. Our promotion plans are offered in a wide price range, to target users in different market groups.

Internet Access Services, Value-added Service and Integrated Information Application Services

Internet access services, value-added services and integrated information application services are classified as market-based for purpose of tariff determination by relevant regulatory authorities.

We determine tariffs for these services according to market conditions. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Managed Data and Leased Line Services

Managed Data Services. We determine most of the tariffs for our managed data services within a price range set by the PRC government. We generally charge a fee for installation and testing for our managed data services and a fixed monthly fee. We offer various promotion discounts for our customers who wish to upgrade to higher bandwidth services. These promotion discounts have stimulated demand for our managed data services in recent years.

Leased Line Services. The leased line tariff rates are set by the PRC government based on bandwidth and whether the leased line is local or long distance. Leased line providers are permitted to charge monthly fees for leased lines on a discount basis and leased line tariffs have generally decreased in recent years. We provide different discounts to our customers on a case by case basis. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other mobile or fixed-line networks. These arrangements provide for the sharing and settlement of revenues from the base usage charges and, if applicable, roaming charges and domestic and international long distance charges.

China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group s networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. Our interconnection arrangements with China Telecom Group and other telecommunications operators enable our subscribers to communicate with the subscribers of those operators and to make and receive local, domestic and international long distance calls. All interconnection and settlement arrangements among public wireline telephone, mobile, and Internet networks in the PRC are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MIIT. See Regulatory and Related Matters Interconnection included elsewhere under this Item.

Table of Contents

International Roaming

We provide both CDMA and Global System for Mobile Communications, or GSM, international roaming services to our subscribers, which allow them to access mobile telecommunications services and use voice, SMS and data services while they are physically outside of their registered service area but in the coverage areas of other mobile telecommunications networks in other countries and regions with which we or our GSM roaming sponsor have roaming arrangements.

As of December 31, 2011, subscribers of our CDMA mobile services can roam on mobile networks in more than 200 countries and regions based on international roaming agreements between China Telecom Group and the local network operators. A CDMA mobile service subscriber using roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenues with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

Marketing, Sales, Distribution and Customer Services

Marketing Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide marketing and distribution network. We have devoted substantial efforts in advertisements to promote recognition of and loyalty to our products and services. In order to respond to market competition as well as attract and motivate customers to use our services, we have also grouped certain of our local voice, long distance voice and data services, differentiated price for one or more products and combined certain products into one integrated service plan to targeted customers to address their telecommunications needs.

In order to achieve the scaled development of our business, we tailored products and marketing strategies to target different customer groups. For the government and enterprise market, we focused on the development of key industry-specific applications for government agencies, corporations and financial institutions, to drive the scale development of mid-to-high-end mobile subscriber base. For the student market, we emphasize the marketing of smartphones, broadband and eSurfing products and services. We promoted customer-selected service packages to our residential customers and have increased the synergy between our mobile services and wireline broadband services. We seek to further expand our business in the rural areas through establishing distribution channels, bundled promotional plans and organized marketing activities. For the overseas market, we continue to focus on overseas carriers, overseas Chinese companies and multinational corporations. Our overseas network coverage continues to expand, while we are improving our overseas distribution channels.

We implement our marketing strategy through an integrated sales and distribution channel network, which covers: (i) dedicated service channel comprising customer managers specifically assigned to market our services to large enterprises, communities and rural areas; (ii) electronic-based service channel such as customer service hotlines and online service centers; (iii) business outlet channel, including self-owned and third-party business outlets; and (iv) mobile handset chain stores, electronics chain stores, supermarkets and large-scale telecommunications equipment distribution stores, collectively, the open channel. As part of our strategy to provide integrated services, we continue to enhance information sharing with respect to information relating to sales and distribution across the integrated sales and distribution channel network. In 2011, sales in our self-owned business outlets increased primarily due to the adoption of new sales practices and marketing initiatives targeting holidays. Open channel sales continue to grow through cooperation with well-known electronics chain stores, top retail stores and their affiliated stores. In 2011, we gained approximately 58% of our new mobile subscribers though open channel sales, and open channel handset sales accounted for approximately 69% of our total handset sales.

Table of Contents

In 2011, we continued to leverage on the growing mobile subscriber base to invigorate the handset value chain, and further stimulated the handset supply and sales through subsidies and direct supply to sales outlets. In 2011, approximately 60 million CDMA handsets were sold, including approximately 34 million Evolution-Data Optimized handsets. The portfolio of handsets offered was further enriched with price performance factors further enhanced. As of December 31, 2011, over 500 models of 3G handsets were available to our customers, including certain star 3G handsets priced around RMB1,000 per unit.

Furthermore, we have adopted various marketing approaches and initiatives, such as customer experience, customer relationship management system, SMS, telesales, sales plans and joint promotion with our business partners such as Internet portal companies and software development companies, to promote our products and services, in particular, our value-added services.

Customer Service

We provide customer services through all channels on our integrated sales and distribution channel network. Our customer services typically include service inquiries, service applications, customers complaints, product and service promotions, service initiation and termination, payment reminder services and emergency services. Through establishing and implementing our customer full-service standard, we have significantly improved our basic customer services, such as service processing time, request responding time and providing service related and other information to customers through text messages.

Information Technology System

We employ our information technology, or IT, system to support our wireline voice services, mobile voice services and other services. In recent years, through continuous upgrading, our IT system has the capability to support our wireline, mobile and other services on an integrated basis and to support other services related operations such as account opening, billing and customer services.

Network System

Our network has extensive coverage and scale and employs a variety of advanced technologies and suitable architecture. It offers comprehensive functions and a reliable operation. In addition, it supports a comprehensive range of end-to-end telecommunications services and enables customized products to be delivered for a variety of telecommunications needs. Our network system is managed and operated by our experienced network management and maintenance teams and is supported by our strong research and development capabilities. And in light of future advances in technology, we have formulated viable plans to migrate our network system efficiently to the next generation.

We lease CDMA network capacity from China Telecom Group and have the exclusive right to use and operate the CDMA network to provide our CDMA mobile services. We expect to acquire China Telecom Group s CDMA network in 2012, which acquisition, if proposed by our Board of Directors, will be subject to the consideration and approval by our shareholders meeting pursuant to relevant regulatory requirements and corporate governance procedures.

Network Architecture

Our network system consists of access networks, data networks, core networks, transport networks, service networks and support networks.

Access networks: Access networks include wireline access network and CDMA wireless access network, which are directly connected to customers to provide broadband, data and voice services.

Data networks: Data networks include Internet network and basic data network, and provide network support for all telecommunications services based on IP.

Core networks: Core networks include our wireline telephone network, mobile core network, and support our basic telecommunications services.

Transport networks: Transport networks provide electronic transmission of various service signals for access networks, data networks and core networks.

Service networks: The service networks provide the platform and ancillary systems for a variety of value-added services and application products.

Support networks: Support networks include signaling networks, digital synchronous networks and various network management systems, in order to support the reliable and effective operation of our networks and services at all levels.

Equipment procurement

We purchase most of our network equipment from leading international and domestic suppliers. We purchase a variety of network equipment from domestic suppliers, such as transport equipment and local switches. We make most of our purchases through competitive tenders primarily based on product and service quality, system compatibility and price.

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 21.9% of our total amount of annual purchases in 2011. Purchases from our largest supplier of telecommunications equipment accounted for approximately 9.4% of our total amount of annual purchases in 2011.

Competition

Following the industry restructuring in 2008, China Unicom and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile continues to be the leading provider of mobile telecommunications services in the PRC. China Mobile directly competes with us in mobile telecommunications services and indirectly competes with us in wireline and other telecommunications services.

Since the PRC s accession to the WTO, foreign operators have been permitted to gradually increase their investments in the telecommunications industry in the PRC. Like domestic service providers, foreign operators are subject to the licensing requirements of the MIIT. In addition, investments by foreign operators may not exceed limits set forth in the relevant laws and regulations with respect to the amount of investment and percentage of total ownership interests that foreign operators are permitted to make in telecommunications enterprises in the PRC. For example, the foreign ownership in basic telecommunications services will be subject to a limit of 49.0%. See Regulatory and Related Matters Licensing included elsewhere under this Item.

In May 2010, the PRC State Council issued Several Opinions on Encouraging and Guiding the Healthy Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

Table of Contents

Trademarks

We conduct our business under the China Telecom brand name and logo. Currently, China Telecom Group owns certain trademarks in the PRC, some of which have been registered with the Trademark Office of the PRC State Administration for Industry and Commerce, or the Trademark Office, and some of which are in the process of being registered with the Trademark Office. China Telecom Group has executed a trademark license agreement with us. Under this agreement, China Telecom Group agreed to grant to us and our subsidiaries the right to use these trademarks upon the completion of the registration on a royalty-free basis until December 31, 2012, which is automatically renewable for three more years at our option. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group Trademark License Agreements.

Regulatory and Related Matters

Overview

The PRC s telecommunications industry is subject to extensive government regulation. A number of central government authorities have regulatory responsibilities for various aspects of the telecommunications industry. These authorities primarily include:

- The MIIT, which is responsible for, among other things:
  - formulating and enforcing industry policies and regulations as well as technical standards;
  - granting telecommunications service licenses;
  - supervising the operations and quality of service of telecommunications service providers;
  - allocating and administering telecommunications resources such as spectrum and numbers;
  - together with other relevant regulatory authorities, including the National Development and Reform Commission, formulating tariff standards and tariff charging mechanisms for telecommunications services;
  - formulating interconnection and settlement arrangements between telecommunications networks; and
  - maintaining fair and orderly market competition among service providers.
- Provincial communications administrations under the MIIT, which oversee the implementation of the Ministry s regulations and exercise regulatory authorities delegated by the Ministry within their respective provinces, autonomous regions and centrally administered municipalities.
- The National Development and Reform Commission, which, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. The actual tariffs charged by providers of telecommunications services are determined by provincial communications administrations, together with the price bureaus of the provinces, autonomous regions or centrally administered municipalities where those providers operate. See Tariff Setting below. It also approves investment and

finance projects exceeding certain capital expenditure amounts as well as foreign investment projects exceeding certain investment amounts.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the PRC government is in the process of drafting a telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People s Congress or its Standing Committee, the highest state legislative body in the PRC, it will become the basic telecommunications statute and provide a regulatory framework for the telecommunications industry in the PRC.

Table of Contents

Telecommunications Regulations

The PRC s State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000. The Telecommunications Regulations are substantially consistent with, and are primarily intended to streamline and clarify, the then existing rules and policies for the telecommunications industry. The Telecommunications Regulations provide the primary regulatory framework for the PRC s telecommunications industry in the interim period prior to the adoption of the telecommunications law.

The Telecommunications Regulations are intended to develop a transparent and fair regulatory environment to encourage fair and orderly competition and development in the telecommunications industry. The Telecommunications Regulations address all key aspects of telecommunications operations, including, among others, entry into the telecommunications industry, network interconnection, telecommunications resource allocation, tariffs and service standards.

Licensing

The Telecommunications Regulations adopt the existing regulatory distinction between basic and value-added telecommunications services, which are subject to different licensing requirements. Basic telecommunications services include, among others, wireline local and domestic long distance telephone services, international telecommunications services, mobile communications services (such as 900/1800MHz GSM, 800MHz CDMA and 3G mobile communications services), satellite communications services, paging services, data communications services (such as Internet data transmission services, international data communications services), trunking services, network access services and domestic and international telecommunications facility services. Value-added telecommunications services include, among others, value-added services provided over wireline telephone networks (e.g., telephone information, call center, voice mail and video conferencing services), value-added services provided over mobile networks, value-added services provided over Internet networks (e.g., Internet data center and Internet access and content services) and value-added services provided over other data networks (e.g., computer information, e-mail and electronic data interchange services).

Providers of any basic telecommunications services as well as providers of value-added services in two or more provinces, autonomous regions and centrally administered municipalities in the PRC must apply for licenses from the MIIT. In accordance with the approval of the MIIT, we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, which holds the licenses required for operating our telecommunications business. In January 2009, China Telecom Group received a license from the MIIT to operate 3G services nationwide, which permits China Telecom Group to provide 3G services based on CDMA2000 technology. We have been authorized by China Telecom Group to operate 3G services nationwide based on CDMA2000 technology.

After its accession to the WTO in December 2001, the PRC promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, effective on January 1, 2002, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in the PRC to foreign operators. According to those regulations, enterprises with foreign investment may operate basic and value-added telecommunications services subject to the approval of the MIIT and the Ministry of Commerce (formerly the Ministry of Foreign Trade and Economic Cooperation). Certain limitations have been placed on the total registered capital of, and maximum foreign shareholdings in, such enterprises. However, the presence or absence of foreign investments in an applicant for telecommunications licenses will presumably bear no direct relation to the decision on whether to issue licenses, inasmuch as the issuance of new licenses is governed by a separate set of rules and regulations. In recent years, the PRC gradually fulfilled the market-opening commitments it made to the WTO and lifted many restrictions for foreign investors and service providers in respect of telecommunications services. The remaining restrictions regarding mobile services, value-added telecommunications services and fixed line services are as follows.

For mobile voice and data services:

- there is no longer any geographic restriction and the foreign ownership shall be no more than 49.0%.

For value-added telecommunications services:

- there is no longer any geographic restriction and the foreign ownership shall be no more than 50.0%.

For fixed line services:

- there is no longer any geographic restriction and the ownership shall be no more than 49.0%.

The MIIT has promulgated the Administrative Measures for the Licensing of Telecommunications Business Operations, which became effective on April 10, 2009. Those regulations apply to the application for, and examination and approval of, telecommunications business licenses in the PRC.

Tariff Setting

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities, including the MIIT, the National Development and Reform Commission, and, at the local level, the relevant provincial communications administrations and price bureaus. Under the Telecommunications Regulations, telecommunications tariffs are categorized into government fixed tariffs, government guidance tariffs and market based tariffs. The telecommunications providers are permitted to set tariffs for certain services provided the tariff levels are below the tariff ceilings set by the MIIT and the National Development and Reform Commission.

The PRC government retains the ultimate authority to adopt changes to tariffs. However, the Telecommunications Regulations require the government to hold public hearings before setting or changing fixed or guidance tariff rates, which should be attended by, among others, telecommunications operators and consumers. See Item 3. Key Information D. Risk Factors Risks Relating to the Telecommunications Industry in the PRC Our revenues may be adversely affected by reductions in tariffs and other changes in tariff regulations mandated by the PRC government.

Under the Telecommunications Regulations, cost is the primary basis for tariff setting. In addition, the tariff level should also take into account social and economic development, the development of the telecommunications industry and consumers ability to afford the services.

The MIIT has gradually liberalized the tariff level by allowing telecommunications providers to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the tariff plans. Effective October 1, 2005, the MIIT and the National Development and Reform Commission set the tariff ceiling for local services, domestic long distance services, and international, Hong Kong, Macau and Taiwan long distance services. With respect to the tariffs for domestic and international long distance services, telecommunications service providers are required to file the tariffs with the MIIT and the National Development and Reform Commission for record purposes, and, at the local level, the relevant provincial communications administrations and price bureaus. With respect to the tariffs for local services, filings of the tariffs with the relevant provincial communications administrations and price bureaus for record purposes are required. With respect to service discounts plans, filings with the MIIT or, if service discounts plans are provided by the provincial subsidiaries of the telecommunications operator, with the relevant provincial communications administrations, are required.

Table of Contents

Interconnection

Under the Telecommunications Regulations and the Administrative Rules on Interconnection between the Public Telecommunications Networks promulgated by the MII in May 2001, major telecommunications operators in the PRC cannot refuse requests for interconnection and must enter into interconnection agreements upon request by other service providers. Interconnection agreements must be filed with the MIIT. Interconnection agreements may not be terminated unilaterally without prior approval by the MIIT.

The Telecommunications Regulations further provide that the technical standards and settlement methods for network interconnections be formulated by the MIIT. In accordance with these regulations, China Telecom Group has entered into various interconnection agreements with other telecommunications service providers, including China Mobile and China Unicom.

The MIIT (or the MII prior to March 2008) issued several Notices on Adjustment to Settlement Standards for Interconnection Fees of Wireline Local Telephone Networks, in October 2005, January 2007 and April 2009, respectively, which provide for interconnection settlement arrangement standards for local inter-district calls between wireline local telephone operators. In October 2009, the MIIT issued a Notice on Adjustment to Settlement Standards for Interconnection Fees of Telecommunications Network, which provides for settlement arrangement standards for certain network interconnections between telecommunications operators. The following table sets forth selected interconnection revenues sharing and settlement arrangements for local calls:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Mobile operator	Wireline local operator	(1) Mobile operator collects the cellular usage charge from its subscribers
		(2) Mobile operator pays RMB0.06 per minute to wireline operator. Starting January 1, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to wireline operator for calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users).
Wireline local operator	Mobile operator	(1) Wireline operator collects the usage charge from its subscribers
		(2) No revenues sharing or settlement prior to June 1, 2010. Wireline operator pays RMB0.001 per minute to mobile operator after June 1, 2010
Wireline local operator A	Wireline local operator B	(1) operator A collects the usage charge from its subscribers
		(2) In the case of local calls from operator A not using operator B s local inter-district trunk circuit, operator A pays 50.0% of usage charge to operator B

		(3) In the case of local inter-district calls from operator A using operator B s local inter-district trunk circuit, operator A pays no more than RMB0.06 per minute to operator B
Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers (2) Mobile operator A pays RMB0.06 per minute to mobile operator B. Starting January 1, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B for calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users).

Table of Contents

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for PSTN domestic long distance calls:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Wireline local or mobile operator A	Wireline local or mobile operator B, through the long distance network of operator C	(1) Operator C collects the tariff from its subscribers
		(2) Operator C pays RMB0.06 per minute to operator A, RMB0.06 per minute to operator B, and gets the rest of the long distance tariff

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for PSTN international long distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Domestic wireline local or mobile operator A	Without using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) operator A collects the tariff from the subscribers
		(2) operator A retains RMB0.06 per minute, and operator B gets the rest of the international long distance tariff.
	Using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) Operator B collects the tariff from the subscribers
		(2) Operator B pays operator A RMB0.06 per minute
International long distance operator	Operator B through domestic long distance network of operator C and international gateway of domestic operator A	(1) operator A pays not more than RMB0.54 per minute to operator C, operator C pays not more than RMB0.06 per minute to operator B, where operator A and operator C, or operator B and operator C can be the same operator

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for IP long distance calls:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Wireline or mobile network A	Wireline local or mobile operator B	(1) Operator C collects the IP long distance charges from its subscribers
	through the IP long distance network of operator C	
		(2) Operator C pays RMB0.06 per minute to operator B on the terminating end

(3) No settlement between operator C and operator A on the originating end

Table of Contents

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for SMS:

Network from Which SMS Originated	Network at Which SMS Terminated	Current Main Settlement Arrangement
Wireline or mobile operator A	Wireline or mobile operator B	(1) operator A collects the tariff from its subscribers (2) operator A pays RMB0.03 per SMS to Operator B

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for MMS:

Network from Which MMS Originated	Network at Which MMS Terminated	Current Main Settlement Arrangement
Wireline or mobile operator A	Wireline or mobile operator B	(1) operator A collects the tariff from its subscribers (2) operator A pays RMB0.10 per MMS to Operator B

Technical Standards

The MIIT sets industry technical standards for telecommunications terminal and interconnection related equipment used in the public telecommunications networks. A network access license from the MIIT and other relevant regulatory authorities is required for all such equipment. Most of the standards set by the MIIT conform to standards recommended by the International Telecommunications Union and other international telecommunications standards organizations.

Telecommunications Resources

The MIIT is responsible for the administration and allocation of telecommunications resources in the PRC, including radio frequencies and telecommunications network numbers. The use of these resources by telecommunications service providers is subject to the approval of the MIIT or the relevant provincial communications administrations and a usage fee payable to the PRC government.

In 2011, we paid approximately RMB104 million of usage fees for the telecommunications network numbers and approximately RMB65 million of frequency usage fees, respectively.

Quality of Service

Under the Telecommunications Regulations, the MIIT and the relevant provincial communications administration have the responsibility of supervising and monitoring the quality of services provided by telecommunications service providers in the PRC. Under the Telecommunications Regulations, customers of telecommunications service providers have the right to submit complaints to the MIIT and the relevant provincial communications administration or other relevant government authorities.

On March 13, 2005, the MII promulgated the Telecommunications Services Standards. The Telecommunications Services Standards aim to protect the rights of the customers of telecommunications services and sets forth minimum quality requirements for telecommunications services provided by telecommunications operators.

The MII promulgated the Measures on the Supervision and Administration of Quality of Service of the Public Telecommunications Networks, or the Measures on Quality of Service, effective August 1, 2005. The Measures on Quality of Service provide the supervision and administration of services of public telecommunications networks, including, among others, wireline local telephone networks, domestic long distance telephone networks, international telephone networks, and IP telephone networks. Under the Measures on Quality of Service, telecommunications operators are required to set up a unit which is responsible for solving the problems with respect to the public telecommunications network services.

Under the PRC Consumer Protection Law, Consumers Associations can participate in the inspection and examination of goods and services by relevant governmental authorities; and customers can lodge their complaints with Consumers Associations, which can investigate the goods or services involved in the complaints, and mediate the complaints.

In addition, the MIIT, together with other governmental authorities, has taken measures to prompt telecommunications operators to screen indecent contents carried through their networks.

Universal Services

Under the Telecommunications Regulations, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the MIIT has been given authority by the PRC government to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other regulatory authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate the expenses incurred in the Village to Village projects before the establishment of a universal service fund. In December 2006, the Ministry of Finance issued the Provisional Rules on Usage and Administration of Telecommunications Universal Service Fund, effective December 21, 2006, which provide a compensation scheme for certain expenses incurred in the Village to Village projects undertaken by telecommunications service providers. Under the compensation scheme, telecommunications operators may receive compensation from the PRC government for the Village to Village projects. These rules provide for the application for the compensation, the method to calculate the amount, the approval process and the distribution of the compensation. However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the Village to Village projects.

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, but the formal timetable for the establishment of the systems to implement universal services has not been set up. Once the universal service regulatory framework is finalized, we expect to perform our duties thereunder accordingly. Currently, the PRC government implements the Village to Village projects which require telecommunications operators to provide telephone services in a number of remote villages in the PRC as transitional measures prior to the official implementation of a universal service obligation framework. Accordingly, China Telecom Group has initiated Village to Village projects. By the end of 2011, China Telecom Group had invested in the construction of network facilities in certain remote villages of 20 provinces and autonomous regions. We have been requested by China Telecom Group to operate and maintain such network facilities from 2006 onwards, and China Telecom Group will compensate us for all the related expenses. We believe the expenses for such operation and maintenance will not have a material effect on our financial condition.

State-Owned Assets Supervision

Under the PRC Company Law, Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises, and other administrative regulations, the SASAC, among others, supervises the preservation of the value of state-owned assets, guides the reform and restructuring of state-owned enterprises, and evaluates the performance of management executives of state-owned enterprises through legal procedures. Our controlling shareholder, China Telecom Group, is a wholly state-owned enterprise and subject to the SASAC s supervision.

Three-Network Convergence Policy

In January 2010, the PRC government announced its decision to accelerate the advancement of convergence of television broadcast, telecommunications and Internet access networks to realize interconnection and resource sharing among the three networks and further develop the provision of voice, data, television and other services. Specifically, the three-network convergence policy will be initially carried out on a trial basis in selective geographic locations during the period from 2010 to 2012 and further implemented across-the-board in the following three years. In June 2010, the State Council issued the Trial Plan for Three-Network Convergence and called for 12 volunteer regions (cities) and enterprises for the first trial. Following the completion of the first trial in December 2011, the State Council announced 42 additional regions (cities) for the second phase of the trial. We are in the process of implementing the second phase of the trial in selected cities. The PRC government may promulgate new regulations or adjust relevant policies corresponding to the implementation of the three-network convergence policy in the future.

C. Organization Structure

See A. History and Development of the Company Our Restructuring and Initial Public Offering in 2002 included elsewhere under this Item.

D. Property, Plants and Equipment

Properties

Executive Offices

Our principal executive offices are located in Beijing and we obtained the right to occupy and use these offices pursuant to an agreement we entered into with China Telecom Group in September 2002 and supplemental agreements on October 26, 2003, April 13, 2004, December 15, 2005, December 26, 2007, March 31, 2008, and August 25, 2010, respectively. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group Centralized Services Agreements.

Properties

We conduct our business on land and premises either owned by ourselves or leased from China Telecom Group and/or its affiliates and third parties. As to our owned properties, although the land and building titles to a majority of these properties have been registered in our name after they were acquired by us as part of our restructuring, land and building titles to the remaining properties are still registered in the name of China Telecom Group. China Telecom Group has agreed to indemnify us against any loss or damage incurred by us caused by or arising from any challenge to, or interference with, our right to use these properties. As to our leased properties, China Telecom Group has undertaken to us that it will indemnify us against any loss or damage caused by or arising from any challenge to, or interference with, such right. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group Property Leasing Framework Agreement.

Item 4A. Unresolved Staff Comments.

None.

Table of Contents

Item 5. Operating and Financial Review and Prospects.

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements and our selected financial data, in each case included elsewhere in this annual report. Our consolidated financial statements have been prepared in accordance with IFRS.

The selected consolidated financial statements data as of and for the years ended December 31, 2009 and 2010 under this Item 5 was restated to reflect the effect of the change in accounting policies upon the adoption of the amendments to IFRS 1 in 2011. See Note 3 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Overview

We are an integrated information service provider in the PRC. We offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, managed data and leased line services and other related services. We continue to leverage our full-service capabilities to further enhance our integrated and differentiated development of operation of wireline, mobile and Internet access services, and to distinguish us from our competitors.

We are the leading provider of wireline telecommunications services in our service regions in the PRC, consisting of Anhui Province, Beijing Municipality, Chongqing Municipality, Fujian Province, Gansu Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Hainan Province, Hubei Province, Hunan Province, Jiangsu Province, Jiangxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Shaanxi Province, Shanghai Municipality, Sichuan Province, Xinjiang Uygur Autonomous Region, Yunnan Province and Zhejiang Province.

Following our acquisition of China Telecom System Integration Co., Limited, China Telecom (Hong Kong) International Limited and China Telecom (Americas) Corporation pursuant to an Equity Purchase Agreement we entered into with China Telecom Group on June 15, 2007, we began to offer leased line and related services in certain countries in the Asia Pacific region and North and South America.

Following our acquisition of the CDMA Business in October 2008, we began to offer CDMA mobile services in the mainland PRC and Macau, which were previously operated by China Unicom and launched our 3G services in March 2009.

Financial Overview

Our operating revenues increased by 11.5%, from RMB219,864 million in 2010 to RMB245,041 million in 2011. The increase was mainly attributable to revenues growth from mobile voice services, Internet access services and other services. Our total operating expenses increased by 12.5%, from RMB196,412 million in 2010 to RMB220,912 million in 2011. The increase in operating expenses was primarily due to increases in network operation and support expenses selling, general and administrative expenses and other operating expenses to support the full services operation so as to ensure our sustainable and healthy development. Our operating income increased by 2.9%, from RMB23,452 million in 2010 to RMB24,129 million in 2011. The profit attributable to equity holders of the Company increased from RMB15,347 million in 2010 to RMB16,502 million in 2011.

Table of Contents

The table below sets forth a breakdown of our operating revenues in terms of amount and as a percentage of our total operating revenues for the periods indicated:

	Year Ended December 31,					
	2009		2010		2011	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)					
Operating Revenues:						
Wireline voice services(1)	78,432	37.5%	62,498	28.4%	49,764	20.3%
Mobile voice services(2)	20,027	9.6	28,906	13.1	38,628	15.8
Internet access services(3)	51,567	24.6	63,985	29.1	74,992	30.6
Value-added services(4)	21,533	10.3	22,571	10.3	25,529	10.4
Integrated information application services(5)	12,659	6.0	15,519	7.1	20,473	8.4
Managed data and leased line services(6)	11,499	5.5	12,389	5.6	14,273	5.8
Other services(7)	12,502	6.0	13,499	6.1	21,284	8.7
Upfront connection fees(8)	1,151	0.5	497	0.2	98	0.0
Total operating revenues	209,370	100.0%	219,864	100.0%	245,041	100.0%

(1) Represents the aggregate revenues from monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections and upfront installation fees charged to customers for the provision of wireline telephony services.
(2) Represents the aggregate revenues from 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.
(3) Represents revenues from broadband Internet access services.
(4) Represents revenues from wireline value-added services, mobile value-added services and Internet value-added services, including caller ID services, SMS, ring tone services, Internet data center and IP-VPN services.
(5) Represents revenues from integrated information application services, including voice-based hotline, IPTV, video monitoring and system integration and consulting services.
(6) Represents revenues from managed data transmission services and lease income from other domestic telecommunications operators and business customers for the usage of our wireline telecommunications networks and equipment.
(7) Represents revenues from sale, rental and repairs and maintenance of equipment.
(8) Represents the amortized amount of the upfront fees received for initial activation of wireline services.

The following table sets forth a breakdown of our operating expenses in terms of amount and as a percentage of our total operating revenues for the periods indicated:

	Year Ended December 31,					
	2009 (restated)		2010 (restated)		2011	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)					
Operating Expenses:						
Depreciation and amortization	52,784	25.2%	52,215	23.7%	51,224	20.9%
Network operations and support expenses(1)(2)	43,721	20.9	47,432	21.6	52,912	21.6
Selling, general and administrative expenses(1)	40,507	19.3	42,130	19.2	48,741	19.9
Personnel expenses	32,857	15.7	35,529	16.2	39,167	16.0
Other operating expenses	17,449	8.3	19,106	8.7	28,868	11.8
Total operating expenses	187,318	89.5%	196,412	89.3%	220,912	90.2%

Table of Contents

(1) Excluding related personnel expenses.
(2) Including impairment loss on property, plant and equipment.

The following table sets forth our operating revenues, operating expenses, operating income and profit attributable to equity holders of the Company in terms of amount and as a percentage of our total operating revenues, and cash flows from operating activities for the periods indicated:

	Year Ended December 31,					
	2009 (restated)		2010 (restated)		2011	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)					
Operating revenues	209,370	100.0%	219,864	100.0%	245,041	100.0%
Operating expenses	187,318	89.5%	196,412	89.3%	220,912	90.2%
Operating income	22,052	10.5%	23,452	10.7%	24,129	9.8%
Profit attributable to equity holders of the Company	13,983	6.7%	15,347	7.0%	16,502	6.7%
Net cash from operating activities	74,988		75,571		73,006	

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations contained elsewhere in this annual report are based on our consolidated financial statements which have been prepared in accordance with IFRS. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments 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 our financial statements. Our principal accounting policies are set forth in detail in Note 2 to our consolidated financial statements included elsewhere in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Accounting for Long-lived Assets

Depreciation. Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. The following estimated useful lives are used for depreciation purposes. These estimated useful lives are based on our historical experience with similar assets and take into account anticipated technological changes.

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

We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Table of Contents

Customer relationships. The customer relationships, as part of the CDMA Business we acquired from China Unicom and CUCL in 2008, were recorded at their fair value on the date of acquisition and are amortized on a straight-line basis over the estimated useful life of five years.

Impairment. The carrying amounts of long-lived assets, including property, plant and equipment, intangible assets, construction in progress and other investments are reviewed periodically in order 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 a cash-generating unit is the greater of its value in use and the net selling price. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risk specific to the asset. The goodwill arising from a business combination, for the purposes of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognized as an expense in the profit or loss. Impairment loss recognized 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 any unit (group of units) on a pro rata basis.

For the year ended December 31, 2008, an impairment loss on property, plant, and equipment of RMB24,167 million was recognized, which primarily represented an impairment loss on PHS specific equipment of RMB23,954 million. The primary factor causing the impairment loss was lower revenues expected to be generated from this equipment following our acquisition of the CDMA Business in 2008. For the year ended December 31, 2009, an impairment loss on property, plant, and equipment of RMB753 million was primarily recognized on DDN specific equipment. This was mainly due to the decrease in customer demand for DDN services and its technology being gradually substituted by other technologies, resulting in a significant decrease in the revenues generated from DDN specific equipment. For the year ended December 31, 2010, an impairment on property, plant and equipment of RMB139 million was recognized on certain of our obsolete telecommunication equipment. For the year ended December 31, 2011, no provision for impairment loss was made against the carrying value of property, plant and equipment.

Revenues Recognition for Upfront Connection and Installation Fees

We defer the recognition of upfront fees for activation of wireline services and wireline installation fees and amortize them over the expected customer relationship period of ten years. The related direct incremental customer acquisition costs (including direct costs of installation) are also deferred and amortized over the same expected customer relationship period. We estimate the expected customer relationship period based on our historical customer retention experience and factoring in the expected level of future competition, the risk of technological or functional obsolescence to our services, technological innovation, and the expected changes in the regulatory and social environment. If our estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of our deferred revenues would change for future periods. There have been no changes to the estimated customer relationship period in any of the three years ended December 31, 2011.

Impairment Losses for Bad and Doubtful Debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of our customers to make the required payments. We base our estimates on the aging of our accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs might be higher than expected.

Amounts due from the provision of telecommunications services to residential and business customers are generally due within 30 days from the date of billing. Customers who have accounts overdue by more than 90 days will have their services disconnected.

The following table summarizes the changes in the provision for impairment losses for bad and doubtful debts for each of the years in the three-year period ended December 31, 2011:

	Year Ended December 31,		
	2009	2010	2011
	(RMB in millions)		
At beginning of year	2,118	2,073	2,024
Allowance for doubtful debts	1,787	1,567	1,383
Accounts receivable written off	(1,832)	(1,616)	(1,465)
At end of year	2,073	2,024	1,942

Recently Issued International Financial Reporting Standards

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

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

We have not adopted the amendments, new standards and interpretations listed above. We are 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 December 31, 2011. So far we believe that the adoption of these amendments, new standards and interpretations may result in new or amended disclosures, but it is unlikely to have a significant impact on our financial position and results of operations.

Table of Contents

A. Operating Results

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Operating Revenues

Our operating revenues increased by RMB25,177 million, or 11.5%, from RMB219,864 million in 2010 to RMB245,041 million in 2011. This increase was primarily driven by the revenues growth from mobile voice services and non-voice services, including Internet access services, value-added services, integrated information application services, managed data and leased line services and other services, which was partially offset by a decrease in revenues from wireline voice services.

Wireline Voice Services. Revenues from our wireline voice services decreased by 20.4%, from RMB62,498 million in 2010 to RMB49,764 million in 2011. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communication, which continued to divert revenues from wireline voice services. Revenues from our wireline voice services accounted for 20.3% of our operating revenues in 2011, compared to 28.4% in 2010.

Mobile Voice Services. Revenues from our mobile voice services increased by 33.6%, from RMB28,906 million in 2010 to RMB38,628 million in 2011, representing 15.8% of our operating revenues in 2011, compare to 13.1% in 2010. This increase was primarily due to the rapid expansion of our mobile services subscriber base. The number of our mobile services subscribers increased to 126.5 million as of December 31, 2011, representing an increase of 39.7% from 90.5 million as of December 31, 2010.

Internet Access Services. Revenues from our Internet access services increased by 17.2% from RMB63,985 million in 2010 to RMB74,992 million in 2011, representing 30.6% of our operating revenues. This increase was primarily due to the continuing expansion of our wireline broadband subscriber base. The number of our wireline broadband subscribers increased to 76.8 million as of December 31, 2011, representing an increase of 13.3 million or, 21.0%, from 63.5 million as of December 31, 2010. The revenues attributable to mobile Internet access services in 2011 was RMB13,301 million, representing an increase of 47.5% from RMB9,020 million in 2010.

Value-Added Services. Revenues from our value-added services increased by 13.1% from RMB22,571 million in 2010 to RMB25,529 million in 2011, representing 10.4% of our operating revenues in 2011. This increase was primarily due to increased revenues from our mobile value-added services, partially offset by a decrease in revenues from wireline value-added services mainly as a result of our declining PHS services. The revenues attributable to mobile value-added services in 2011 was RMB12,067 million, compared to RMB7,858 million in 2010.

Integrated Information Application Services. Revenues from our integrated information application services increased by 31.9% from RMB15,519 million in 2010 to RMB20,473 million in 2011, representing 8.4% of our operating revenues in 2011. This increase was primarily due to the rapid development of our IT applications and services and Best Tone services. The revenues attributable to mobile integrated information application services in 2011 was RMB4,172 million, representing an increase of 117.3% from RMB1,920 million in 2010.

Managed Data and Leased Line Services. Revenues from our managed data and leased line services increased by 15.2%, from RMB12,389 million in 2010 to RMB14,273 million in 2011, representing 5.8% of our operating revenues in 2011. This increase was primarily due to the increasing revenues from domestic circuits leasing services, the IP-VPN services, and optic fiber leasing, driven by the increasing demand from customers for network resources and informatisation.

Other Services. Revenues from other services increased by 57.7%, from RMB13,499 million in 2010 to RMB21,284 million in 2011. The increase in revenues from other services was primarily due to the increase in sales of mobile terminal equipment. The revenues attributable to other mobile services in 2011 was RMB14,453 million, representing an increase of 132.0% from RMB6,231 million in 2010.

Table of Contents

Upfront Connection Fees. Upfront connection fees represent the amortized amount of the upfront fees received from the initial activation of our wireline services. These upfront fees are deferred and amortized as revenues over a 10-year period. Due to a regulation change effective as of July 1, 2001 that abolished all surcharges in relation to telecommunications services, we ceased charging upfront connection fees to new subscribers. In June 2011, we fully amortized the remaining upfront connection fee of RMB98 million, representing a decrease of 80.3% from RMB497 million in 2010.

Operating Expenses

Total operating expenses increased by 12.5%, from RMB196,412 million in 2010 to RMB220,912 million in 2011. The increase in operating expenses was primarily due to increased network operations and support expenses, selling, general and administrative expenses as well as other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses decreased by 1.9%, from RMB52,215 million in 2010 to RMB51,224 million in 2011, mainly due to our continuous stringent control of capital expenditure in 2011. The depreciation and amortization expenses as a percentage of our operating revenues decreased from 23.7% in 2010 to 20.9% in 2011.

Network Operations and Support Expenses. Our network operations and support expenses increased by 11.6%, from RMB47,432 million in 2010 to RMB52,912 million in 2011, which was primarily attributable to the increased CDMA network capacity lease fees. Our CDMA network capacity lease fee increased by 42.7% from RMB13,320 million in 2010 to RMB19,011 million in 2011, corresponding to the increase in our mobile services revenues during such period.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 15.7% from RMB42,130 million in 2010 to RMB48,741 million in 2011. The increase was primarily due to the increased marketing expenditure for our mobile services and broadband services.

Personnel Expenses. Personnel expenses increased by 10.2%, from RMB35,529 million in 2010 to RMB39,167 million in 2011. This increase was primarily attributable to our performance based incentive schemes to motivate talents and our frontline employees.

Other Operating Expenses. Our other operating expenses primarily consisted of interconnection charges, cost of goods sold, donations and other expenses. Our other operating expenses were RMB28,868 million in 2011, increased by 51.1% from RMB19,106 million in 2010, largely corresponding to an increase in sales of mobile terminal equipments.

Net Finance Costs

In 2011, our net finance costs decreased by 37.4% from RMB3,600 million in 2010 to RMB2,254 million in 2011. Our interest expense decreased by 28.6%, or RMB1,085 million, from RMB3,795 million in 2010 to RMB2,710 million in 2011, mainly due to the decreased amount of our interest bearing debts in 2011 compared to 2010.

The net exchange gain was RMB51 million in 2011, compared to a net exchange loss of RMB92 million in 2010, which was mainly due to the appreciation of RMB against the Japanese Yen in 2011. According to the exchange rates published by the People s Bank of China on December 31, 2011, the exchange rate of Renminbi appreciated by 0.2% against the Japanese Yen from December 31, 2010.

Income Tax

In 2011, our income tax expense was RMB5,416 million with an effective tax rate of 24.6%. Our expected income tax expense at our statutory tax rate of 25.0% in 2011 would be RMB5,503 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the preferential income tax rate applicable to our branches located in special economic zones of China and certain subsidiaries. See Note 25 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25.0%.

According to the EIT Law and its implementing regulations, the corporate income tax rate for entities other than certain high-tech enterprises and small enterprises earning a small profit, as defined in the EIT Law, has been revised to 25.0%. In addition, entities that are taxed at preferential rates are subject to a five-year transition period from January 1, 2008 during which the tax rates will gradually be increased to the unified rate of 25.0%. Based on a tax notice issued by the State Council on December 26, 2007, the applicable tax rates for entities operating in special economic zones, such as some branches of ours, which were previously taxed at the preferential rate of 15.0%, are 18.0%, 20.0%, 22.0%, 24.0% and 25.0% in 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Profit Attributable to Equity Holders of the Company

As a result of foregoing, the profit attributable to equity holders of the Company was RMB16,502 million in 2011, with a net margin of 6.7%, compared to profit attributable to equity holders of the Company of RMB15,347 million with a net margin of 7.0% in 2010.

Foreign Currency Fluctuation Impact

See Item 3. Key Information D. Risk Factors Risks Relating to the People s Republic of China Fluctuation of the Renminbi could materially affect our financial condition and results of operations and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Rate Risk.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Operating Revenues

Our operating revenues grew by RMB10,494 million, or 5.0%, from RMB209,370 million in 2009 to RMB219,864 million in 2010. This increase was primarily driven by the revenues growth from mobile voice services and non-voice services, including Internet access services, value-added services, integrated information application services, managed data and leased line services and other services, which was partially offset by a decrease in revenues from wireline voice services.

Wireline Voice Services. Revenues from our wireline voice services decreased by 20.3%, from RMB78,432 million in 2009 to RMB62,498 million in 2010. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communication, such as VoIP, which continued to divert revenues from wireline voice services, as well as a decrease in revenues from our PHS services. Revenues from our wireline voice services accounted for 28.4% of our operating revenues in 2010, compared to 37.5% in 2009.

Mobile Voice Services. Revenues from our mobile voice services increased by 44.3%, from RMB20,027 million in 2009 to RMB28,906 million in 2010, representing 13.1% of our operating revenues in 2010, compare to 9.6% in 2009. This increase was primarily due to the rapid expansion of our mobile services subscriber base. The number of our mobile services subscribers increased to 90.5 million as of December 31, 2010, representing an increase of 61.4% from 56.1 million as of December 31, 2009.

Internet Access Services. Revenues from our Internet access services increased by 24.1% from RMB51,567 million in 2009 to RMB63,985 million in 2010, representing 29.1% of our operating revenues. This increase was primarily due to the continuing expansion of our wireline broadband subscriber base. The number of our wireline broadband subscribers increased to 63.5 million as of December 31, 2010, representing an increase of 10.0 million or, 18.7%, from 53.5 million as of December 31, 2009. The revenues attributable to mobile Internet access services in 2010 was RMB9,020 million, representing an increase of 139.9% from RMB3,760 million in 2009.

Value-Added Services. Revenues from our value-added services increased by 4.8% from RMB21,533 million in 2009 to RMB22,571 million in 2010, representing 10.3% of our operating revenues in 2010. This increase was primarily due to increased revenues from our mobile value-added services, partially offset by a decrease in revenues from wireline value-added services mainly as a result of our declining PHS services. The revenues attributable to mobile value-added services in 2010 was RMB7,858 million, compared to RMB5,602 million in 2009.

Table of Contents

Integrated Information Application Services. Revenues from our integrated information application services increased by 22.6% from RMB12,659 million in 2009 to RMB15,519 million in 2010, representing 7.1% of our operating revenues in 2010. This increase was primarily due to the rapid development of our IT applications and services and Best Tone services. The revenues attributable to mobile integrated information application services in 2010 was RMB1,920 million, representing an increase of 216.3% from RMB607 million in 2009.

Managed Data and Leased Line Services. Revenues from our managed data and leased line services increased by 7.7%, from RMB11,499 million in 2009 to RMB12,389 million in 2010, representing 5.6% of our operating revenues in 2010. This increase was primarily due to the increasing revenues in leased circuits services, the IP-VPN services, and leased equipment for system integration and Mega-Eye services, driven by the increasing demand from customers for network resources and informatisation.

Other Services. Revenues from other services increased by 8.0%, from RMB12,502 million in 2009 to RMB13,499 million in 2010. The increase in revenues from other services was primarily due to the increase in sales of mobile terminal equipment and system integration equipment. The revenues attributable to other mobile services in 2010 was RMB6,231 million, representing an increase of 10.9% from RMB5,617 million in 2009.

Upfront Connection Fees. Upfront connection fees represent the amortized amount of the upfront fees received from the initial activation of our wireline services. These upfront fees are deferred and amortized as revenues over a 10-year period. Due to a regulation change effective as of July 1, 2001 that abolished all surcharges in relation to telecommunications services, we ceased charging upfront connection fees to new subscribers. Consequently, the amortized amount decreased by 56.8%, from RMB1,151 million in 2009 to RMB497 million in 2010. We expect the remaining upfront connection fee of RMB98 million to be fully amortized in 2011.

Operating Expenses

Total operating expenses increased by 4.9%, from RMB187,318 million in 2009 to RMB196,412 million in 2010. The total operating expenses included impairment losses on property, plant and equipment of RMB753 million and RMB139 million recognized in 2009 and 2010, respectively. The increase in operating expenses was primarily due to increased network operations and support expenses, selling, general and administrative, personnel expenses as well as other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses decreased by 1.1%, from RMB52,784 million in 2009 to RMB52,215 million in 2010, mainly due to our continuous stringent control of capital expenditure in 2010. The depreciation and amortization expenses as a percentage of our operating revenues decreased from 25.2% in 2009 to 23.7% in 2010.

Network Operations and Support Expenses. Our network operations and support expenses, which included impairment losses on property, plant and equipment, increased by 8.5%, from RMB43,721 million in 2009 to RMB47,432 million in 2010, which was primarily attributable to the increased CDMA network capacity lease fees and the increased expenditure in network maintenance and our Transformation Business. Our CDMA network capacity lease fee increased by 58.9% from RMB8,383 million in 2009 to RMB13,320 million in 2010, corresponding to the increase in our mobile service revenues during that period.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 4.0% to RMB42,130 million in 2010 from RMB40,507 million in 2009. The increase was primarily due to the increased expenditure in marketing and in expanding distribution channels for our mobile services, partially offset by a decrease in general and administrative expenses due to our effective cost control.

Personnel Expenses. Personnel expenses increased by 8.1%, from RMB32,857 million in 2009 to RMB35,529 million in 2010. This increase was primarily attributable to the enhancement of our performance-based incentive schemes of the frontline employees.

Table of Contents

Other Operating Expenses. Our other operating expenses primarily consisted of interconnection charges, cost of goods sold, donations and other expenses. Our other operating expenses were RMB19,106 million in 2010, increased by 9.5% from RMB17,449 million in 2009, which was primarily attributable to an increase in expenses incurred in connection with the mobile interconnection settlement for mobile services. Our expenses incurred in mobile the interconnection settlement for mobile services were RMB5,821 million in 2010, representing an increase of 67.9% from RMB3,467 million in 2009, primarily due to the growth of our mobile services during that period.

Net Finance Costs

In 2010, our net finance costs decreased by 17.7% from RMB4,375 million in 2009 to RMB3,600 million in 2010. Our interest expense decreased by 19.7 %, or RMB929 million, from RMB4,724 million in 2009 to RMB3,795 million in 2010. The decreases were mainly due to our increased repayment of the bank loans and other loans in 2010.

The net exchange loss was RMB92 million in 2010, while the net exchange gain was RMB67 million in 2009, which was mainly due to the depreciation of RMB against the Japanese Yen in 2010. According to the exchange rates published by the People s Bank of China on December 31, 2010, the exchange rate of Renminbi depreciated by 10.1% against the Japanese Yen from December 31, 2009.

Income Tax

In 2010, our income tax expense was RMB4,846 million with an effective tax rate of 23.9%. Our expected income tax expense at our statutory tax rate of 25.0% in 2010 would be RMB5,078 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the exclusion of the upfront connection fees from taxable revenues and the preferential income tax rate of 22.0% or 15.0% applied to some of our branches located in special economic zones and in the western region of the PRC. See Note 25 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25.0%.

Based on a tax notice issued by the State Council on December 26, 2007, the applicable tax rate for entities operating in the western region of the PRC which were granted a preferential tax rate of 15.0% from 2004 to 2010, such as some branches of ours, remains at 15.0% in 2008, 2009 and 2010 and will be increased to 25.0% from January 1, 2011.

Profit Attributable to Equity Holders of the Company

As a result of foregoing, the profit attributable to equity holders of the Company was RMB15,347 million in 2010, with a net margin of 7.0%, compared to profit attributable to equity holders of the Company of RMB13,983 million with a net margin of 6.7% in 2009.

Foreign Currency Fluctuation Impact

See Item 3. Key Information D. Risk Factors Risks Relating to the People s Republic of China Fluctuation of the Renminbi could materially affect our financial condition and results of operations and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Rate Risk.

Table of Contents

B. Liquidity and Capital Resources

Cash Flows and Working Capital

The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Net cash generated from operating activities	74,988	75,571	73,006
Net cash used in investing activities	(43,255)	(45,734)	(43,637)
Net cash used in financing activities	(24,793)	(38,771)	(27,720)
Increase/(decrease) in cash and cash equivalents	6,940	(8,934)	1,649

Cash and cash equivalents increased by 6.0%, from RMB25,824 million as of December 31, 2010, of which 91.2% was denominated in RMB to RMB27,372 million as of December 31, 2011, of which 94.4% was denominated in RMB. Our net cash inflow was RMB1,649 million in 2011, as compared with a net cash outflow of RMB8,934 million in 2010.

Our principal source of liquidity is cash generated from operating activities, which was RMB73,006 million in 2011, a decrease of RMB2,565 million from RMB75,571 million in 2010.

Net cash used in investing activities decreased by RMB2,097 million from RMB45,734 million in 2010 to RMB43,637 million in 2011 primarily as a result of an increase in proceeds from the disposal of assets compared to 2010, and the payment of purchase price for the CDMA business of RMB5,374 million in 2010, which was partially offset by increased capital expenditure.

Net cash used in financing activities was RMB27,720 million in 2011 compared to RMB38,771 million net cash used in financing activities in 2010. This decrease in cash outflow was primarily due to our decreased repayment of bank loans and other loans in 2011.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB67,682 million as of December 31, 2011, compared to a deficit of RMB71,678 million as of December 31, 2010.

We estimate that our current cash and cash equivalents, together with our existing credit facilities from domestic commercial banks, cash flows from operating activities, as well as funds available from short-term and long-term bank borrowings and commercial paper, will be sufficient to satisfy our future working capital requirements and capital expenditures through the end of 2012. We have established and maintained high credit ratings with our principal domestic commercial lenders, which have facilitated our ability to obtain short-term and long-term credit on favorable terms to meet our financing requirements. As of December 31, 2011, we had available credit facilities of RMB118,970 million with major domestic commercial banks, from which we can draw upon. We intend to fund our planned acquisition of China Telecom Group s CDMA network in 2012, if consummated, by means to be determined by taking into account our liquidity needs, the condition of the capital markets and other relevant factors, and in the interest of the Company and our shareholders.

Indebtedness

Our indebtedness as of the dates indicated was as follows:

	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Short-term debt	51,650	20,675	9,187
Current portion of long-term debt	1,487	10,352	11,766
Current portion of finance lease obligations	18		
Long-term debt, excluding current portion	52,768	42,549	31,150

Total debt	105,923	73,576	52,103

Table of Contents

Our short-term debt constituted 17.6% of our total debt as of December 31, 2011. The weighted average interest rate of our short-term debt was 5.9% as of December 31, 2011, representing an increase of 1.6 percentage points from that as of December 31, 2010.

Our total debt decreased by RMB21,473 million from RMB73,576 million as of December 31, 2010 to RMB52,103 million as of December 31, 2011, primarily due to our repayment of a portion of bank loans and other debts. Our debt-to-asset ratio (total debt divided by total assets) decreased from 17.5% in 2010 to 12.4% in 2011. We believe that our Company has maintained a solid capital structure.

Our long-term debt (including current portion) decreased from RMB52,901 million as of December 31, 2010 to RMB42,916 million as of December 31, 2011. In addition, our short-term debt decreased from RMB20,675 million as of December 31, 2010 to RMB9,187 million as of December 31, 2011.

Of our total debt as of December 31, 2011, 94.7%, 3.1%, 1.3% and 0.9% were denominated in Renminbi, Japanese Yen, U.S. dollars and Euros, respectively.

Our short-term and long-term debt does not contain any financial covenants which materially restrict our operations.

Capital Expenditure

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures for the periods after December 31, 2011 may differ from the amounts indicated below.

	Year Ended December 31,		
	2010	**2011**	**2012 (Planned)**
	(RMB in millions)		
Total capital expenditure	43,037	49,551	54,000

In 2011, we continued to increase investment in upgrading our broadband network to improve the coverage of our optic fiber network as well as the connection speed. Focusing on investment return, we continued to improve our capital expenditure structure and control capital expenditure in connection with traditional wireline voice services and telecommunications infrastructure. In 2011, our capital expenditure was RMB49,551 million, an increase of 15.1% from RMB43,037 million in 2010.

Our capital expenditure for 2012 is projected to be approximately RMB54,000 million, a portion of which will be invested in the project Broadband China Fiber Cities, through which we seek to upgrade bandwidth access capacity of our broadband network across cities nationwide.

Capital Resources

The main sources of our capital expenditure are cash generated from operating activities, bank borrowings and other indebtedness. We expect that we will have sufficient funding sources to meet our capital expenditure requirements in the future.

C. Research and Development, Patents and Licenses, etc.

Our emphasis on research and development has contributed to the development of our advanced network, system, and the rollout of our new applications and services. Our researchers focus on network planning and support, new technology trials, market evaluation, investment-related financial analysis and other key areas. Specific areas of research include fiber optic transmission technology, mobile communications technology, next generation networks, broadband access, data communications, operation and service support systems and development of value-added services.

Table of Contents

D. Trend Information.

Please also refer to our discussion in each section of Overview and A. Operating Results included elsewhere under this Item.

E. Off-Balance Sheet Arrangements

As of December 31, 2011, we did not have any off-balance sheet arrangements or guarantees.

F. Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2011:

			Payable in				
	Total	**2012**	**2013**	**2014**	**2015**	**2016**	**After 2016**
			(RMB in millions)				
Contractual Obligations[(1)]:							
Short-term debt	9,187	9,187					
Long-term debt	42,916	11,766	10,188	20,049	89	89	735
Interest payable	4,375	1,951	1,404	970	7	7	36
Operating lease commitments	21,103	18,182	782	600	413	450	676
Capital commitments	6,369	6,369					
Total contractual obligations	83,950	47,455	12,374	21,619	509	546	1,447

(1) See Item 11. Quantitative and Qualitative Disclosures about Market Risk for the contractual obligations relating to interest payments.

Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

Directors and Senior Officers

Pursuant to our Articles of Association, our directors must be elected by our shareholders at a general meeting. Our directors are generally elected for a term of three years and may serve consecutive terms if re-elected. On May 20, 2011, election of new members and re-election of current members of the Board of Directors was conducted which resulted in the fourth session of the Board of Directors, consisting of 14 directors with eight Executive Directors, one Non-Executive Director, and five Independent Non-Executive Directors, each having a term of office of three years.

Effective as of July 13, 2011, Mr. Shang Bin resigned from his positions as an Executive Director, the President and the Chief Operating Officer of our Company. Effective as of March 20, 2012, Mr. Zhang Chenshuang retired from his positions as an Executive Director and Executive Vice President of our Company. The Board of Directors has appointed Mr. Ke Ruiwen as an Executive Vice President of our Company effective as of March 20, 2012, and proposed that he be appointed as an Executive Director of our Company subject to approval at the shareholders meeting. Our Board of Directors currently consists of 12 directors with six Executive Directors, one Non-Executive Director, and five Independent Non-Executive Directors.

The following table sets forth certain information concerning our current directors and executive officers. The business address of each of our directors and executive officers is 31 Jinrong Street, Xicheng District, Beijing, PRC 100033.

Table of Contents

Name	Age	Position
Wang Xiaochu	54	Chairman of the Board of Directors and Chief Executive Officer
Yang Jie	50	Executive Director, President and Chief Operating Officer
Wu Andi	57	Executive Director, Executive Vice President and Chief Financial Officer
Zhang Jiping	56	Executive Director and Executive Vice President
Li Ping	58	Executive Vice President
Yang Xiaowei	48	Executive Director and Executive Vice President
Sun Kangmin	55	Executive Director and Executive Vice President
Ke Ruiwen	49	Executive Vice President
Li Jinming	60	Non-Executive Director
Wu Jichuan	74	Independent Non-Executive Director
Qin Xiao	64	Independent Non-Executive Director
Tse Hau Yin, Aloysius	64	Independent Non-Executive Director
Cha May Lung, Laura	62	Independent Non-Executive Director
Xu Erming	62	Independent Non-Executive Director
Yung Shun Loy, Jacky	49	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary
Gao Jinxing	49	Financial Controller

Wang Xiaochu, age 54, is the Chairman of the Board of Directors and Chief Executive Officer of our Company. He graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang Province, Director General of the Tianjin Posts and Telecommunications Administration, Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited, Vice President of China Mobile Group, President of China Telecommunications Corporation, and Chairman and Non-Executive Director of China Communications Services Corporation Limited. He is also the Chairman of China Telecommunications Corporation and the Honorary Chairman of China Communications Services Corporation Limited. He was responsible for the development of China Telecom s telephone network management systems and various other information technology projects and as a result, received the Third-Class Award from the State Scientific and Technological Progress Award and the First-Class Award from the former Ministry of Posts and Telecommunications, or the MPT Scientific and Technological Progress Award. Mr. Wang has over 30 years of management experience in the telecommunications industry.

Yang Jie, age 50, is an Executive Director of our Company and has been the President and Chief Operating Officer of our Company since November 2, 2011. He is a professor-level senior engineer. He graduated from Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration, or DBA, from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute and General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation. He is also the President of China Telecommunications Corporation. Mr. Yang has 28 years of operational and managerial experience in the PRC telecommunications industry.

Wu Andi, age 57, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. She is responsible for the financial management of our Company. Madam Wu is a senior accountant. She graduated from the Beijing Institute of Economics with a bachelor s degree in finance and trading in 1983, and studied in a postgraduate program in business economics management at the Chinese Academy of Social Sciences from 1996 to 1998. Madam Wu studied in the master of business administration program at the Guanghua School of Management, Peking University from 2002 to 2003 and received an executive master s degree of business administration. Prior to joining China Telecommunications Corporation in May 2000, she served as Director General of the Department of Economic Adjustment and Communication Settlement of the MII, and Director General, Deputy Director General and Director of the Department of Finance of the MPT. She is also a Vice President of China Telecommunications Corporation. Ms. Wu has 30 years of economic and financial management experience in the telecommunications industry in the PRC.

Zhang Jiping, age 56, is an Executive Director and Executive Vice President of our Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor s degree in radio telecommunications engineering in 1982, studied in a postgraduate program in applied computer engineering at Northeastern Industrial University from 1986 to 1988, and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2004. Prior to joining China Telecommunications Corporation in May 2000, he served as Deputy Director General of Directorate General of Telecommunications, or the DGT, of the MPT, a Deputy Director General and Director of the Telecommunications Technology Center of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has 30 years of experience in network operation and management in the telecommunications industry in the PRC.

Li Ping, age 58, is an Executive Vice President of our Company. Mr. Li graduated from the Beijing University of Posts and Telecommunications with a major in radio telecommunications in 1976 and received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. He served as Executive Director of our Company, Chairman and President of China Telecom (Hong Kong) International Limited, Vice Chairman and Executive Vice President of China Mobile (Hong Kong) Limited, Deputy Director General of the DGT of the MPT. He is also a Vice President of China Telecommunications Corporation, and Chairman of the Board of Directors and an Executive Director of China Communications Services Corporation Limited. Mr. Li has extensive experience in managing public companies and 36 years of operational and managerial experience in the telecommunications industry in the PRC.

Yang Xiaowei, age 48, is an Executive Director and Executive Vice President of our Company. Mr. Yang is a senior engineer. He received a bachelor s degree from the Computer Application Department of Chongqing University in 1998 and a master s degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director and Deputy Director of Chongqing Telecommunications Bureau, a Deputy Director of the Chongqing Telecommunications Administration Bureau and a Director of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the China United Telecommunications Corporation, Vice President of the China United Telecommunications Corporation, Director of China United Telecommunications Corporation and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of CUCL and Chairman of Unicom Huasheng. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Sun Kangmin, age 55, is an Executive Director and Executive Vice President of our Company. He is a senior engineer. He holds a bachelor s degree. Mr. Sun served as Deputy Director General and Chief Engineer of Chengdu Telecommunications Bureau, Deputy Director General of Sichuan Posts and Telecommunications Administration, Head of the Information Industry Department of Sichuan Province, Director General of Communications Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation. Mr. Sun has 28 years of operational and managerial experience in the telecommunications industry in the PRC.

Ke Ruiwen, age 49, is an Executive Vice President of the Company. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation. Mr. Ke has 26 years of operational and managerial experience in the telecommunications industry in China.

Li Jinming, age 60, is a Non-Executive Director of our Company, Chairman of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company) and Chairman of Shenzhen Zhongjin Lingnan Nonfemet Company Limited. Mr. Li graduated from Guangdong Radio and TV University, and holds an EMBA degree from Lingnan College, Zhong Shan University after the completion of his study in the postgraduate program of international economics and industrial commerce management. Mr. Li served as Chief and Deputy Director General of the Guangdong Provincial Discipline Inspection Commission, and Director and Deputy General Manager of Guangdong Rising Assets Management Co., Ltd. Mr. Li has extensive experience in enterprise management.

Table of Contents

Wu Jichuan, age 74, is an Independent Non-Executive Director of our Company. He is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Telecommunications and Economics Specialists Committee, Director General of the Chinese Institute of Electronics, and Honorary Director General of the Chinese Institute of Communications. Mr. Wu graduated from Beijing Institute of Posts and Telecommunications with a major in wired telecommunications engineering in 1959. Mr. Wu served as Vice Minister and Minister of the MPT, Deputy Director of the PRC Committee of the Radio Management, Vice Leader of the Informatization Leading Group of the State Council, Minister of the MII, a member of the Eighth & the Tenth National People s Congress, a member of the Standing Committee of the Tenth National People s Congress and Vice Chairman of the Subcommittee of Education, Science, Culture, Health and Sports of the Tenth National People s Congress.

Qin Xiao, age 64, is an Independent Non-Executive Director of our Company. He has a Ph.D. in economics from University of Cambridge. He is an Independent Non-Executive Director of HKR International Limited, AIA Group Limited and China World Trade Center Company Limited. Mr. Qin is a member of the Eleventh Chinese People s Political Consultative Conference and a part-time professor at the School of Economics and Management of Tsinghua University and the Graduate School of the People s Bank of China. He served as the Chairman of China Merchants Bank Co., Ltd. and China Merchants Group Limited, President and Vice Chairman of China International Trust and Investment Corporation, or CITIC, and Chairman of CITIC Industrial Bank. Mr. Qin was a deputy to the Ninth National People s Congress, a member of the Tenth Chinese People s Political Consultative Conference, an advisor on the Foreign Currency Policy of the State Administration of Foreign Exchange, and a member of Toyota International Advisory Board. Mr. Qin also served as Chairman of APEC Business Advisory Council for the Year 2001. His papers and books in economics, management and social transformation have been published in China and abroad.

Tse Hau Yin, Aloysius, age 64, is an Independent Non-Executive Director of the Company. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Wing Hang Bank Limited, Linmark Group Limited, Sinofert Holdings Limited and SJM Holdings Limited. Mr. Tse was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010. He is also a member of the International Advisory Council of the People s Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. Mr. Tse is a former president and a current member of the Audit Committee of the Hong Kong Institute of Certified Public Accountants. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a Non-Executive Chairman of KPMG s operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

Cha May Lung, Laura, age 62, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the Eleventh National People s Congress of the PRC, a Member of the Standing Committee of the Chinese People s Political Consultative Conference Shanghai Committee, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission, and a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region. She is the Non-Executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is a Non-Executive Director. She is also an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited and Tata Consultancy Services Limited. She is member of the Banking & Capital Markets Industry Agenda Council 2011 of the World Economic Forum and a member of the Yale School of Management Board of Advisors. Mrs. Cha served as a Vice Chairwoman of the China Securities Regulatory Commission from January 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director and Deputy Chairwoman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University in 1982.

Table of Contents

Xu Erming, age 62, is an Independent Non-Executive Director of our Company. He is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, Deputy Secretary-General of the Tenth Session of the Academic Committee, and a member of the Third Session of the University Affairs Committee of the Renmin University of China, Associate Convener of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, Vice Chairman of the Chinese Enterprise Management Research Association, and Chairman of Beijing Contemporary Enterprise Research Association. He is also entitled to the State Council s special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited (formerly known as Harbin Power Equipment Company Limited). Professor Xu has conducted research in the areas of strategic management, organizational theories, international management and education management. He has completed numerous research projects sponsored by the PRC National Natural Science Foundation, the PRC National Social Science Foundation and other institutions in the PRC. He has received many awards such as the Ministry of Education s Class One Excellent Higher Education Textbook Award and the State-Level Class Two Teaching Award. Professor Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. He previously lectured at the State University of New York at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and Hong Kong Polytechnic University.

Yung Shun Loy, Jacky, age 49, is the Assistant Chief Financial Officer, Qualified Accountant and Company Secretary of our Company. Mr. Yung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of United Kingdom, and a Certified Practising Accountant in Australia. He has a bachelor s degree in laws and a bachelor s degree in social sciences. Mr. Yung has over 20 years of experience in auditing, and acting as company secretary and senior financial management member of listed companies.

Gao Jinxing, age 49, is the Financial Controller of the Company. Mr. Gao is a senior economist and has a master s degree. Mr. Gao served as the Deputy Chief Economist and Head of Financial Planning and Supply Department of Fuzhou Telecommunications Bureau, Deputy Director General and Chief Accountant of Sanming Posts and Telecommunications Bureau, Deputy Director and Director of Finance Department of the Posts and Telecommunications Administration of Fujian province, Deputy General Manager, and the Financial Controller and the Chairman of the Labour Union of China Telecom Fujian branch.

There is no family relationship between any of our directors or executive officers.

Supervisors

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory committee. At the annual general meeting held on May 20, 2011, the shareholders of the Company approved the expansion of our supervisory committee by one member to six Supervisors. One member of our supervisory committee must be an employee representative elected by our employees. The remaining members must be appointed by shareholders at a general meeting. The term of office of our Supervisors is three years, which is renewable upon re-election or re-appointment. On May 20, 2011, Mr. Mao Shejun replaced Mr. Ma Yuzhu as the employee representative Supervisor of the Company, and Mr. Du Zuguo was appointed at the annual general meeting as a Supervisor of the Company.

The following table sets forth certain information concerning our Supervisors:

Name	Age	Position
Miao Jianhua	60	Chairman of the Supervisory Committee
Zhu Lihao	71	Independent Supervisor
Mao Shejun	58	Supervisor (Employee Representative)
Xu Cailiao	48	Supervisor
Han Fang	39	Supervisor
Du Zuguo	49	Supervisor

Miao Jianhua, age 60, is Chairman of the Supervisory Committee of our Company. He is the head of the Discipline Inspection Division of China Telecom Group. Mr. Miao obtained a master s degree in management from the Australian National University. Mr. Miao held senior positions at the former Jilin Provincial Administration of Posts and Telecommunications and served as a Director of the Inspection Bureau of the former MPT and the MII. Mr. Miao also served as the General Manager of the Human Resources Department of China Network Communications Group Corporation and China Netcom Group Corporation (Hong Kong) Limited, Assistant to President of China Network Communications Group Corporation, Executive Director and the Joint Company Secretary of China Netcom Group Corporation (Hong Kong) Limited, the head of the Discipline Inspection Division and the Chairman of the union of China United Telecommunications Corporation, Executive Director of China Unicom Limited and Chairman of the Supervisory Committee of China United Telecommunications Corporation Limited. Mr. Miao is a senior economist and has extensive management experience in working for the government and enterprises in the PRC.

- 51 -

Table of Contents

Zhu Lihao, age 71, is an Independent Supervisor of the Supervisory Committee of our Company. Ms. Zhu is a senior auditor and a qualified accountant in the PRC. She graduated from Beijing Graduate School of Mining and Technology with a major in engineering economics in 1963. Ms. Zhu served as a Deputy Director General, Director General, Director and Deputy Director of the Department of Industry and Communications of the National Audit Bureau of the PRC, and the Director General of the Department of Foreign Affairs and Foreign-related Auditing of the Audit Bureau. Ms. Zhu has over 40 years of experience in management and auditing.

Mao Shejun, age 58, has been an Employee Representative Supervisor of the Supervisory Committee of our Company since May 20, 2011. Mr. Mao is currently the Vice Chairman of the Labour Unions of our Company and China Telecom Group. Mr. Mao holds a master s degree in management from the Australian National University. Mr. Ma served as Human Resources Officer of the former Hubei Posts and Telecommunications Administration and Managing Director of the Human Resources Department of our Company. Mr. Mao is a senior economist and has over 30 years of experience in operation and management in the telecommunications industry.

Xu Cailiao, age 48, is a Supervisor of the Supervisory Committee of our Company. Mr. Xu is a senior manager of the Sideline Industrial Management Department of China Telecom Group. He is also a Director of Strategic Marketing (Domestic) Department of China Communications Services Corporation Limited. He graduated from the Law School of Peking University with a master s degree in law in 1987. He served as a Director of the State Commission for Economic Restructuring, Managing Director of the Hong Kong branch of Irico Group and Director of the Corporate Strategy Department of the Company. He was qualified to practice law in China in 1988. Mr. Xu is highly experienced in respect of corporate governance, organizational development and process management.

Han Fang, age 39, is a Supervisor of the Supervisory Committee of our Company. Ms. Han is a Vice President of China Telecom (Hong Kong) International Ltd. Ms. Han graduated from Beijing University of Posts and Telecommunications with a bachelor s degree in engineering management in 1995. She obtained a master s degree in business administration from the Norwegian School of Management in 2007. She worked in finance-related areas when serving in the China Huaxin Post and Telecommunications Economy Development Centre and the audit department of China Telecom Group. Ms. Han is an international internal auditor, a qualified accountant in the PRC and a senior accountant and has 17 years of finance and audit experience.

Du Zuguo, age 49, has been a Supervisor of the Supervisory Committee of our Company since May 20, 2011. Mr. Du is a senior economist. He is the General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of our Company), Chairman and Chief Executive Officer of Zhejiang venture capital fund of funds management Co., Ltd., and Chairman of Zhejiang SME Re-guarantee Co., Ltd. Mr. Du served as Section Chief, Deputy Director General and Director General of Zhoushan Finance and Local Tax Bureau in Zhejiang province. Mr. Du is a Chinese Communist Party Committee member of Zhejiang Provincial Department of Finance. Mr. Du has extensive experience in government s work and large-scale state-owned enterprise management.

Table of Contents

B. Compensation

Compensation of Directors and Supervisors

Our directors and supervisors receive compensation in the form of fees, salaries, allowances and benefits in kind, including our contribution to the pension plans for our directors and supervisors. The aggregate amount of compensation we paid to our directors and Supervisors as a group for the year ended December 31, 2011 was approximately RMB16.9 million. The following table sets forth the compensation received or receivable by our Company s directors and supervisors:

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

(1) Mr. Shang Bing resigned as an executive director of the Company, effective July 13, 2011.
(2) Mr. Zhang Chenshuang retired as an executive director of the Company, effective March 20, 2012.
(3) On May 20, 2011, Mr. Mao Shejun replaced Mr. Ma Yuzhu as the employee representative supervisor of the Company, and Mr. Du Zuguo was appointed as a supervisor of the Company.

Discretionary Bonuses for Executive Directors

Compensation of our Executive Directors is determined pursuant to our director compensation plans thereof approved and adopted in 2008 and 2011 by the Board of Directors and the Remuneration Committee. Under the director compensation plan, Executive Directors receive discretionary bonuses subject to achievement of certain performance targets. The amounts of discretionary bonuses are reviewed and determined annually, with reference to certain financial indicators of the preceding year. Independent directors and non-executive directors do not receive any discretionary bonus.

Discretionary Bonuses for Employee Supervisors

Certain of our supervisors are also our employees. Such employee supervisors are entitled to receiving discretionary bonuses under our compensation policies that are generally applicable to all employees. The amounts of such discretionary bonuses are determined with reference to the performance of the department in which an employee serves as well as his or her individual performance. The amounts of discretionary bonuses are reviewed and determined annually, based on the review of performance in the preceding year. Non-employee supervisors do not receive any discretionary bonus from our Company.

Stock Appreciation Rights

We implemented a plan of stock appreciation rights for members of our senior management in order to provide further incentives for these employees. The plan is designed to link the financial interests of our senior management with our future results of operations and the performance of our H shares. The number of stock appreciation right units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation. Under this plan, stock appreciation rights were 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 Renminbi, 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 our Company s H shares at the date of exercise based on the applicable exchange rate between Renminbi and Hong Kong dollar at the date of the exercise.

In March 2003, we approved the granting of 276.5 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from date of grant and an exercise price of HK$1.48 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 18 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25.0%, 50.0%, 75.0% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

In April 2005, we approved the granting of 560.0 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from date of grant and an exercise price of HK$2.78 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25.0%, 50.0%, 75.0% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

In January 2006, we approved the granting of 837.3 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from the date of grant and an exercise price of HK$2.85 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25.0%, 50.0%, 75.0% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

During the years ended December 31, 2009, 2010 and 2011, 0.2 million, 483 million and 412 million stock appreciation right units were exercised, respectively.

We recognize compensation expense of the stock appreciation rights over the applicable vesting period. Changes in our payment obligation under the stock appreciation rights plan resulting from changes in fair value of our H shares for the period subsequent to the vesting period through the date of the exercise are also reflected in our earnings. For the year ended December 31, 2009, compensation expense recognized in respect of stock appreciation rights was RMB56 million. For the year ended December 31, 2010, compensation expense recognized in respect of stock appreciation rights was RMB592 million. For the year ended December 31, 2011, compensation expense recognized in respect of stock appreciation rights was RMB328 million.

Table of Contents

C. Board Practices

General

Pursuant to our Articles of Association, our directors must be elected by our shareholders at a general meeting. Our directors are generally elected for a term of three years and may serve consecutive terms if re-elected. On May 20, 2011, election of new members and re-election of current members of the Board of Directors were conducted and this election generated the fourth session of the Board of Directors consisting of 14 directors with eight executive directors, one non-executive director, and five independent non-executive directors, each having a period of office of three years. The term of the fourth session of the Board of Directors ends on the day of our annual general meeting in 2014, upon which the fifth session of the Board of Directors will be elected. None of the service contracts with our directors provide benefits to them upon termination.

Effective as of July 13, 2011, Mr. Shang Bin resigned from his position as an executive director, the President and the Chief Operating Officer of our Company. Effective as of March 20, 2012, Mr. Zhang Chenshuang retired from his position as an executive director and Executive Vice President of our Company. The Board of Directors has appointed Mr. Ke Ruiwen as an executive vice president of our Company effective as of March 20, 2012, and proposed he be appointed as an executive director of our Company subject to approval at the shareholders meeting. Our Board of Directors currently consists of 12 directors with six executive directors, one non- executive director, and five independent non-executive directors.

Audit Committee

The Audit Committee was established in 2002, and currently consists of four members, Mr. Tse Hau Yin, Aloysius, Mr. Wu Jichuan, Mr. Qin Xiao and Mr. Xu Erming. They are all independent non-executive directors. The Audit Committee is accountable to the Board of Directors and reports to it periodically. The Committee meets at least twice each year. The Charter of the Audit Committee was approved by our Board of Directors in March 2005 and amended in March 2009 and in December 2011, respectively, pursuant to which the principal responsibilities of our Audit Committee include supervision of our Company to ensure authenticity and completeness of our financial statements and effectiveness and integration of the internal control and risk management system. The Audit Committee also supervises our internal audit department, and is responsible for the review and consideration of the qualification, independence, selection and appointment of independent auditors, and approval of services provided by the independent auditors. In addition, the Audit Committee is responsible for ensuring that the management performs its duty to establish and maintain an effective internal control system including the adequacy of resources and qualifications and experience of staff fulfilling the accounting and financial reporting function of the Company as well as the adequacy of the staff s training programs and related budget. The Audit Committee has established a mechanism for receiving and handling complaints or anonymous reports in respect of our accounting, internal financial control and audit matters.

In 2011, the Audit Committee held four meetings, at which it considered matters within its responsibilities, including our Company s financial statements, assessment of the qualifications, independence and performance of independent auditors and appointment of independent auditors, effectiveness of internal control, internal audit and related party transactions. The Audit Committee received quarterly reports in relation to the internal audit and related party transactions and provided guidance to the internal audit department. In addition, the Audit Committee reviewed the internal control assessment report and attestation report, followed up with the recommendations proposed by our independent auditors, reviewed the annual report, and communicated independently with the auditors.

Remuneration Committee

The Remuneration Committee was established in 2003, and currently consists of four members, Mr. Xu Erming, Mr. Wu Jichuan, Mr. Qin Xiao and Mr. Tse Hau Yin, Aloysius, all of whom are independent non-executive directors. The Remuneration Committee is accountable to the Board of Directors and reports to it on its work periodically. The Remuneration Committee meets when necessary. The Charter of the Remuneration Committee was approved by our Board of Directors in March 2005 and amended in December 2011, pursuant to which the Remuneration Committee s principal responsibilities include supervising the compliance of the Company s remuneration system with legal requirements, making recommendations to the Board of Directors on our overall remuneration policies and structure relating to compensation of directors and senior management, reviewing and approving the management s remuneration proposals, determining the remuneration packages of all Executive Directors and senior management, making recommendations to the Board of Directors on the remuneration of Non-Executive Directors and reviewing and approving severance compensation of directors and senior management.

Table of Contents

The Remuneration Committee held one meeting in 2011.

Nomination Committee

The Nomination Committee was established in 2005. It currently consists of four members, Mr. Wu Jichuan, Mr. Tse Hau Yin, Aloysius, Ms. Cha May Lung, Laura and Mr. Xu Erming, all of whom are Independent Non-Executive Directors. The Nomination Committee is accountable to the Board of Directors and regularly reports to the latter on its work. The Nomination Committee meets when necessary. The Charter of the Nomination Committee was approved by our Board of Directors in September 2005 and amended in December 2011, pursuant to which the Nomination Committee s principal responsibilities include reviewing the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis and making recommendations to the board regarding any proposed changes; identifying individuals suitably qualified to become board members and selecting or making recommendations to the board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; and making recommendations to the board on the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee held one meeting in 2011.

Independent Director Committee

The Independent Director Committee consists of all Independent Non-Executive Directors. Meetings of the Independent Director Committee are convened to review certain related party transactions on a case by case basis pursuant to the Listing Rules of the Hong Kong Stock Exchange.

The Independent Director Committee did not hold any meeting in 2011 as there was no renewal of any related party transactions agreement which needs to be reviewed.

D. Employees

General

As of December 31, 2011, we had 309,799 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2009, 2010 and 2011:

	As of December 31,					
	2009		2010		2011	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Management, finance and administrative	50,206	16.1%	49,124	15.7%	49,455	16.0%
Sales and marketing	160,780	51.4	161,569	51.8	159,374	51.4
Operations and maintenance	99,904	32.0	99,704	31.9	98,801	31.9
Others	1,630	0.5	1,925	0.6	2,169	0.7
Total	312,520	100.0%	312,322	100.0%	309,799	100.0%

We have implemented a short-term and long-term combined incentive remuneration scheme. The primary components of an employee s remuneration include basic salary, a performance based bonus, compensation based on seniority and stock appreciation rights (stock appreciation rights are exclusively for managerial staff and senior engineers). In addition, we also emphasize the importance of employee training and use various means of training to improve the quality and capability of our key employees. We have not been subjected to any strikes or other labor disturbances that have interfered with our operations, and we believe that the relationship between our management and the labor union of our Company is good.

Table of Contents

E. Share Ownership

As of December 31, 2011, our Assistant Chief Financial Officer, Qualified Accountant and Company Secretary, Mr. Yung Shun Loy, Jacky, held 156,000 H shares, representing 0.00112% of the total number of H shares and 0.00019% of the total number of all outstanding shares in our Company.

Apart from those disclosed herein, as of December 31, 2011, none of our directors, supervisors or other senior executives was a legal or beneficial owner of any shares of our share capital.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders

The table below sets forth information regarding the ownership of our share capital as of April 23, 2012 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

Title of Shares	Identity of Person or Group	Amount Owned	Percentage of the Respective Type of Shares	Percentage of Total Shares
Domestic shares	China Telecom Group	57,377,053,317	85.57%	70.89%
Domestic shares	Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	8.37%	6.94%
H shares	JPMorgan Chase & Co.	2,787,807,757(1)	20.09%	3.44%
H shares	RFS Holdings B.V.	2,087,518,664(2)	15.04%	2.58%
H shares	BlackRock, Inc.	1,273,370,613(3)	9.18%	1.57%
H shares	Commonwealth Bank of Australia	1,117,484,681	8.05%	1.38%

(1) Includes (i) 1,627,739,289 shares held by JPMorgan Chase & Co. in long position, or Long Position, as defined under the Securities and Futures Ordinance of Hong Kong, or the SFO, representing 11.73% of the total number of H shares and 2.01% of the total number of all outstanding shares; (ii) 12,741,386 shares held by JPMorgan Chase & Co. in short position, or Short Position, as defined under the SFO, representing 0.09% of the total number of H shares and 0.02% of the total number of all outstanding shares; and (iii) 1,147,327,082 shares held by JPMorgan Chase & Co. as a lending agent on behalf of its clients in a lending pool as defined under the SFO, representing 8.27% of the total number of H shares and 1.42% of the total number of all outstanding shares.

(2) Includes (i) 907,191,530 shares held by RFS Holdings B.V. in Long Position, representing 6.54% of the total number of H shares and 1.12% of the total number of all outstanding shares, and (ii) 1,180,327,134 shares held by RFS Holdings B.V. in Short Position, representing 8.51% of the total number of H shares and 1.46% of the total number of all outstanding shares.

(3) Includes (i) 1,181,412,010 shares held by BlackRock, Inc. in Long Position, representing 8.51% of the total number of H Shares and 1.46% of the total number of all outstanding shares, and (ii) 91,958,603 shares held by BlackRocks, Inc. in Short Position, representing 0.66% of the total number of H Shares and 0.11% of the total number of all outstanding shares.

China Telecom Group, located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033, is our controlling shareholder and is a wholly state-owned enterprise regulated by the State Council. Guangdong Rising Assets Management Co., Ltd., located at Kai Xuan Hua Mei Da Hotel, 15/F, No. 9, 1 Ming Yue Yi Road, Dongshan District, Guangzhou, Guangdong Province, PRC, is a state-owned enterprise owned and controlled by the provincial governments in Guangdong Province. JP Morgan Chase & Co. is located at 270 Park Avenue, New York 10017, U.S.A. RFS Holdings B.V. is located at Strawinskylaan 3105, 1077 ZX, Amsterdam, the Netherlands. BlackRock, Inc. is located at 40 East 52nd Street, New York 10022, U.S.A. Commonwealth Bank of Australia is located at Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW, Australia.

Table of Contents

Based solely on information contained in an Amendment No.4 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the U.S. Securities Exchange Commission, or SEC, on February 9, 2012 by Franklin Resources, Inc., or FRI, Charles B. Johnson and Rupert H. Johnson, Jr., 1,135,952,545 H shares of our Company, or the FRI Shares, representing approximately 8.2% of the total number of our H shares outstanding as of December 31, 2011, were beneficially owned either by investment companies that were direct or indirect subsidiaries of FRI or by other managed accounts that were investment management clients of investment managers that were direct or indirect subsidiaries of FRI. These subsidiaries of FRI were generally granted all investment and/or voting power over the FRI Shares owned and, as a result, may be deemed to be the beneficial owners of the FRI Shares for the purposes of Rule 13d-3 of the Exchange Act. Each of Charles B. Johnson and Rupert H. Johnson, Jr. owned in excess of 10% of the outstanding common stock of FRI and was a principal shareholder of FRI. Each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. could be deemed a beneficial owner of securities held by persons and entities for whom or for which the subsidiaries of FRI provided investment management services. However, each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. disclaims beneficial ownership of any of the FRI Shares. The principal place of business of each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr., is One Franklin Parkway, San Mateo, CA 94403-1906, U.S.A. The above disclosure is based solely on the information contained in the FRI Schedule 13G/A. For the numbers of our H shares that each of the subsidiaries of FRI has sole power to vote or to direct the voting of, or sole power to dispose or to direct the disposition of, or shared power to dispose or to direct the disposition of, and other details of the FRI Schedule 13G/A, please see the Schedule 13G/A jointly filed with the SEC by FRI, Charles B. Johnson and Rupert H. Johnson, Jr. on February 9, 2012.

None of our major shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

B. Related Party Transactions

As of April 23, 2012, China Telecom Group, a wholly state-owned enterprise, directly owned and controlled 70.89% of our issued share capital. Accordingly, transactions between China Telecom Group and us constitute connected transactions under the Listing Rules.

In connection with our restructuring in 2001, our acquisitions of telecommunications assets from China Telecom Group on December 31, 2003 and June 30, 2004, respectively, and our acquisition of the CDMA Business in 2008, we have entered into various agreements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. Such agreements include those for trademark licensing, centralized services, interconnection arrangements, optic fiber leasing, property leasing, CDMA network capacity leasing and other services.

Our independent non-executive directors have confirmed that all connected transactions for the year ended December 31, 2011 to which our Company was a party:

- had been entered into, and the agreements governing those transactions were entered into, by our Company in the ordinary and usual course of business;
- had been entered into either:
  - on normal commercial terms; or
  - where there was no available comparison to determine whether they are on normal commercial terms or on terms no less favorable than those available to or from independent third parties, as applicable; and
- had been entered into on terms that are fair and reasonable so far as the overall interest of the independent shareholders of our Company are concerned.

The details of the related party arrangements are described below.

Table of Contents

Arrangements Relating to the Acquisitions

Indemnification

In connection with the acquisition of telecommunications assets from China Telecom Group by our Company, under the Sale and Purchase Agreement, dated October 26, 2003, between our Company and China Telecommunications Corporation, China Telecom Group has undertaken to indemnify 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 for any loss or damages suffered by those companies as a result of, or related to, the reorganization of those companies under which China Telecom Group transferred to those companies the telecommunications operations of China Telecom Group in Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province, and for any loss or damages suffered by those companies in connection with events preceding such reorganization.

In connection with the acquisition of telecommunications assets from China Telecom Group by our Company, under the Conditional Sale and Purchase Agreement, dated April 13, 2004, between our Company and China Telecommunications Corporation, China Telecom Group has undertaken to indemnify us and keep us indemnified against any loss or liability suffered by us or any acquired company including, but not limited to, any diminution in the value of the assets of or shares in any acquired company, any payment made or required to be made by us or any acquired company and any costs and expenses incurred as a result of or in connection with any claim falling on any acquired company resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of the acquisition or any event on or before the date of the acquisition whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

Ongoing Related Party Transactions between Us and China Telecom Group

The following table sets out the amounts of ongoing related party transactions between us and China Telecom Group for the year ended December 31, 2011:

Transactions	**Transaction Amounts (RMB millions)**
Net transaction amount of centralized services	625
Net expenses for interconnection settlement	450
Lease of property from China Telecom Group	373
Lease of property to China Telecom Group	39
Provision of IT services by China Telecom Group	692
Provision of IT services to China Telecom Group	365
Provision of supplies procurement services by China Telecom Group	2,764
Provision of supplies procurement services to China Telecom Group	1,642
Provision of engineering services by China Telecom Group	8,293
Provision of community services by China Telecom Group	2,362
Provision of ancillary telecommunications services by China Telecom Group	7,878
Lease of CDMA network capacity from China Telecom Group[1]	15,860
Lease of optic fibers from China Telecom Group	61

(1) Net off the capacity maintenance related costs of CDMA network payable to the Company by China Telecommunications Corporation amounted to RMB3,151 million.

Centralized Services Agreement

Pursuant to the centralized services agreement signed between the Company and China Telecommunications Corporation on September 10, 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Centralised Services Agreement), centralized services include centralized business management and operational services provided by the Company to China Telecommunications Corporation in relation to key corporate customers, its network management center and business support center. Centralized services also include the provision of certain premises by China Telecommunications Corporation to the Company and the common use of international telecommunications facilities by both parties. The aggregate costs incurred by the Company and China Telecommunications Corporation for the provision of management and operation services will be apportioned between the Company and China Telecommunications Corporation on a pro rata basis according to the revenues generated by each party. Where the Company uses the premises provided by China Telecommunications Corporation, the Company will pay premises usage fees to China Telecommunications Corporation on a pro rata basis according to the apportioned actual area allocated to the Company. The premises usage fees shall be determined through negotiation between the two parties based on comparable market rates. When both parties use international telecommunications facilities provided by third parties and accept services by such third parties, such as restoration maintenance, the annual utilization fee and related service cost shall be determined on a pro rata basis according to the actual utilization each year. When both parties use the international telecommunications facilities of China Telecommunications Corporation, the associated costs shall be determined on a pro rata basis according to volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from each party divided by the aggregate volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from both parties. The utilization fee shall be determined through negotiation between the two parties based on market rates.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Centralised Services Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Centralised Services Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Centralised Services Agreement, and the parties shall consult and decide on matters relating to such renewal.

Interconnection Settlement Agreement

Pursuant to the interconnection settlement agreement signed between the Company and China Telecommunications Corporation on September 10, 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Interconnection Settlement Agreement), the telephone operator with respect to a telephone call made to its local access network shall be entitled to receive from the operator from which the telephone call originated a fee prescribed by the Ministry of Industry and Information Technology from time to time, which is currently RMB0.06 per minute. Interconnection charges are RMB0.06 per minute for local calls originated from the Company to China Telecommunications Corporation.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Interconnection Settlement Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Interconnection Settlement Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Interconnection Settlement Agreement, and the parties shall consult and decide on matters relating to such renewal. In addition, the Company and China Telecommunications Corporation have agreed that interconnection settlement charges will be calculated according to the rules and regulations of the relevant telecommunications regulators. If the telecommunications regulators amend existing, or promulgate new rules or regulations in respect of interconnection settlement, the parties shall apply such amended or new rules and regulations as acknowledged by both parties.

Property Leasing Framework Agreement

Pursuant to the property leasing framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreement subsequently entered into between the two parties (collectively, the Property Leasing Framework Agreement), the Company and China Telecommunications Corporation and/or its associates can lease properties from the other party for use as business premises, offices, equipment storage facilities and sites for network equipment. The rental charges under the Property Leasing Framework Agreement shall be determined according to market rates with reference to the standards set forth by local pricing authorities. The rental charges are subject to review every three years.

Table of Contents

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Property Leasing Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Property Leasing Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Property Leasing Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

IT Services Framework Agreement

Pursuant to the IT services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the IT Services Framework Agreement), each of the Company and China Telecommunications Corporation and/or its associates is entitled to participate in bidding for the right to provide information technology services to the other party including office automation and software testing. The charges payable for such services shall be determined by reference to the market rates or rates obtained through a tender process. If the terms offered by the Company or China Telecommunications Corporation and/or its associates are no less favorable than those offered by an independent third-party provider, the Company or China Telecommunications Corporation and/or its associates may give priority to using the services provided by the other party.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the IT Services Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the IT Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the IT Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Community Services Framework Agreement

Pursuant to the community services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Community Services Framework Agreement), China Telecommunications Corporation and/or its associates provide the Company with community services such as culture, education, property management, vehicle service, health and medical care, hotel and conference service, community and sanitary service. The community services under the Community Services Framework Agreement are provided at:

(1) the government-prescribed prices (if any);

(2) where there are no government-prescribed prices, the government-guided prices (if any);

(3) where there are neither government-prescribed prices nor government-guided prices, the market prices (if any), which are the prices at which the same type of services are provided by independent third parties in the ordinary course of business; or

(4) where none of the above is applicable, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus reasonable profit margin (for this purpose, reasonable costs means such costs as confirmed by both parties after negotiations).

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Community Services Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Community Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Community Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Table of Contents

Supplies Procurement Services Framework Agreement

Pursuant to the supplies procurement services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Supplies Procurement Services Framework Agreement), China Telecommunications Corporation and/or its associates and the Company provide each other with supplies procurement services, including the comprehensive procurement services, the sale of proprietary telecommunications equipment, resale of third-party equipment, management of tenders, verification of technical specifications, storage, transportation and installation services.

Where the procurement services are provided on an agency basis, the maximum commission for such procurement services shall be calculated at: (1) not more than 1.0% of the contract value for procurement of imported telecommunications supplies; or (2) not more than 3.0% of the contract value for the procurement of domestic telecommunications supplies and other domestic non-telecommunication materials. The pricing basis for the services for the provision of supplies procurement other than on an agency basis under the Supplies Procurement Services Framework Agreement is the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Supplies Procurement Services Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Supplies Procurement Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Supplies Procurement Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Engineering Framework Agreement

Pursuant to the engineering framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Engineering Framework Agreement), China Telecommunications Corporation and/or its associates through bids provide to the Company supervision and management of services relating to construction, design, equipment installation and testing and/or services as the main contractors for the construction and supervision of engineering projects. The charges payable for such engineering services shall be determined by reference to market rates. The charges payable for the design or supervision of engineering projects with a value of over RMB500,000 or construction of engineering projects with a value of over RMB2 million shall be determined by referring to the tender price.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Engineering Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Engineering Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Engineering Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Ancillary Telecommunications Services Framework Agreement

Pursuant to the ancillary telecommunications services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Ancillary Telecommunications Services Framework Agreement), China Telecommunications Corporation and/or its associates provide the Company with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services. The pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Ancillary Telecommunications Services Framework Agreement for a further term expiring on December 31, 2012. No later than 30 days prior to the expiry of the Ancillary Telecommunications Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Ancillary Telecommunications Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Table of Contents

CDMA Network Capacity Lease Agreement

Pursuant to the CDMA network capacity lease agreement signed between the Company and China Telecommunications Corporation on July 27, 2008 and the related supplemental agreement subsequently entered into between the two parties (collectively, the CDMA Network Capacity Lease Agreement), China Telecommunications Corporation agreed to lease its capacity under the CDMA Network to the Company and the Company shall have the exclusive right to use and operate the CDMA Network to provide CDMA services in its service areas. The leasing fee is 28.0% of the Company s CDMA service revenues per year (which is calculated by the total revenues from the CDMA services operations minus any upfront non-refundable revenues arising out of the CDMA operations and any revenues from sale of telecommunications products in connection with the CDMA operations, as derived from the Company s financial statements). Regardless of the revenues of the CDMA operations, the minimum annual leasing fee shall be 90.0% of the total amount of the leasing fee paid by the Company to China Telecommunications Corporation in the previous year. As the Company started to pay the leasing fee from October 1, 2008, there was no minimal annual leasing fee for 2008 and 2009. The cost of network construction shall be borne by China Telecommunications Corporation, while the maintenance-related costs shall be shared as agreed between the two parties.

Pursuant to the CDMA Network Capacity Lease Agreement, China Telecommunications Corporation has granted the Company an option to purchase the CDMA Network. The option may be exercised, at the discretion of the Company, at any time during the term of the lease or within one year after the expiry of the lease. No premium has been paid or will be payable by the Company for the grant of the option.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the CDMA Network Capacity Lease Agreement for a further term expiring on December 31, 2012.

Strategic Agreement between Our Company and China Communications Services Corporation Limited

Pursuant to the strategic agreement signed between the Company and China Communications Services Corporation Limited (China Communications Services) on August 30, 2006 and the related supplemental agreements (collectively, the Strategic Agreement), the Company agreed that, in the period between January 1, 2007 and December 31, 2009, if the service terms relating to the design, implementation and supervision of the communications engineering projects provided by China Communications Services are basically the same as those of other service providers, the provincial branches of the Company in the service area of China Communications Services shall receive such services from the relevant wholly-owned subsidiaries of China Communications Services annually with a total annual value of no less than 10.6% of the total annual capital expenditure of the relevant provincial branches of the Company in that year. China Communications Services will offer at least 5.0% price discount to the Company based on the applicable standard prices for the services in connection with the design, implementation and supervision of communications engineering. Meanwhile, the Company agreed that, in the period between January 1, 2007 and December 31, 2009, if the terms relating to certain maintenance management services provided by China Communications Services are basically the same as those of other service providers, the provincial branches of the Company in the service area of China Communication Services shall receive such services from the relevant wholly-owned subsidiaries of China Communications Services annually with a total value of no less than RMB1,780 million annually.

The business areas of the strategic alliance between the two parties governed by the terms and conditions in the Strategic Agreement include: design, implementation and supervision of the communications engineering projects, maintenance management service, contents application service, sales channel service, usage of telecommunications and other new businesses arising from time to time which are appropriate for the collaboration between the two parties. China Communications Services pledges its support to the strategic transformation of the Company from a traditional basic telecommunications operator to an integrated information service provider, its active support to the Company s business development, and its active use of the Company s products and services in its own business. Such services shall comply with the related PRC standards or the standards agreed by both parties, and shall be on terms no less favorable than those available to any third parties to which the same or similar services are provided by either party. Without breaching the requirements under PRC laws, where the terms and conditions of services provided by either party to the Strategic Agreement are the same as those provided by an independent third party in respect of the same services, the party under the Strategic Agreement shall have the priority to be appointed as the service provider by the other party.

The Company and China Communications Services entered into a supplemental agreement on October 29, 2009 to renew the Strategic Agreement for a further term expiring on December 31, 2012.

The Strategic Agreement does not set out any annual caps for the transactions thereunder as China Telecommunications Corporation, the holding company of China Communications Services, has signed certain framework agreements with the Company (including the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement and the Community Services Framework Agreement), which cover the transactions contemplated under the Strategic Agreement. These frameworks agreements are subject to annual caps, and the proposed annual caps for the transactions under the Strategic Agreement are subsumed under the annual caps of these framework agreements.

Trademark License Agreement

China Telecommunications Corporation has registered a number of trademarks, and is in the process of registering other trademarks with the Trademark Office. Under the trademark license agreement, dated September 10, 2002, and the related supplemental agreements (collectively, the Trademark License Agreement), China Telecommunications Corporation has granted to the Company a right to use its registered trademarks and its trademarks pending registration on a royalty-free basis.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Trademark License Agreement for a further term expiring on December 31, 2012. The Company may renew the Trade Mark License Agreement for such further periods as the parties may agree, by 30 days written notification to China Telecommunications Corporation.

Optic Fiber Leasing Agreement

The Company leases from China Telecom Group the inter-provincial transmission optic fibers in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, which the Company s telecommunications services are dependent upon, under the Optic Fiber Leasing Agreement dated September 10, 2002 and the related supplemental agreements (collectively, the Optic Fiber Leasing Agreement). The rent payable by the Company to China Telecom Group to lease the relevant parts of the inter-provincial transmission optic fibers will be based on negotiations between the parties with reference to the market price. In addition, The Company agreed to be responsible for the maintenance of these optic fibers within those service regions.

The Company and China Telecommunications Corporation entered into a supplemental agreement on August 25, 2010 to renew the Optic Fiber Leasing Agreement for a further term expiring on December 31, 2012. The Company may renew the Optic Fiber Leasing Agreement for such further periods as the parties may agree, by 30 days written notification to China Telecommunications Corporation.

Our Proposed Sale of Besttone E-Commerce Co., Ltd.

See Item 4. Information on the Company A. History and Development of the Company Our Proposed Sale of Besttone E-Commerce Co., Ltd.

We from time to time borrow short term unsecured loans from China Telecom Group to supplement our working capital needs. As of December 31, 2011, the aggregate outstanding principal amount of such loans was RMB820 million, which bear interest at fixed rates ranging from 3.9% to 4.9% per annum and are repayable within one year. See Note 15 to our audited financial statements included elsewhere in this report for details of interest paid and payable to China Telecom Group with respect to such loans.

C. Interests of Experts and Counsel

Not applicable.

Table of Contents

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

Our consolidated financial statements are set forth beginning on page F-1. No significant change has occurred since the date of the annual financial statements.

Legal Proceeding

We are the defendant in certain lawsuits and a named party in other legal proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other legal proceedings cannot be determined at present, we believe that the outcomes of such contingencies, lawsuits or other legal proceedings will not likely result in any material adverse effect on our financial position or results of operations.

In 2011, the NDRC initiated an anti-monopoly investigation over our pricing practices with respect to our Internet dedicated leased line access services to Internet service providers. In response to this investigation, we have conducted a self-evaluation of the relevant pricing practices and submitted to the NDRC a proposal for enhancement initiatives as well as an application for suspension of investigation, which are being considered by the NDRC.

Policy on Dividend Distributions

Pursuant to the shareholders approval at the annual general meeting held on May 20, 2011, a final dividend of RMB5,763 million (RMB0.071208 equivalent to HK$0.085 per share) in respect of the year ended December 31, 2010 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors meeting on March 20, 2012, a final dividend of approximately RMB5,583 million (RMB0.068984 equivalent to HK$0.085 per share) for the year ended December 31, 2011 was proposed for shareholders approval at the annual general meeting.

The declaration and payment of dividends for years following 2011 will depend upon our financial results, our shareholders interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries, if any, to us, possible effects on our creditworthiness and other factors our directors may deem relevant. Our Board of Directors will declare dividends, if any, in Renminbi with respect to our H shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to shareholders approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of our H shares will share proportionately on a per share basis in all dividends and other distributions declared by our Company.

The Bank of New York Mellon, as depositary, will convert the Hong Kong dollar dividend payment and distribute it to holders of ADSs in U.S. dollars, less related fees and expenses and any withholding tax.

Item 9. The Offer and Listing.

In connection with our initial public offering, our ADSs were listed and commenced trading on the NYSE on November 14, 2002 under the symbol CHA. Our H shares were listed and commenced trading on the Hong Kong Stock Exchange on November 15, 2002. Prior to these listings, there was no public market for our equity securities. The NYSE and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and H shares, which are not listed on any other exchanges in or outside the United States.

As of December 31, 2011 and April 23, 2012, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2011 and April 23, 2012, there were, respectively, 55 and 54 registered holders of American depositary receipts evidencing 4,927,550 and 5,293,232 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York Mellon.

Table of Contents

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the NYSE for the periods indicated are as follows.

	Price per Share (HK$)		Price per ADS (US$)	
	High	Low	High	Low
Annual				
2007	7.22	3.35	97.00	42.49
2008	7.00	2.00	90.85	26.17
2009	4.35	2.58	55.53	32.11
2010	4.36	3.20	56.09	40.72
2011	5.23	4.08	67.13	52.68
Quarterly				
First Quarter, 2010	3.89	3.20	50.09	40.72
Second Quarter, 2010	4.02	3.34	52.00	42.41
Third Quarter, 2010	4.36	3.65	55.99	46.76
Fourth Quarter, 2010	4.35	3.88	56.09	49.78
First Quarter, 2011	4.75	4.08	61.00	52.68
Second Quarter, 2011	5.19	4.33	65.66	55.86
Third Quarter, 2011	5.23	4.39	67.13	56.12
Fourth Quarter, 2011	5.07	4.34	66.51	55.96
First Quarter, 2012	4.74	4.00	60.87	52.00
Monthly				
October 2011	5.07	4.63	66.51	59.97
November 2011	4.84	4.57	63.42	58.74
December 2011	4.70	4.34	60.65	55.96
January 2012	4.52	4.00	58.53	52.00
February 2012	4.74	4.30	60.75	55.58
March 2012	4.71	4.16	60.87	53.61
April 2012 (through April 26)	4.26	4.11	55.12	52.23

Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following is a summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of our Articles of Association was filed as an exhibit to this annual report, which is incorporated herein by reference.

Holders of our domestic shares and H shares are deemed to be shareholders of different classes for various matters, which affect their respective interests. For instance, if we propose an increase in domestic shares, holders of H shares would be entitled to vote on that proposal as a separate class. See Voting Rights and Shareholders Meetings included elsewhere under this Item.

Objects and Purposes

We are a joint stock limited company established in accordance with the PRC Company Law, the State Council s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Shares and other relevant laws and regulations of the State. We registered with the PRC State Administration for Industry and Commerce with business license number 1000001003712. Article 13 of our Articles of Association provides that our scope of business includes, among other things, operation of basic and value-added telecommunications businesses.

Directors

Our Articles of Association provide that each of our directors is obligated to each shareholder to act honestly in our Company s best interests; not to exploit corporate assets for personal gain; and not to expropriate the rights of our shareholders.

Where a director is materially interested, directly or indirectly, in a contract, transaction or arrangement (including any proposed contract, transaction or arrangement) with us, he or she shall declare the nature and extent of his or her interests to the Board of Directors at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the Board of Directors. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined in the Listing Rules of the Hong Kong Stock Exchange) is interested.

Unless the interested director discloses his interests to the board and the contract, transaction or arrangement in which the director is materially interested is approved by the board of directors at a meeting in which the director neither votes nor is counted in the quorum, such contract, transaction or arrangement may be revoked by us except with respect to a bona fide party thereto who does not have notice of the breach of duty by the interested director.

Further, we may not make loans or provide guarantees to directors or any of their associates, except where such loan or guarantee is made or provided under a service contract as approved by shareholders at the shareholders general meeting and to meet expenditure requirement incurred or for the purpose of enabling the director to perform his or her duties properly or made in the ordinary course of business.

All decisions relating to the compensation of directors are made at shareholders meetings.

There are no provisions under our articles of association which relate to:

- the retirement or non-retirement of directors under any age limit requirement;
- directors borrowing power; or
- number of shares required for director s qualification.

Dividends

Our Board of Directors may propose dividend distributions at any time. Our Board of Directors may declare interim and special dividends under general authorization by a shareholders ordinary resolution. A distribution of final dividends for any fiscal year is subject to shareholders approval. Dividends may be distributed in the form of cash or shares. A distribution of shares, however, must be approved by special resolution of the shareholders.

We may only distribute dividends from our retained earnings as determined in accordance with the accounting principles of the PRC or IFRS, whichever is lower, after allowance has been made for:

- recovery of losses, if any;
- allocations to the statutory common reserve fund of 10.0% of our profit, as determined in accordance with PRC accounting rules; and
- allocations to a discretionary common reserve fund if approved by the shareholders.

Table of Contents

Our Articles of Association require us to appoint on behalf of the holders of H shares a receiving agent that is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. Our Articles of Association require that cash dividends in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars. The Bank of New York Mellon, as the ADS depositary, will convert these proceeds into U.S. dollars and will remit the converted proceeds to holders of our ADSs after deduction of related fees and expenses and any withholding tax.

Dividends payments may be subject to the PRC withholding tax. See E. Taxation People s Republic of China Taxation of Dividends included elsewhere under this Item.

Voting Rights and Shareholders Meetings

Our Board of Directors will convene a shareholders annual general meeting once every year and within six months from the end of the preceding fiscal year. Our Board of Directors must convene an extraordinary general meeting within two months of the occurrence of any of the following events:

- where the number of directors is less than the number stipulated in the PRC Company Law or two-thirds of the number specified in our Articles of Association;
- where our unrecovered losses reach one-third of the total amount of our share capital;
- where shareholder(s) holding 10.0% or more of our issued and outstanding voting shares so request(s) in writing;
- whenever our Board of Directors deems necessary or our supervisory board so requests; or
- whenever two or more of our independent directors so request.

Resolutions proposed by shareholder(s) holding 5.0% or more of the total voting shares shall be included in the agenda for the relevant annual general meeting if they are within the functions and powers of shareholders in general meetings.

All shareholders meetings must be convened by our Board of Directors by written notice given to shareholders not less than 45 days before the meeting. We may convene a shareholders general meeting where the number of voting shares represented by those shareholders from whom we have received 20 days before the meeting notices of intention to attend the meeting reaches one half or more of our voting shares; or, if that number is not reached, we shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, we may hold the shareholders general meeting. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders meeting.

Shareholders at meetings have the power, among other matters, to approve or reject our profit distribution plans, annual budget, financial statements, increases or decreases in share capital, issuances of debentures, mergers, liquidation and any amendment to our Articles of Association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of shareholders at a general shareholders meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our Articles of Association enumerate various amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including, among others, increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to those of shares of that class. There are no restrictions under PRC law or our Articles of Association on the ability of investors that are not PRC residents to hold H shares and exercise voting rights.

Table of Contents

Each share is entitled to one vote on all matters submitted for vote at all shareholders meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution(s). When the instrument appointing a proxy is executed by the shareholder s attorney-in-fact, such proxy when deposited must be accompanied by a notary certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Resolutions on any of the following matters must be approved by more than two-thirds of the voting rights held by shareholders who are present in person or by proxy:

- an increase or decrease in our share capital or the issuance of shares, warrants and other similar securities;
- issuance of debentures;
- our division, merger, dissolution or liquidation (shareholders who object to a proposed merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price);
- amendments to our Articles of Association;
- amendment of shareholders rights of any class of shares; and
- any other matters determined by a majority of shareholders at a general meeting to have a material impact on us and which should be approved by two-thirds of the voting rights.

All other actions taken by the shareholders will be approved by a majority of the voting rights held by shareholders.

Any shareholder resolution that is in violation of any PRC laws or regulations or the Articles of Association will be null and void.

Liquidation Rights

In the event of our liquidation, the H shares will rank pari passu with the domestic shares, and any of our assets remaining after payment (in order of priority) of (a) the costs of liquidation (b) wages and social insurance fees payable to or for our employees, (c) outstanding taxes and (d) bank loans, and company bonds and other debts, will be divided among our shareholders in accordance with the class of shares and their proportional shareholdings.

Increases in Share Capital

Under our Articles of Association, issuance of new securities, including ordinary shares, securities convertible into ordinary shares, options, warrants or similar rights to subscribe for any ordinary shares or convertible securities, must be approved by two-thirds of all shareholders and two-thirds of each of the class of domestic shares and the H shares, respectively. No such approval is required if, but only to the extent that, we issue domestic shares and H shares, either separately or concurrently, in numbers not exceeding 20.0% of the number of domestic shares and H shares then outstanding, respectively, in any 12-month period, as already approved by two-thirds of all shareholders. New issues of shares must also be approved by relevant PRC authorities.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms that were agreed upon by the subscriber of the relevant shares at the time of subscription.

Shareholders do not have preemptive rights with respect to new issues of shares of the Company.

Decrease in Share Capital and Repurchase

We may reduce our registered share capital only upon obtaining the approval of at least two-thirds of our shareholders and, in certain circumstances, of relevant PRC authorities. The number of H shares that may be repurchased is subject to the Hong Kong Codes on Takeovers and Mergers and Share Repurchases.

Ownership Threshold

There are no provisions under our Articles of Association which relate to ownership thresholds above which shareholder ownership is required to be disclosed.

Restrictions on Large or Controlling Shareholders

Our Articles of Association define a controlling shareholder as any person who acting alone or in concert with others:

- is in a position to elect more than one-half of the Board of Directors;
- has the power to exercise, or to control the exercise of, 30.0% or more of our voting rights;
- holds 30.0% or more of our issued and outstanding shares; or
- has de facto control of us in any other way.

As of the date of this annual report, China Telecom Group, a wholly state-owned company, is our only controlling shareholder.

Our Articles of Association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the Listing Rules, a controlling shareholder shall not exercise its voting rights in a manner prejudicial to the interests of all or some shareholders:

- to relieve a director or supervisor from his or her duty to act honestly in our best interests;
- to approve the appropriation by a director or supervisor (for his or her own benefit or for the benefit of any other person) of our assets in any way, including, without limitation, opportunities which may benefit us; or
- to approve the appropriation by a director or supervisor (for his or her own benefit or for the benefit of any other person) of the individual rights of any other shareholders, including, without limitation, rights to distributions and voting rights (except in accordance with a restructuring of our company which has been submitted for approval by the shareholders at a general meeting in accordance with our Articles of Association).

If a controlling shareholder exercises its voting rights in violation of the provisions set forth above, a shareholder can sue such controlling shareholder and enforce its rights through arbitration in the PRC or Hong Kong.

Sources of Shareholders   Rights

Currently, the primary sources of shareholders rights are our Articles of Association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange that, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. Our Articles of Association have incorporated the provisions set forth in the Mandatory Provisions for the Articles of Association of Companies Listed Overseas, or the Mandatory Provisions, adopted in 1994, pursuant to the requirement of the China Securities Regulatory Commission. Any amendment to those provisions will only become effective after approval by the relevant governmental department authorized by the State Council and the China Securities Regulatory Commission. The Listing Rules of the Hong Kong Stock Exchange require a number of additional provisions to the Mandatory Provisions to be included in our Articles of Association.

The listing agreement between us and the Hong Kong Stock Exchange provides that we may not amend certain provisions of our Articles of Association that have been mandated by the Hong Kong Stock Exchange. These provisions relate to:

- varying the rights of existing classes of shares;
- voting rights;
- our power to purchase our own shares;
- rights of minority shareholders; and
- liquidation procedures.

In addition, for so long as our H shares are listed on the Hong Kong Stock Exchange, we will be subject to the relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including, among other things, the Listing Rules of the Hong Kong Stock Exchange, the Securities & Futures Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protection discussed below are derived from our Articles of Association and the PRC Company Law.

Enforceability of Shareholders Rights

Enforceability of our shareholders rights may be limited. See Item 3. Key Information D. Risk Factors Risks Relating to the People s Republic of China The PRC legal system has inherent uncertainties that could limit the legal protections available to you.

Restrictions on Transferability and the Share Register

Under our Articles of Association, in order for any PRC shareholder to sell its domestic shares to persons outside the PRC who will receive H shares upon the sale, such sales must be approved by two-thirds of our domestic shareholders and H shareholders at duly convened meetings of domestic shareholders and H shareholders held separately and at a duly convened joint meeting of domestic shareholders and H shareholders. Such sales are also subject to approval by the State-Owned Assets Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission and other relevant governmental authorities.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to holders of H shares. Shareholders have the right to inspect and, for a reasonable charge, to copy the share register. No transfers of ordinary shares shall be recorded in our share register within 30 days prior to the date of a shareholders general meeting or within five days prior to the record date established for the purpose of distributing a dividend.

We have appointed Computershare Hong Kong Investor Services Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares at our offices in Hong Kong and enters transfers of H shares in such register upon the presentation of the documents described above.

Table of Contents

C. Material Contracts

See Item 4. Information on the Company A. History and Development of the Company and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for certain arrangements we have entered into with China Telecom Group and/or other entities.

D. Exchange Controls

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully-convertible currency. Under the existing PRC foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for both current account transactions and capital account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, if the PRC government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from foreign banks, issuance of foreign currency-denominated debt securities and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange to meet our payment obligations under the debt securities or foreign exchange for capital expenditures.

There are no limitations on the right of non-resident or foreign owners to remit dividends or to hold or vote the ordinary shares or the ADSs imposed by Hong Kong law or by our Articles of Association or other constituent documents.

E. Taxation

The taxation of income and capital gains of holders of H shares or ADSs is subject to the PRC laws and practices and of jurisdictions in which holders of H shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice.

The discussion does not deal with all possible tax consequences relating to an investment in the H shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H shares and ADSs.

The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

People s Republic of China

The following is a summary of certain PRC tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This summary does not purport to address all material tax consequences of the ownership of H shares, and does not take into account the specific circumstances of any particular investors. This summary is based on the PRC tax laws as in effect on the date of this annual report, as well as on the Agreement between the United States of America and the PRC for the Avoidance of Double Taxation, or the PRC-US Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisors regarding Chinese, Hong Kong and other tax consequences of owning and disposing of H shares.

Table of Contents

Taxation of Dividends

Individual Investors. According to the PRC Provisional Regulations Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, and the PRC Individual Income Tax Law and its implementing regulations, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20.0%. For a foreign individual who is not a PRC resident, the receipt of dividends from a PRC company is normally subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty.

Enterprises. According to the EIT Law and its implementing regulations, dividends paid by a PRC company to a foreign enterprise which is a non-resident enterprise, which is established under the law of a non-PRC jurisdiction and has no establishment or residence in the PRC or whose dividends from the PRC do not relate to its establishment or residence in the PRC, are subject to a 10.0% tax, unless reduced by an applicable tax treaty. A resident enterprise, including an enterprise which is established under the law of a non-PRC jurisdiction but whose de facto management body is located in the PRC, is not subject to any PRC income tax with respect to dividends paid to it by a PRC company.

Tax Treaties. Investors who do not reside in the PRC and reside in countries that have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of our Company who do not reside in the PRC. The PRC currently has double-taxation treaties with a number of other countries, which include:

- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

Under the PRC-US Treaty, the PRC may tax a dividend paid by us to an Eligible U.S. Holder up to a maximum of 10.0% of the gross amount of such dividend. It is arguable that under the PRC-US Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H shares or ADSs representing an interest in the Company of 25.0% or more, but this position is uncertain and the PRC authorities may take a different position. For the purposes of this discussion, an Eligible U.S. Holder is a U.S. holder that (i) is a resident of the United States for the purposes of the PRC-US Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC to which H shares or ADSs are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) is not otherwise ineligible for benefits under the PRC-US Treaty with respect to income and gains derived in connection with the H shares or ADSs.

Table of Contents

Taxation of Capital Gains

With respect to individual holders of H shares or ADSs, the PRC Individual Income Tax Law and its implementation regulations stipulate that gains realized on the sale of equity shares would be subject to income tax at a rate of 20.0%, and empower the Ministry of Finance to draft detailed tax rules on the mechanism for collecting such tax subject to approval of the State Council. However, as of the date of this annual report, no such tax rules have been enacted and no income tax on gains realized on the sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued by the SAT dated March 30, 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of H shares or ADSs may be subject to capital gains tax at the rate of 20.0% unless such tax is reduced or eliminated by an applicable double-taxation treaty. If tax on capital gains from the sale of H shares or ADSs become applicable, it is arguable that under the PRC-US Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H shares or ADSs representing an interest in our Company of 25.0% or more, but this position is uncertain and the PRC authorities may take a different position.

Under the EIT Law and its implementing regulations, capital gains realized by a foreign enterprise which is a non-resident enterprise upon the sale of the overseas-listed shares of a PRC company are subject to a 10.0% tax, unless reduced by an applicable double-taxation treaty. Capital gains realized by a resident enterprise, including an enterprise which is established under the law of a non-PRC jurisdiction but whose de facto management body is located in the PRC, are subject to the PRC enterprise income tax.

Additional PRC Tax Considerations

PRC Stamp Duty. PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations should not apply to the acquisition and disposal by non-PRC investors of H shares or ADSs outside of the PRC by virtue of the PRC Provisional Regulations Concerning Stamp Duty, which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Tax. No liability for estate tax under PRC law will arise from non-PRC nationals holding H shares or ADSs.

Hong Kong

Tax on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. Trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently (for the year of assessment 2008-2009 onwards) imposed at the rate of 16.5% on corporations and 15.0% on unincorporated business. Gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong. There is no tax treaty in effect between the United States and Hong Kong, and the PRC-US Treaty does not apply to Hong Kong.

There will be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs, where purchases and sales of ADSs are effected outside Hong Kong, e.g., on the NYSE.

Table of Contents

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of H shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H shares transferred on each of the seller and the purchaser. In other words, a total 0.2% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

The withdrawal of H shares upon the surrender of American Depositary Receipts, or ADRs, and the issuance of ADRs upon the deposit of H shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a change in the beneficial ownership of the H shares under Hong Kong law. The issuance of the ADRs upon the deposit of H shares issued directly to the Depositary, as depositary of the ADSs, or for the account of the Depositary, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

No Hong Kong estate duty is currently payable.

United States

Material United States Federal Income Taxation

This section describes the material United States federal income tax consequences of the acquisition, ownership and disposition of H shares or ADSs. It applies to you only if you are a U.S. holder, as described below, and you hold your H shares or ADSs as capital assets for United States federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a bank;
- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- an insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10.0% or more of our voting stock;
- a person that holds H shares or ADSs as part of a straddle or a hedging or conversion transaction;

a person that purchases or sells shares or ADSs as part of a wash sale for tax purposes; or

a U.S. holder, as described below, whose functional currency is not the U.S. dollar.

Table of Contents

This section is based on the Internal Revenues Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as the PRC-US Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of H shares or ADSs and you are:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds the H shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. If you hold the H shares or ADSs as a partner in a partnership you should consult your tax advisor with regard to the United States federal income tax treatment of an investment in the H shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of H shares and ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of H shares represented by those ADSs. Exchanges of H shares for ADRs, and ADRs for H shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15.0% provided that you hold H shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to H shares or ADSs generally will be qualified dividend income.

You must include any PRC tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of H shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Subject to certain limitations, the PRC tax withheld and paid over to the PRC will be creditable or deductible against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15.0% tax rate.

Table of Contents

The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the Hong Kong dollar/U.S. dollar spot rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the H shares or ADSs and thereafter as capital gain.

For foreign tax credit purposes, dividends will generally be income from sources outside the United States and will, depending on your circumstances, be either passive or general income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your H shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your H shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations.

Hong Kong Stamp Duty

Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

PFIC Rules. We believe that H shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless you are a U.S. holder that elects to be taxed annually on a mark-to-market basis with respect to the H shares or ADSs, gain realized on the sale or other disposition of your H shares or ADSs would in general not be treated as capital gain. Instead, if you are a U.S. holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the H shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your H shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your H shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC, at its public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at http://www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

Table of Contents

The SEC allows us to incorporate by reference the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Our primary market risk exposures are fluctuations in exchange rates and interest rates.

Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully-convertible currency. The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, changes in the PRC s and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People s Bank of China, which are set daily based on the previous business day s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2.0% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition. See Item 3. Key Information D. Risk Factors Risks Relating to the People s Republic of China Government control of currency conversion may adversely affect our financial condition and Fluctuation of the Renminbi could materially affect our financial condition and results of operations.

The following tables provide information regarding our financial instruments that are sensitive to foreign exchange rates as of December 31, 2011 and 2010, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

As of December 31, 2011:

	Expected Maturity							
	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
	(RMB equivalent in millions, except interest rates)							
Assets:								
Cash and cash equivalents								
United States dollars	1,410						1,410	1,410
Japanese yen	21						21	21
Euro	2						2	2
Hong Kong dollars	69						69	69
Other currencies	39						39	39
Time deposits								
United States dollars								
Japanese yen								
Liabilities:								
Debts in Japanese yen								

Table of Contents

	Expected Maturity							
	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
	(RMB equivalent in millions, except interest rates)							
Fixed rate	1,603						1,603	1,603
Average interest rate	2.7%							
Debts in United States dollars								
Fixed rate	42	42	42	43	43	363	575	546
Average interest rate	2.2%	1.3%	1.2%	1.2%	1.2%	1.2%		
Variable rate	8	8	8	8	8	33	73	69
Average interest rate(1)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%		
Debts in Euro								
Fixed rate	28	22	26	27	27	267	397	365
Average interest rate	1.8%	1.3%	1.3%	1.3%	1.3%	1.3%		
Variable rate	6	6	6	6	6	58	88	81
Average interest rate(1)	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%		
Debts in other currencies								
Variable rate	5	5	5	5	5	4	29	24
Average interest rate(1)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%		

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2011.

As of December 31, 2010:

	Expected Maturity							
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
	(RMB equivalent in millions, except interest rates)							
Assets:								
Cash and cash equivalents								
United States dollars	2,130						2,130	2,130
Japanese yen	15						15	15
Euro	1						1	1
Hong Kong dollars	112						112	112
Other currencies	15							