1. Principal Activities, Organisation and Basis of Presentation

Principal activities

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

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

Organisation

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

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

Organisation (continued)

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

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

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

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

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

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

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

Organisation (continued)

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

Analysis of assets and liabilities of the disposed subsidiary:

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

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

Organisation (continued)

Gain on disposal of a subsidiary:

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

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

Net cash inflow from disposal of a subsidiary:

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

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

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

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

Basis of presentation

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

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

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

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

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

Set up of subsidiaries

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

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

Merger with subsidiaries

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

2. Significant Accounting Policies

(a) Basis of preparation

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

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

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

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

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

(b) Basis of consolidation

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

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

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

2. Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

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

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

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

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

2. Significant Accounting Policies (continued)

(c) Foreign currencies

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

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

(d) Cash and cash equivalents

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

(e) Accounts and other receivables

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

2. Significant Accounting Policies (continued)

(f) Inventories

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

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

(g) Property, plant and equipment

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

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

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

2. Significant Accounting Policies (continued)

(g) Property, plant and equipment (continued)

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

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

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

(h) Lease prepayments

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

(i) Construction in progress

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

No depreciation is provided in respect of construction in progress.

(j) Goodwill

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

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

2. Significant Accounting Policies (continued)

(k) Intangible assets

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

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

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

(l) Investments in subsidiaries

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

(m) Investments

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

(n) Operating lease charges

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

2. Significant Accounting Policies (continued)

(o) Impairment

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

(o) Impairment (continued)

(ii) Impairment of long-lived assets

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

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

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

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

2. Significant Accounting Policies (continued)

(p) Revenue recognition

The revenue recognition methods of the Group are as follows:

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

(ii) Fees received for wireline installation charges for periods prior to 1 January 2012 are deferred and recognised over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortised over the same expected customer relationship period. In 2012, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.

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

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

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

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

i) The Group is responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;

ii) The Group takes title of the inventory of the applications before they are ordered by customers;

iii) The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;

iv) The Group establishes selling prices with customers;

v) The Group can modify the applications or perform part of the services;

vi) The Group has discretion in selecting suppliers used to fulfill an order; and

vii) The Group determines the nature, type, characteristics, or specifications of the applications or services.

2. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

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

(vi) Revenue from the provision of Internet and telecommunications network resource services is recognised when the services are provided to customers.

(vii) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the minutes of traffic processed.

(viii) Lease income from operating leases is recognised over the term of the lease.

(ix) Revenue derived from integrated information application services is recognised when the services are provided to customers.

(x) Sale of equipment is recognised on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognised when the service is provided to customers.

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

2. Significant Accounting Policies (continued)

(q) Advertising and promotion expense

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

(r) Net finance costs

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

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

(s) Research and development expense

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

(t) Employee benefits

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

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

(u) Interest-bearing borrowings

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

(v) Accounts and other payables

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

2. Significant Accounting Policies (continued)

(w) Provisions and contingent liabilities

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

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

(x) Income tax

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

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

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

(y) Dividends

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

2. Significant Accounting Policies (continued)

(z) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(aa) Segmental reporting

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

3. Application of New and Revised International Financial Reporting Standards

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

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

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

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

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

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

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

IFRS 10, "Consolidated Financial Statements"

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

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

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

IFRS 12, "Disclosure of Interests in Other Entities"

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

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

IFRS 13, "Fair Value Measurement"

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

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

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

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

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

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

Revised IAS 19, "Employee Benefits"

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

The application of Revised IAS 19. "Employee Benefits" has no significant impact on the Group's financial statements.

4. Property, Plant and Equipment, Net

The Group

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

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

The Company

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

5. Construction in Progress

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

6. Goodwill

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

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

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

6. **Goodwill** (continued)

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

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

7. Intangible Assets

The Group

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

7. Intangible Assets (continued)

The Company

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

8. Investments in Subsidiaries

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

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

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

8. Investments in Subsidiaries (continued)

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

8. Investments in Subsidiaries (continued)

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

9. Interests in Associates

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

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

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

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

9. Interests in Associates (continued)

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

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

10. Investments

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

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

11. Deferred Tax Assets and Liabilities

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

The Group

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

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

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

11. Deferred Tax Assets and Liabilities (continued)

The Company

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

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

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

12. Inventories

Inventories represent:

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

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

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

Note:

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

13. Accounts Receivable, Net (continued)

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

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

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

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

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

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

13. Accounts Receivable, Net (continued)

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

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

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

14. Prepayments and Other Current Assets

Prepayments and other current assets represent:

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

15. Cash and Cash Equivalents

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

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

Short-term debt comprises:

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

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

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

Long-term debt and payable comprises:

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

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

Note:

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

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

All of the above medium-term notes are unsecured.

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

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

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

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

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

17. Accounts Payable

Accounts payable are analysed as follows:

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

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

Ageing analysis of accounts payable is as follows:

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

and enriched their contents and application systems progressively.

Focusing on efficiency and vitality to accelerate the evolution of corporate operation model

With our in-depth study and grasping the pattern, we set vitality and efficiency as our core objectives on developing a new operation model with the key features of reasonable sub-division of performance evaluation units and efficiently-centralised management operation, for accelerated preparation to adapt to mobile Internet development.

To promote the "market-driven" reform, the Company continued to sub-divide performance evaluation units to fully inspire employee vitality. With a perseverance to explore, the Company further implemented the sub-division of performance evaluation units in the whole company from bottom to top including sales outlets, rural sub-branches and investments units, which allowed better matching between operation responsibilities and authorities of resource allocation such as cost and investment resources in the frontline business units, and established a close and direct linkage between the employee remuneration and the integrated return of the frontline business unit. This resulted in high degree of alignment of the operating goals of the frontline business units with the overall corporate goal and highly aligned the interests of the employees with those of the Company. Over the past year, the operational efficiency and profitability of the frontline business units experienced a rapid growth.

Adapting to the development pattern of the mobile Internet business, the Company further stepped up its effort in efficiently-centralised management to strengthen its entire-network operation and management capabilities. The Company also accelerated its network upgrade, and steadily expanded its capabilities. Platform integration and consolidation was strengthened and cloud resources were deployed to further enhance the level of efficiently-centralised operation of the network. The Company further refined its package structure resulting in an increase in the proportion of the sales of efficiently-centralised packages. With a focus on the promotion of "Best Pay", "YiChat" and all sorts of livelihood-related applications, the product management systems were continuously optimised. The Company strengthened the synergistic collaboration of channels, promoted the efficiently-centralised control and resources exchange of open channels such as large chain stores and manufacturers, enhanced integrated operation and development of electronic channels at group level to further strengthen the overall capability in channel sales. To lower the management costs, the Company continuously improved its level of efficiently-centralised management on procurement, IT, finance and other areas. Through promoting the efficiently-centralised operations of overseas businesses, profitability was significantly enhanced. The Company recorded a 38% growth in the revenues from overseas during the year.

The Company adopted various initiatives to improve its operating efficiency and profitability. The Company implemented a market-oriented approach internally by focusing on the key evaluation metrics and optimising its resources allocation model while creating an internal competition mechanism for costs and investment resources to tilt the resources towards high growth and high returns areas. To adapt to a new operating model, the Company restructured its front-end organisation, and further strengthened the efficiently-centralised operation and co-ordination from a vertical perspective while enhancing the synergistic collaboration of various sales channels to enhance the efficiency of its front-end decision-making and execution. The Company also innovated services approach with customer experience as a core by launching multimedia customer services on Internet through handset application, "YiChat" and "Wechat" to achieve "one-point access for entire-network service". The Company progressively promoted the mobility of service processing to further improve service efficiency. The Company strengthened precision management by actively enhancing the utilisation and consolidation of its existing assets, as well as increasing the level of capital centralisation, strengthening its control over investment and costs to increase the efficiency and return of the use of its capital and assets.

Corporate Governance and Social Responsibility

We continue to strive to maintain a high level of corporate governance, attaching great importance to risk management and control. We strive to enhance corporate value and transparency to ensure our healthy and orderly growth. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We were accredited with a number of awards and recognition, including being voted the "No. 1 Best Managed Company in Asia" by *FinanceAsia* for three