

CHINA TELECOM CORP LTD
Form 6-K
April 15, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the Month of April 2013

Commission File Number 1-31517

China Telecom Corporation Limited

(Translation of registrant's name into English)

31 Jinrong Street, Xicheng District

Beijing 100033, China

(Address of principal executive offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):)

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

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EXHIBITS

Exhibit Number		Page Number
1.1	<u>Annual report for the year ended December 31, 2012, released on April 11, 2013</u>	A-1
1.2	<u>Announcement of notice of annual general meeting, dated April 11, 2013</u>	B-1
1.3	<u>Circular regarding proposed change of auditors and notice of annual general meeting, dated April 11, 2013</u>	C-1

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 6-K may be viewed as 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. 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 and our ability to successfully execute these 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 the acquired business or assets;

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 are used herein, are 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 following:

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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;

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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;

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 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.

Please also see the Risk Factors section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA TELECOM CORPORATION LIMITED

Date: April 15, 2013

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

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Exhibit 1.1

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2012 Milestones

March

China Teecom first launched CDMA

iPhone 4S

June

China Telecom provided communication safety assurance for Shanghai Cooperation

Organisation Beijing Summit

June

China Telecom successfully accomplished the communication safety assurance of Shenzhou 9 spacecraft

December

The Company has agreed with China Telecommunications Corporation to acquire certain assets and liabilities of CDMA network at RMB87.2 billion and the transaction was completed at the end of 2012

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Corporate Information

China Telecom Corporation Limited (China Telecom or the Company , together with its subsidiaries, collectively the Group) is a full services integrated information service operator and the world 's largest wireline telecommunications, CDMA mobile network and broadband Internet services provider, providing basic telecommunications services such as wireline telecommunications services and mobile telecommunications services, and value-added telecommunications services such as Internet access services and information services in the PRC. As at the end of 2012, the Company has wireline access lines in service of about 163 million, wireline broadband subscribers of about 90 million and mobile subscribers of about 161 million. The Company 's H shares and American Depositary Shares (ADSs) are listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively.

Board of Directors

Executive Directors

Wang Xiaochu (Chairman)

Yang Jie

Wu Andi

Zhang Jiping

Yang Xiaowei

Sun Kangmin

Ke Ruiwen

Independent Non-Executive Directors

Wu Jichuan

Qin Xiao

Tse Hau Yin, Aloysius

Cha May Lung, Laura

Xu Erming

Company Secretary & Qualified Accountant

Yung Shun Loy, Jacky

Audit Committee

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Tse Hau Yin, Aloysius (Chairman)

Wu Jichuan

Qin Xiao

Xu Erming

Remuneration Committee

Xu Erming (Chairman)

Wu Jichuan

Qin Xiao

Tse Hau Yin, Aloysius

Nomination Committee

Wu Jichuan (Chairman)

Tse Hau Yin, Aloysius

Cha May Lung, Laura

Xu Erming

Supervisory Committee

Shao Chunbao (Chairman)

Zhu Lihao (Independent Supervisor)

Mao Shejun (Employee Representative)

Zhang Jianbin (Employee Representative)

Hu Jing

Du Zuguo

Legal Representative

Wang Xiaochu

International Auditor

KPMG

Legal Advisers

Jingtian & Gongcheng

Freshfields Bruckhaus Deringer

Sullivan & Cromwell LLP

Stock Code

HKEx: 728

NYSE: CHA

Company Website

www.chinatelecom-h.com

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Financial Highlights

	2010 ⁵ (restated)	2011 ⁵ (restated)	2012
Operating revenues (RMB millions)	219,897	245,068	283,073
Pre-leasing fee EBITDA ¹ (RMB millions)	88,988	94,371	96,387
Post-leasing fee EBITDA ¹ (RMB millions)	75,668	75,360	70,841
Net profit ² (RMB millions)	15,339	16,500	14,925³
Capital expenditure (RMB millions)	43,037	49,551	53,731
Total debt/Equity ⁴	29.9%	20.3%	37.7%
Earnings per share (RMB)	0.1895	0.2039	0.1844
Dividend per share (HK\$)	0.085	0.085	0.085
Net asset value per share ⁴ (RMB)	3.035	3.165	3.275

1 Pre-leasing fee EBITDA was calculated before CDMA network capacity lease fee. Post-leasing fee EBITDA was calculated after CDMA network capacity lease fee.

2 Net profit represented profit attributable to equity holders of the Company.

3 Following the launch of iPhone to expand the high-end market, the Group made an appropriate increase in marketing initiatives for the profitable scale development of its mobile services, which is expected to significantly enhance its long-term sustainable growth and value creation despite the short-term pressure on its profitability.

4 Equity and net asset value represented equity attributable to equity holders of the Company.

5 Certain prior years figures were retrospectively restated due to the acquisition of digital trunking business. Please refer to note 1 to the audited financial statements in this annual report for details.

For further information, please browse our website at www.chinatelecom-h.com.

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Financial Highlights

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Chairman's Statement

2012 was the best year ever for the Company's development since the commencement of full services operation. We persisted in deepening transformation, firmly adhered to the main theme of promoting scale development through dual-leadership in innovation and service and persisted in efficient scale operation and data traffic operation, leading to rapid expansion in the core services. Through the successful acquisition of mobile network from our parent company, we accomplished unified mobile service operation with network as a whole. We accurately captured the development pattern of the mobile Internet and developed sustainable competitive advantages, resulting in significant enhancement in our four core capabilities in innovation, service, centralised efficient management and operation. With pragmatic promotion of the Three New Roles strategy, the strategic landscape of new businesses emerged and the corporate development is ignited with new vitality.

Operating Results

In 2012, the Company's operation was on track as planned. The operating revenues amounted to RMB283.1 billion, representing an increase of 15.5% over last year. Excluding the mobile terminal sales, the operating revenues were RMB258.3 billion, representing an increase of 11.8% over last year, with revenue growth surpassing industry average. The proportion from high growth businesses increased rapidly and the business structure continuously optimised. EBITDA² was RMB96.4 billion, an increase of 2.1% over last year. EBITDA margin³ was 37%. The profit attributable to equity holders of the Company was RMB14.9 billion, declined by 9.5% from last year. Taking advantage of the opportunities arising from the launch of iPhone, the Company made an appropriate increase in marketing initiatives for the expansion into the high-end subscriber market to promote the revenue growth, which is expected to significantly enhance the long-term sustainable growth and value creation despite the short term pressure on the profitability. Basic earnings per share of the Company were RMB0.18. Capital expenditure was RMB53.7 billion. Free cash flow⁴ reached RMB12.4 billion.

At the end of 2012, we successfully completed the acquisition of CDMA network assets from the parent company, enabling us to organise and coordinate the investment and deployment, operation and management, as well as the upgrade and planning for the mobile network, promoting better development of the mobile services and enhancing the future profitability of the Company.

Taking into account the return to shareholders, the Company's cash flow and the capital requirements for the mobile network acquisition and future development, the Board of Directors has decided to recommend at the forthcoming Annual General Meeting that a dividend being an equivalent of HK\$0.085 per share be declared, which is the same as last year.

1 The Three New Roles refers to the Leader of Intelligent Pipeline, the Provider of Integrated Platforms and the Participant of Content & Application Development.

2 For convenience of investors' comparative analysis, EBITDA is calculated before CDMA network capacity lease fee.

3 EBITDA margin is calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

4 Free cash flow is calculated from EBITDA minus CDMA network capacity lease fee, capital expenditure and income tax.

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Chairman's Statement

Nowadays, with increasing popularity of smartphones and flourishing mobile Internet development, a terminal is no longer a simple conversational device, but more for providing life-enriching and value-creating information to users. Facing this fundamental change, our people courageously break away from the constraints of traditional telecommunications operation mindset, persistently reinforcing their efforts in learning and exploring. They are keen for reform and innovation, endeavouring to offer superior and compelling services to our customers. I feel so proud and grateful to our team for their unrivalled dedication and passion. I firmly believe that China Telecom would ride on this momentum to achieve a vibrant enterprise built to last!

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Chairman's Statement

The Company will strive to enhance profitability and concurrently pave the way for future dividend increase.

Rapid scale expansion of full services operation

In 2012, we deepened the implementation of the two key strategies of scale operation and data traffic operation, persisting in mobile operation driven by 3G and proactively developing fibre broadband deployment and accelerated development in informatisation application. The three core services integrated altogether and fostered synergistically, resulting in strong growth in revenues and subscriber scale of the Company. The operating revenues achieved double-digit growth and the wireline revenue became stabilised with an upward trend. The efficient scale development of full services operation is on the fast track.

In 2012, mobile Internet business began to experience exponential growth. We firmly grasped the opportunity to accelerate scale expansion, proactively leveraging the network strengths, persisting in terminal-driven mode, reinforcing scale procurement and centralised efficient marketing of terminals, deepened transforming self-operated sales outlets into specialty stores, motivating the vigorousness of open channels, equally emphasising integrated products and mobile single product, and rolling out data traffic operations in full-scale. Mobile services revenue amounted to RMB92.8 billion for the full year, an increase of 36% over last year, which was the highest growth rate in the industry. The number of mobile subscribers reached a total of 161 million, with a net addition of 34.15 million, of which net addition of 3G subscribers was 32.76 million. 3G subscribers accounted for 43% of total subscriber base. Mobile subscriber market share was about 15% while 3G subscriber market share reached 30%, with increasing influence on the market.

In 2012, we successfully embarked on data traffic operation. Started with establishing an operating system, the Company built a data traffic operation team which was vertically integrated and horizontally coordinated. Meanwhile, numerous initiatives were adopted to effectively expand the data traffic scale: enhancing the quality of data traffic resources through strengthening the coordination and centralised efficient promotion of self-developed applications such as product centre businesses and premium external-parties applications; strengthening the promotion of 3G smartphones and reinforcing the 3G applications assistance as well as sales and marketing to enhance customers' experience and to cultivate users' habits in data traffic; precision marketing to improve the services in data usage alert and traffic usage enquiries to improve customers' experience; refining data traffic packages and focusing on targeted markets to improve the data traffic contribution. The data traffic of Internet access by handset almost tripled in 2012.

In 2012, the Company reinforced its leadership in the wireline broadband market. The Company progressively promoted the Broadband China Fibre Cities construction project and further expanded fibre broadband coverage. Concurrently, we pushed full-strength ahead with our fibre broadband marketing campaign Lightning Fibre Residential Areas, quickly transforming the strengths of our superior network to a competitive edge. At the same time, the Company further penetrated into the rural broadband market. Building on this foundation, we comprehensively promoted the network bandwidth upgrade initiative to enhance customer perception of our broadband network and the brand value.

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Chairman's Statement

We deepened the integration of broadband access with products such as Internet TV (iTV) to provide premium content and enriched value. To enhance customer satisfaction, we promoted the research and development of intelligent bandwidth upgrade products, offered services for self-served bandwidth assessment and optimised customers experience by self-served bandwidth upgrade. Wireline Internet access service revenue were RMB67.8 billion for the year, an increase of 10% over last year. Wireline broadband subscribers base exceeded 90 million with net addition of 13.31 million, of which the number of Fibre-to-the-Home (FTTH) subscribers was about 15 million.

We further expanded our strengths in informatisation applications in 2012 by separately promoting and deepening strategic cooperation with three target groups: Smart Cities , key customers and cooperation partners. Scale expansion achieved significant results in various target market groups: for the key customers in the industries, we persisted in offering a comprehensive solution focusing on six key applications such as administration and tax services to extend vertical integration; for clustered small to medium-sized customers such as the professional market, we concentrated on four main standardised products such as e-Surfing RFID to promote scale replication; for the campus market, we launched the new application e-Surfing School that specifically targets primary and secondary schools and secured nearly 20,000 contracts for the Smart Campus initiative. In 2012, the revenue growth rate from the government and enterprise customers was above that of the Company as a whole. In 2012, the net addition of government and enterprise broadband customers was about 4 million, with a subscriber base of more than 20 million. The net addition of mobile subscribers of informatisation applications was over 10 million in total, reaching a scale of more than 20 million. Data traffic and value per subscriber were further enhanced.

Enhancing Four Capabilities and Developing a Sustainable Competitive Edge

Innovation capability To liberate mindsets and take the lead in innovation. The intelligent upgrade of our broadband network has progressed from trial to commercial launch, promoting intelligent upgrade of our mobile network with a real-time service identification capability as its core. We accelerated the construction of an integrated platform and were the pioneer in building a platform with open and cooperative ability, congregating customer and data traffic resources. We deepened our innovation in systems and mechanisms, accelerated the corporatisation process of our product centres services and introduced private investment to stimulate their vitality and initiatives. We accelerated the transformation of electronic channels to e-commerce channels, which is leading in the industry. We consolidated our resources abroad and established China Telecom Global Limited to coordinate our overseas market expansion. We adhered to the doctrine of people-oriented strategy and optimised our human resources management system as well as strengthened the team-building of our management staff, senior professional talents and frontline employees.

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Chairman's Statement

Service capability Deepened service transformation and focusing on key services to achieve service leadership. We built an open and intelligent customer service mechanism to provide one-stop service solutions to customers. Leveraging on service innovation, we vigorously enhanced the service capabilities of Online Service Centre and Mobile Palm Service Centre to create comparative advantages in the market. Customer life-cycle management was implemented to strengthen the effectiveness of our customer retention efforts. As a pioneer in adopting 3G service standards that are higher than the industry level, and specifically targeting the enhancement of mobile broadband service level, our 3G service satisfaction is leading in the industry. With further implementation of wireline broadband services enhancement projects and development of superior broadband services around key customer interfaces, we attained the highest level of broadband service satisfaction in the industry.

Centralised efficient management capability Deepened centralised efficient operation and marketing: We optimised our brand structure, refined our service packages, strengthened the centralised efficient management of products, improved the 3G terminal portfolio structure and strengthened the efforts in centralised procurement, further unified service codes and standards, and reinforced one-point access and entire-network operation; in the four key areas including procurement, IT system, government and enterprise customers marketing, network operation and maintenance, we fully implemented the separation of management and operational functions and optimised our organisational structure, increased our market responsiveness and enhanced our operating efficiency. We established a Cloud company to implement professional operation and centralised efficient management of our Cloud service.

Operation capability Optimised comprehensive budgeting and performance management: We promoted market-share oriented and dynamic budget management and assessment system to foster the Company's overall market share expansion. We implemented precision management and further promoted refinement of performance evaluation units, strengthening cost control and continually enhancing operating efficiency. We optimised our resource allocation and tilted our sales initiatives towards high growth businesses, while our investment focusing on high return areas in fibre broadband, mobile Internet and core business platforms. We strengthened the synergies among our various channels and fully mobilised the enthusiasm of the open channels, resulting in enhancement in channel integrated efficiency.

Corporate Governance and Social Responsibility

We continue to strive to maintain a high level of corporate governance, strengthen risk management and control, improve corporate transparency and enhance corporate value. 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 two consecutive years, The Best of Asia by *Corporate Governance Asia* for three consecutive years, and also Overall Best Managed Company in Asia by *Euromoney* four years in a row.

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Chairman's Statement

We firmly adhere to corporate social responsibility and be a responsible corporate citizen. We persist in operating with integrity and proactively protecting the industry eco-environment. We implement environmentally friendly operation and enhance energy saving and emissions reduction as well as the cooperative building and sharing of mobile base stations. We provided telecommunications assurance services for significant events such as the successful launch of Shenzhou-9 spacecraft and Shanghai Cooperation Organisation Summit, receiving high recognition and appreciation from the society. In 2012, China Telecom was accredited with China's Outstanding Enterprise in Corporate Social Responsibility by the Chinese Academy of Social Sciences.

Outlook

Looking ahead, we are fully confident. Currently, with the tide of mobile Internet sweeping globally and the accelerated industrialisation and informatisation development in China, the information and communications industry in the Mainland will maintain a relatively high growth rate, which offers the Company a promising prospect. Meanwhile, the intensifying market competition, uncertain regulatory environment and rapid development of new technology offer us not only development opportunities but also new challenges.

We will firmly seize this valuable golden opportunity to persevere with the deepening of strategic transformation. We will accelerate the scale development of fundamental services, expedite the nurture of emerging services as well as closely monitor and proactively respond to advancement of new technology and changes in regulatory policies. We will also adhere to the Internet's spirit of openness, cooperation and innovation, breaking away from the constraints of traditional telecommunications operation mindset. We will promote the services development through differentiation, motivate the innovative vitality of our employees through market-driven mechanism and promote scale development and profitability through dual-leadership in innovation and service. Leveraging our unswerving promotion of Three New Roles strategy, our unique and sustainable competitive strengths are created, so as to achieve a vibrant enterprise built to last.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, China

20 March 2013

Chairman Wang Xiaochu received No. 1 Best Managed Company in Asia award from FinanceAsia

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Directors, Supervisors and Senior Management

Mr. Wang Xiaochu

Age 55, is the Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. Wang 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 Communications Corporation, President of China Telecommunications Corporation, Chairman of the board of directors and a Non-executive Director of China Communications Services Corporation Limited. He is also the Chairman of China Telecommunications Corporation and 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 Scientific and Technological Progress Award. Mr. Wang has over 30 years of management experience in the telecommunications industry.

Mr. Yang Jie

Age 51, is an Executive Director, President and Chief Operating Officer of the Company. Mr. Yang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (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 29 years of operational and managerial experience in the telecommunications industry in China.

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Directors, Supervisors and Senior Management

Madam Wu Andi

Age 58, is an Executive Director, Executive Vice President and the Chief Financial Officer of the Company. She is responsible for the financial management of the Company. Madam Wu is a senior accountant. She graduated from the Beijing Institute of Economics with a bachelor 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. She studied in a master of business administration (MBA) program at the Guanghai School of Management at Peking University from 2002 to 2003 and received an executive master degree of business administration (EMBA). 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 Ministry of Information Industry (MII), Director General, Deputy Director General and Director of the Department of Finance of the Ministry of Posts and Telecommunications (MPT). She is also a Vice President of China Telecommunications Corporation. Madam Wu has 31 years of economic and financial management experience in the telecommunications industry in China.

Mr. Zhang Jiping

Age 57, is an Executive Director and Executive Vice President of the Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor 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 (DGT) of the MPT, a Deputy Director General and Director of the Telecommunication Technology Centre of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has 31 years of experience in network operation and management in the telecommunications industry in China.

Mr. Li Ping

Age 59, is an Executive Vice President of the Company. Mr. Li graduated from the Beijing University of Posts and Telecommunications with a major in radio telecommunications in 1976 and received a MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. He served as Executive Director of China Telecom Corporation Limited, 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 the Vice President of China Telecommunications Corporation, 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 37 years of operational and managerial experience in the telecommunications industry in China.

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Directors, Supervisors and Senior Management

Mr. Yang Xiaowei

Age 49, is an Executive Director and Executive Vice President of the 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 General and Deputy Director General of Chongqing Telecommunications Bureau, a Deputy Director General of the Chongqing Telecommunications Administration Bureau and a Director General of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the Unicom Group, Vice President of the Unicom Group, Director of the Unicom Group and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of China Unicom Corporation Limited and Chairman of Unicom Huasheng Telecommunications Technology Co. Ltd.. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and telecommunications industry.

Mr. Sun Kangmin

Age 56, is an Executive Director and Executive Vice President of the Company. Mr. Sun is a senior engineer. He holds a bachelor 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 Communication Administration 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 29 years of operational and managerial experience in the telecommunications industry in China.

Mr. Ke Ruiwen

Age 50, is an Executive Director and 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 27 years of operational and managerial experience in the telecommunications industry in China.

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Directors, Supervisors and Senior Management

Mr. Wu Jichuan

Age 75, is an Independent Non-executive Director of the Company. Mr. Wu is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Expert Committee for Telecommunication Economy of MIIT, Honorary Director General of the Chinese Institute of Electronics, and Honorary Director General of the Chinese Institute of Communications. Mr. Wu graduated from the 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 Ministry of Posts and Telecommunications, Deputy Director of the Committee of the Radio Management of China, Vice Leader of the Informatisation Leading Group of the State Council, Minister of Ministry of Information Industry, 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 Education, Science, Culture and Public Health Committee of the National People's Congress.

Dr. Qin Xiao

Age 65, is an Independent Non-executive Director of the Company. Dr. Qin obtained his Ph.D. in economics from University of Cambridge. He is the Independent Non-executive Director of HKR International Limited and AIA Group Limited and China World Trade Center Company Limited and the Non-executive Chairman of the Board of Amex Resources Limited. He is 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, a non-official member of the Financial Services Development Council of Hong Kong. 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 (CITIC), and Chairman of CITIC Industrial Bank. He was a deputy to the Ninth National People's Congress, a member of the Tenth and the Eleventh 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, he also served as Chairman of APEC Business Advisory Council (ABAC) for the Year 2001. His papers and books in economics, management and social transformation have been published in China and abroad.

Mr. Tse Hau Yin, Aloysius

Age 65, 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, Sinfert Holdings Limited and SJM Holdings Limited. He 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 (HKICPA). Mr. Tse is a past president and a former member of the Audit Committee of the HKICPA. 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 China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

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Directors, Supervisors and Senior Management

Madam Cha May Lung, Laura

Age 63, is an Independent Non-executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the 12th National People's Congress, PRC, the Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission (CSRC), a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region and Chairman of the Financial Services Development Council, Government of the HKSAR. 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 a member of the Yale School of Management Board of Advisors. Mrs. Cha served as Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director and Deputy Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University of USA in 1982.

Professor Xu Erming

Age 63, is an Independent Non-executive Director of the Company. Professor Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, 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 and Vice Chairman of the Chinese Enterprise Management 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). Over the years, Professor Xu has conducted research in areas related to strategic management, organisational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course 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. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and the Hong Kong Polytechnic University.

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Directors, Supervisors and Senior Management

Mr. Yung Shun Loy, Jacky

Age 50, is the Assistant Chief Financial Officer, Qualified Accountant and the Company Secretary of the 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 degree in laws and a bachelor degree in social sciences. Mr. Yung has over 20 years of experience in auditing, company secretary and senior financial management of listed companies.

Mr. Gao Jinxing

Age 50, is the Financial Controller of the Company. Mr. Gao is a senior economist and has a master 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, the Financial Controller and the Chairman of the Labour Union of China Telecom Fujian branch.

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Directors, Supervisors and Senior Management

Supervisors

Mr. Shao Chunbao

Age 55, is the Chairman of the Supervisory Committee of the Company. Mr. Shao is currently the head of the Discipline Inspection Division of China Telecommunications Corporation. Mr. Shao received a doctorate degree from the Huazhong University of Science and Technology. He served as Deputy Office Director and Deputy Director of the Scientific Research Division of the Shanxi Taiyuan Municipal Party School, Director-grade Secretary in the General Office of CPC Committee of Shanxi Province, Director-grade investigator of the Organisation Department of the Central Committee of CPC, Director General-grade Deputy Director General of the Central Direct-owned Institutions Management Office, Deputy Secretary of the Municipal Party Committee of Jiujiang of Jiangxi Province, Deputy Secretary of the Discipline Commission and Director General of the Inspection Bureau of the State Owned Assets Supervision and Administration Commission of the State Council. Mr. Shao has extensive government work experience and management experience.

Madam Zhu Lihao

Age 72, is an Independent Supervisor of the Supervisory Committee of the Company. Madam 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. Madam Zhu served as a Deputy Director General, Director General, Deputy Director and Director of the Department of Industry and Communications of the National Audit Bureau of China, and the Director General of the Department of Foreign Affairs and Foreign-related Auditing of the Audit Bureau. Madam Zhu has over 40 years of experience in management and auditing.

Mr. Mao Shejun

Age 59, is an Employee Representative Supervisor of the Supervisory Committee of the Company. Mr. Mao is currently the senior consultant of the Labour Union of China Telecommunications Corporation. Mr. Mao holds a master degree in management from the Australian National University and has held positions as Human Resources Officer of the former Hubei Posts and Telecommunications Administration and Managing Director of the Human Resources Department of China Telecom Corporation Limited. Mr. Mao is a senior economist and has over 30 years of experience in operation and management in the telecommunications industry.

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Directors, Supervisors and Senior Management

Mr. Zhang Jianbin

Age 47, is an Employee Representative Supervisor of the Supervisory Committee of the Company. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department). Mr. Zhang graduated from the Law School of Peking University in 1989 and received LLB and LLM degrees. He also had EMBA degree from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the Ministry of Posts and Telecommunications (MPT) and the Directorate General of Telecommunications (DGT) of the MPT. He served as Deputy Director of the General Office and Deputy Director of the Legal Affairs Division of the DGT of the MPT, Director of the Corporate Strategy Department (Legal Department) of the Company. Mr. Zhang is a senior economist with over 20 years of experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.

Mr. Hu Jing

Age 37, is a Supervisor of the Supervisory Committee of the Company. Mr. Hu is currently the Director in the audit department of the Company. Mr. Hu received a bachelor's degree in accounting from the Xi'an University of Finance and Economics in 1997 and a master's degree in business administration from the Northwest University in 2003. Mr. Hu served at various financial and auditing positions at Shaanxi Telecom Company and China Telecommunications Corporation. He is a member of the Chinese Institute of Certified Public Accountants and senior accountant with 15 years of experience in finance and auditing.

Mr. Du Zuguo

Age 50, is a Supervisor of the Supervisory Committee of the Company. Mr. Du is a senior economist. He is the General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of China Telecom Corporation Limited) and the Chairman and General Manager of Zhejiang Province Financial Holdings Company Limited. Mr. Du served as Director, Deputy Director General, Deputy Secretary to the CCP Committee, Director General and Secretary to the CCP Committee of Zhoushan Finance and Local Tax Bureau in Zhejiang province and now is a CCP Committee member of Zhejiang Provincial Department of Finance. Mr. Du has extensive experience in government's work and large-scale state-owned enterprise management.

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The following table sets out key operating data for 2010, 2011 and 2012.

	Unit	2010	2011	2012	Rate of change 2012 over 2011
Mobile subscribers	million	90.52	126.47	160.62	27.0%
of which: 3G subscribers	million	12.29	36.29	69.05	90.3%
Wireline broadband subscribers	million	63.48	76.81	90.12	17.3%
Access lines in service	million	175.05	169.59	163.00	-3.9%
Mobile voice usage	million minutes	295,885	407,765	509,229	24.9%
Mobile SMS usage	million messages	33,116	49,941	55,789	11.7%
Mobile Colour Ring Tone subscribers	million	54.15	75.38	92.19	22.3%
Wireline local voice usage	million pulses	251,425	206,371	172,175	-16.6%
Wireline caller ID service subscribers	million	118.99	115.58	109.93	-4.9%

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Business Review

In 2012, facing an external environment featured by a slowdown in macro-economic growth and intensified market competition in the industry, the Company firmly grasped opportunities arising from the rapid development of the mobile Internet, insisted on adopting a 3G smartphone-led strategy and placed equal emphasis on promoting single products and integrated products, resulting in the rapid development of our mobile service and reinforcing the competitive edges in the wireline broadband service and alleviating operating risks resulting from wireline voice service. At the same time, the Company actively promoted service innovation of industry applications for the government and enterprise customers and the content services business for the public customers, and has seen satisfactory progress of the data traffic operation and further optimised the business structure.

Key Operating Performance**(1) Rapid growth in operating revenues at the rate surpassing industry-average, while business structure optimised continuously**

In 2012, the Company's operating revenues grew 15.5% to RMB283,073 million. Excluding revenues from mobile terminal sales, operating revenues were RMB258,316 million, giving an annual growth rate of 11.8%. Driven by the growth of our mobile and broadband services, the Company's revenue structure was further optimised. The proportion of mobile revenues rose from 33.7% in the previous year to 41.6% this year and the share of revenues from both mobile and broadband services increased to over 65%.

(2) Mobile services maintained rapid growth and customers' values were notably enhanced while subscriber base was expanding

In 2012, we adopted a mindset that is terminal-led, application-driven and places concurrent emphasis on integrated products and centralised efficient single products. By implementing these strategies through measures such as focusing on 3G smart terminals, consolidating the 3G application assistance process and boosting synergies across channels, the Company succeeded in continuously expanding the 3G subscriber base. Meanwhile, leveraging on the introduction of industry informatisation applications, the Company concentrated on the promotion of high-end smartphones under contracts and dual-mode smartphones to the government and enterprise customers, thereby achieving scale expansion of the medium-to-high-end subscriber base with a net addition of 34.15 million subscribers, the Company boasted the mobile subscriber base of 160.62 million subscribers; mobile service revenue grew 36.0% year-on-year to RMB92,803 million; mobile average revenue per mobile user (ARPU) was RMB53.9, representing a growth of 2.8% year-on-year.

(3) Wireline revenue became stabilised with an upward trend, market leadership in the wireline broadband service was further reinforced with risks from wireline voice business being further alleviated

In 2012, the Company continued to strengthen its edge in wireline and mobile integration, redoubled its efforts in promoting its self-selected convergent services and stabilised the number of access lines in service. Revenue from wireline services was RMB165,247 million and up 1.8% year-on-year, improving from the 2.2% decline in the previous year.

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In the wireline broadband service, the Company reinforced its competitive edge by further implementing the Broadband China Fibre Cities project, by mounting a Lightning Fibre Residential Areas campaign for public customers and by quickening the pace of fibre upgrade of broadband access networks for government and enterprise customers. In 2012, the number of wireline broadband subscribers registered a net increase of 13.31 million, which brings the total number of wireline broadband subscribers to 90.12 million; revenue from wireline broadband services grew 9.8% to RMB66,738 million.

In developing wireline value-added services and integrated information services, the Company took full advantage of technologies such as the Internet of Things and Cloud computing to offer integrated solutions to customers. Meanwhile, by accelerating development of information communication technology (ICT), Internet data centre (IDC) and Internet TV (iTV) services, the Company was able to provide customers with integrated information services that are convenient, rich, differentiated, and have a high price-performance ratio. Revenues from the Company's wireline value-added services and integrated information services grew 3.0% during the year to RMB30,681 million.

In 2012, revenue from wireline voice service as a percentage of the Company's operating revenues saw a further decline, signalling a further alleviation of operational risks. Revenue from wireline voice service in 2012 was RMB43,335 million, representing 15.3% of the operating revenues and a drop of 5 percentage points from the previous year.

Business operating strategies

In 2012, the Company closely adhered to the operating theme of promoting scale development through dual-leadership in innovation and service, vigorously implemented the two key strategies of scale operation and data traffic operation, and carried out operational measures in terminal-led marketing, open channel optimisation, strengthening centralised efficient marketing and promotion of mobile data traffic operation :

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First, the Company maintained a smart-terminal-led approach in driving improvements in quantity and quality in mobile services.

In 2012, the Company persisted in the sales strategies of centralised efficient sales and concentrated on achieving breakthroughs on making key terminals available. Centralised efficient management systems in direct terminal supply, retail and servicing were set up and overall competitiveness in terminal management was systematically enhanced through the standardisation of terminal products, marketing, services, management, cooperation and IT support. Subsequently, the mobile terminal sales volume jumped substantially, which drove the expansion of the mobile subscriber base and continued to improve the business structure. Meanwhile, capitalising fully on the competitive advantages of integrating 3G smartphones with fibre broadband service, major efforts were spent in developing self-selected convergent services to effectively enhance customer value. In 2012, the number of available-for-sale 3G terminal models was around 860 while the number of available-for-sale 3G smartphone models was around 380. 3G smartphone subscribers had a penetration rate of approximately 34% among mobile subscribers, representing an increase of over 20 percentage points from the end of the previous year. The high-bandwidth (bandwidths of 4Mbps or above) subscribers accounted for as much as 73% of the wireline broadband subscriber base, an increase of 23 percentage points from the beginning of 2012, and the number of fibre broadband subscribers was about 15 million.

Second, the distribution of the sales channels was further optimised, their synergies were strengthened and efficiency was improved.

The Company attached great importance to the improvement of sales capability of open channels. To boost sales enthusiasm of open channels, measures such as reinforcing direct terminal supply, increasing retail incentives and raising the price-performance ratios of terminals were adopted. Consequently, remarkable results were achieved. In 2012, the share of mobile subscribers acquired from open channels rose to 64%. At the same time, the Company continued to carry out the transformation of self-operated stores into outlet-style stores, improved the sales processes and innovated new sales models, thereby significantly increasing both the efficiency of the sales outlets and their sales capability. In 2012, the sales volume of terminals in the Company's outlet-style stores increased 35% year-on-year. With the function of the Company's electronic channels changing from being services-oriented to sales-oriented and the realisation of basic e-commerce functions, there were continuous improvements to the operation standards while the self-served services capabilities continued to perfect and became more convenient. In 2012, the Company's electronic channel cumulatively completed transactions worth RMB44,390 million in the aggregate, representing an annual growth rate of 139%, while the cumulative number of subscribers cultivated reached 1.68 million.

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Third, continuously stepped up centralised efficient marketing and sales efforts to improve development efficiency.

In 2012, the Company optimised its brand portfolio under the e-Surfing theme, and brands such as e-Surfing Young , e-Surfing Home and e-Surfing Navigator were launched. The Company strengthened the promotion of centralised efficient single products such as e-Surfing Young , Enjoy 3G packages and e-Surfing Cloud Cards were promoted vigorously. Sales & marketing of iPhones and large-screen smart phones priced around RMB1,000 was carried out across the sales network. To improve customer satisfaction levels, service standards and service codes were unified with Satisfaction 3G and Five Care broadband service pledges covering excellency in installation, excellency in users experience, excellency in repairing, excellency in subscription renewal and excellency in connection were introduced. In the government and enterprise market, the Company remained focused on key standardised informatisation application products and aimed for scale replication promotions through unifications in practices and platforms. In 2012, subscribers to the Company's centralised efficient single products accounted for approximately 42% of all new subscribers; the daily average number of e-Surfing Cloud Cards sold hit the 30,000 mark; the number of mobile subscribers acquired via industry applications in government and enterprise market exceeded 10 million, which was almost 30% of the total net addition of mobile subscribers

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Business Review

Fourth, intensive experience-based marketing was instrumental in propelling data traffic operation to a new level.

The Company proactively nurtured emerging services by capitalising on the opportunities brought about by the proliferation of mobile Internet. In order to establish competitive professional corporates and to foster the rapid development of emerging businesses, the Company trialed various corporate mechanisms and flexible incentive schemes and sped up the pace of corporatisation and equity restructuring of emerging services such as product centre businesses. At the same time when the Company expanded the self-developed businesses, the Company enhanced the cooperation efforts with mainstream content providers, promoted the introduction of socially popular applications and boosted its content offering. The Company enhanced its capability in providing integrated information services by promoting the application of new technologies and services such as the Internet of Things and Cloud computing, so that the Company was in a position to seize head-start development opportunities in the mobile Internet area and to steadily advance the data traffic operation. In 2012, mobile handset Internet access revenue surged 137% over last year to RMB12,163 million while 3G handset subscriber data traffic monthly average increased 26%, from 106MB to 134MB. Thus value contribution from the data traffic operation is becoming more apparent gradually and has already become one of the key revenue growth drivers.

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Business Review

Network and operation support

In 2012, the Company continued to uphold the return-focused principle investment, controlled the investment volume, optimised the investment structure, and implemented differentiated investment strategies to support the rapid scale expansion of the key services. As a result, the Company achieved enhanced investment efficiency and improved resource utilisation.

To promote the Fibre Cities Project strategy continuously, and to reinforce the Company's competitive edge in wireline broadband network, meet the rising demand of broadband Internet services and raise the core competitiveness of our networks, the Company continued with the implementation of the Broadband China Fibre Cities project and carried out scale Fibre-to-the-Home (FTTH) construction in urban areas. In 2012, our broadband & Internet related investments amounted to RMB35,946 million, accounting for 66.9% of the Company's capital expenditure. A total of 40 million new broadband access ports were added and the proportion of FTTH ports to the total number of broadband access ports was 63%, up 12 percentage points from the end of last year. In the southern cities, the 20Mbps access bandwidth coverage was 82%, up 11 percentage points over the previous year.

The Company also advanced carefully with its investments in WiFi construction and continually improved the coverage of WiFi network in public hot spot areas, thereby realising the effective offloading of mobile data traffic and the better extension of wireline broadband services. In 2012, the Company invested RMB1,360 million in WiFi and built about 0.28 million new access points.

The Company also continued with its work on capacity expansion, network optimisation and upgrade of carrier network; built up synergy between the IP and transmission networks; and actively carried out pilots on next-generation Internet and high-performance transmission networks to set the foundation for network and technological evolution.

The Company redoubled its efforts in consolidating platforms and expansion of information services. While fortifying the network infrastructure capacity, the Company proactively promoted the integration of platform resources as a way to raise operation efficiency. China Telecom also stepped up the construction pace of Cloud data centres and Cloud resource pools through the scale application of Cloud computing technology and included the newly built platforms into Cloud resource pool management, so as to enhance the centralised support and operation capabilities of the platforms. Meanwhile, the Company was active in extending the depth and breadth of the information service offerings and leveraged the Smart Cities and Smart Agriculture projects as entry points in driving the applications of integrated information services. The investments in value-added services and integrated information services amounted to RMB7,039 million.

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In 2012, there was marked improvement in the Company's IT support capability, effectively supporting the centralised efficient marketing and precision management. By integrating the business data, network data and terminal data, the Company completed the construction of a service centre for sharing network-wide data. As well, the Company was able to realise network-wide end-to-end business management and the automatic provisioning of services such as IDC.

Development measures and highlights for 2013

In 2013, the proliferation of 3G smart terminals and the application of Cloud computing will drive the rapid development of the mobile Internet. At the same time, competition in the industry for the existing market will become more intense. The Company will adhere to the main theme of promoting scale and efficiency enhancement through dual-leadership in innovation and service and will continue to promote scale operation and data traffic operation so as to achieve collective growth in corporate values and customer values.

In 2013, the Company will further strengthen customer differentiation and increase the mobile subscriber market share. By emphasising equally on quantity and quality, the Company will make additional efforts in developing key services and markets to raise corporate efficiency. China Telecom will advance the penetration of the fibre broadband services to maintain its leading position in the broadband market. The Company will adopt the approach of offering high quality services in the high-end market and offering more value-for-money services in the main-stream market to build a differentiated broadband products portfolio. The Company will use the Smart Cities project as the trigger to optimise industry application products, drive for product standardisation and foster scale development of industry applications. The Company will further data traffic operation by sustained improvements in terminals, content applications, networks, IT support, marketing and services, striving for simultaneous increases in data traffic scale and value. The Company will continuously raise the sales capabilities of channels and make substantial efforts in increasing market share of CDMA terminals while expanding the sales network coverage. At the same time, the Company will implement centralised efficient management and reinforce network optimisation, operation and support so as to forge the competitive advantage in services with innovation and differentiation and advance steadily towards the transformation into a mobile Internet operation model.

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Management's Discussion and Analysis of Financial

Conditions and Results of Operations

Summary

In 2012, the Group further deepened the strategic transformation, in alignment with the main theme of promoting scale development through dual-leadership in innovation and service, adhered to the scale operation and data traffic operation, endeavoured to enhance our four core capabilities, including innovation, service, centralised efficient management and operation. The overall operating condition of the Company was healthy, with the growth of revenue beyond expectation, and the business structure continued to be optimised. The Group's operating revenues in 2012 were RMB283,073 million, an increase of 15.5%¹ from 2011; operating expenses were RMB261,887 million, an increase of 18.5% from 2011; profit attributable to equity holders of the Company was RMB14,925 million and basic earnings per share were RMB0.18; EBITDA² was RMB96,387 million and the EBITDA margin³ was 37.3%.

Operating Revenues

In 2012, the Group firmly seized the development opportunities, its full services developed well, the mobile service revenues grew rapidly, the wireline service revenues recovered, the operating revenues achieved a double-digit growth, and the revenue structure continued to be optimised. Operating revenues in 2012 were RMB283,073 million, an increase of 15.5% from 2011. Of this, the total mobile revenue was RMB117,826 million, an increase of 42.5% from 2011. The wireline services revenues were RMB165,247 million, an increase of 1.8% from 2011. The aggregate of mobile service revenues⁴, wireline broadband revenue, wireline value-added services and integrated information application services revenue accounted for 67.2% of the total operating revenues, an increase of 2.4 percentage points from 2011.

- 1 *In 2012, the Group acquired the digital trunking business from Besttone Holding. As the transaction was recognised as a combination of entities under common control, the comparative figures of prior years have been restated accordingly. Please refer to note 1 to the audited financial statements in this annual report for details.*
- 2 *EBITDA was calculated from operating revenues minus operating expenses (which excluded depreciation and amortisation and CDMA network capacity lease fee). As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analyzing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, financial capability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.*
- 3 *EBITDA margin was calculated from EBITDA divided by operating revenues excluding the revenue from mobile terminal sales.*
- 4 *Mobile service revenue represents total mobile revenue minus other mobile revenue. Of this, in 2012, other mobile revenue amounted to RMB25,023 million.*

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

The following table sets forth a breakdown of the operating revenues of the Group for 2011 and 2012, together with their respective rates of change:

(RMB millions, except percentage data)	For the year ended 31 December		
	2012	(restated)	Rates of change
Wireline voice	43,335	49,764	(12.9%)
Mobile voice	49,166	38,628	27.3%
Internet	87,660	74,992	16.9%
Value-added services	31,104	25,554	21.7%
Integrated information application services	23,174	20,473	13.2%
Managed data and leased line	15,710	14,273	10.1%
Others	32,924	21,286	54.7%
Upfront connection fees		98	(100.0%)
Total operating revenues	283,073	245,068	15.5%

Wireline Voice

Through measures of convergent packages and wireline monthly packages, the Group slowed down the loss of wireline voice revenue. The negative effect of wireline voice significantly reduced and its operating risk was further alleviated. In 2012, revenue from wireline voice services was RMB43,335 million, a decrease of 12.9% from RMB49,764 million in 2011, accounting for 15.3% of our operating revenues.

Mobile Voice

In 2012, the Group rapidly expanded the scale of mobile subscribers, and the mobile service has maintained rapid growth. Revenue from mobile voice services was RMB49,166 million, an increase of 27.3% from RMB38,628 million in 2011, accounting for 17.4% of our operating revenues. In 2012, the net increase in the number of mobile subscribers was 34.15 million, reaching 161 million.

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Internet

In 2012, revenue from Internet access services was RMB87,660 million, an increase of 16.9% from RMB74,992 million in 2011, accounting for 31.0% of our operating revenues. On one hand, the Group fostered the rapid growth of broadband service through deeply accelerating the Broadband China Fibre Cities project and the promotion of Lightening Fibre Residential Areas. At the end of 2012, the number of wireline broadband subscribers reached 90.12 million, the wireline broadband revenue of the Group was RMB66,738 million, an increase of 9.8% from 2011. On the other hand, the Group fully leveraged the advantage in 3G network and services, and persisted in data traffic operation. Revenue from mobile Internet access services was RMB19,880 million, an increase of 49.5% from 2011.

Value-Added Services

In 2012, revenue from value-added services was RMB31,104 million, an increase of 21.7% from RMB25,554 million in 2011, accounting for 11.0% of our operating revenues. The increase in revenue was mainly attributable to the rapid growth of mobile value-added services, such as SMS, MMS, iMusic and caller ID services, following the rapid growth in the number of mobile subscribers. Revenue from mobile value-added services was RMB16,848 million, an increase of 39.6% from 2011. As the rapid growth of Internet Data Center and iTV contents and applications services compensated the decline in PAS services, the revenue from wireline value-added services increased by 5.7% from 2011.

Integrated Information Application Services

In 2012, revenue from integrated information application services was RMB23,174 million, an increase of 13.2% from RMB20,473 million in 2011, accounting for 8.2% of our operating revenues. The increase in revenue was mainly due to the rapid development of the IT services and applications services as well as Best Tone type of information services. Revenue from mobile integrated information application services was RMB6,749 million, an increase of 61.8% from 2011.

Managed Data and Leased Line

In 2012, revenue from managed data and leased line services was RMB15,710 million, an increase of 10.1% from RMB14,273 million in 2011, accounting for 5.5% of our operating revenues. As the demand from government and enterprise customers for informatisation continues to increase, the revenue growth from domestic leased circuits services, IP-VPN services and leased optic fibre channel have increased quite rapidly. Revenue from mobile managed data and leased line services was RMB160 million.

Others

In 2012, revenue from other services was RMB32,924 million, an increase of 54.7% from RMB21,286 million in 2011, accounting for 11.6% of our operating revenues. With the growth of the scale of mobile subscribers, the Group further increased the effort in the procurement and sales of mobile terminal equipment, especially 3G smartphones. Revenue from sales of mobile terminal equipment was RMB24,757 million, an increase of 77.7% from 2011.

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Operating Expenses

Taking advantage of the opportunities of the launch of iPhone, the Group increased cost input with rational resource centralisation, further promoted the breakthrough into the high-end market and the sustainable development in the future. In 2012, the operating expenses of the Group were RMB261,887 million, an increase of 18.5% from 2011. The ratio of operating expenses to operating revenues was 92.5%, which increased by 2.3 percentage points from 2011.

The following table sets forth a breakdown of the operating expenses of the Group in 2011 and 2012 and their respective rates of change:

(RMB millions, except percentage data)	For the year ended 31 December		
	2012	2011 (restated)	Rates of change
Depreciation and amortisation	49,655	51,233	(3.1%)
Network operations and support expenses	66,003	52,925	24.7%
Selling, general and administrative expenses	63,076	48,746	29.4%
Personnel expenses	42,812	39,167	9.3%
Other operating expenses	40,341	28,870	39.7%
Total operating expenses	261,887	220,941	18.5%

Depreciation and Amortisation

In 2012, depreciation and amortisation was RMB49,655 million, a decrease of 3.1% from RMB51,233 million in 2011, accounting for 17.5% of our operating revenues. The decline was due to the continuous prudent control of capital expenditure by the Group.

Network Operations and Support Expenses

In 2012, network operations and support expenses were RMB66,003 million, an increase of 24.7% from RMB52,925 million in 2011, accounting for 23.3% of our operating revenues. The increase was mainly attributable to the corresponding increase in CDMA network capacity lease fee and operating and maintenance expenses along with the business development. The CDMA network capacity lease fee in 2012 amounted to RMB25,546 million, an increase of 34.4% from 2011.

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Selling, General and Administrative Expenses

In 2012, selling, general and administrative expenses amounted to RMB63,076 million, an increase of 29.4% from RMB48,746 million in 2011, accounting for 22.3% of our operating revenues. The growth was mainly because the Group seized the opportunity of launching iPhone, expanded the high-end subscriber market and appropriately increased the marketing initiatives. Advertising and promotion expenses amounted to RMB34,901 million, an increase of 26.9% from 2011. Commission and service expenses for third parties amounted to RMB19,537 million, an increase of 36.0% from 2011. In 2012, faced with the intensified competition of mobile services, the Group increased the cost input of terminal equipment offered to customers for free or at a nominal price in advertising and promotion expenses. The cost of terminal equipment offered to customers for free or at a nominal price amounted to RMB21,754 million in 2012, an increase of 39.1% from 2011. At the same time, the Group continued its prudent control on general and administrative expenses. Compared to the same period of last year, general and administrative expenses increased by 15.0%, which was slightly lower than the rate of increase in revenues for the same period.

Personnel Expenses

In 2012, personnel expenses were RMB42,812 million, an increase of 9.3% from RMB39,167 million in 2011, accounting for 15.1% of our operating revenues. The ratio of personnel expenses to operating revenues decreased by 0.9 percentage points when compared to 2011. The Group strengthened the control of personnel expenses, and the rate of increase in personnel expenses was lower than the increase in revenues for the same period. In the meantime, the Group appropriately increased the incentives for talent and frontline staff.

Other Operating Expenses

In 2012, other operating expenses were RMB40,341 million, an increase of 39.7% from RMB28,870 million in 2011, accounting for 14.3% of our operating revenues. The increase was mainly attributable to the increase in the cost of mobile terminal equipment sold. The cost of mobile terminal equipment sold amounted to RMB23,099 million, an increase of 79.5% from 2011.

Net Finance Costs

In 2012, the Group's net finance costs were RMB1,564 million, a decline of 30.6% from RMB2,254 million in 2011. Net interest expenses decreased by RMB556 million. The decrease was mainly because the Group repaid part of interest-bearing debt. Net exchange losses were RMB1 million in 2012, while net exchange gains were RMB51 million in 2011. The change in net exchange gain/loss was mainly attributable to the depreciation of the RMB against the Euro.

Profitability Level

Income Tax

The Group's statutory income tax rate is 25%. In 2012, the Group's income tax expenses were RMB4,753 million with the effective income tax rate of 24.0%. The difference of effective income tax rate and the statutory income tax rate was mainly due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of our subsidiaries, and branches with operations in the western region of China.

Profit Attributable To Equity Holders of the Company

In 2012, profit attributable to equity holders of the Company was RMB14,925 million, a decrease of 9.5% from RMB16,500 million in 2011. The decrease was mainly because the Group appropriately increased cost inputs so as to firmly seize the opportunity of scale development.

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Acquisition of Mobile Network

In order to unify mobile service operation with network as a whole and enhance future profitability of the Company, the Company and its controlling shareholder, China Telecommunications Corporation entered into the Acquisition Agreement on 22 August 2012, pursuant to which the Company has agreed to purchase certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through the network branches located in 30 provinces, municipalities and autonomous regions in the PRC (Mobile Network Acquisition). The Mobile Network Acquisition was completed on 31 December 2012. Pursuant to the Acquisition Agreement, the final consideration was approximately RMB87,210 million, of which the assets amounting to approximately RMB119,715 million and associated liability amounting to approximately RMB32,505 million. The first instalment of RMB25,500 million of the final consideration was paid in January 2013, and the deferred consideration amounting to approximately RMB61,710 million will be payable on or before the fifth anniversary of the completion date of the acquisition. The interest rate for the first year is 4.83%. As the transaction was recognised as an assets acquisition, the respective assets and associated liabilities were recognised at purchase price on the completion date of the acquisition⁵.

Capital Expenditure and Cash Flows

Capital Expenditure

In 2012, in order to reinforce the advantages of broadband networks and enhance the core-competitiveness of the network, the Group continued to increase the investment in broadband network construction. At the same time, the Group emphasised to optimise investment structure, specially guaranteed the investment in high growth services, and strictly controlled investment in traditional wireline services. In 2012, capital expenditure of the Group was RMB53,731 million, an increase of 8.4% from RMB49,551 million in 2011.

Cash Flows

In 2012, net increase in cash and cash equivalents for the Group was RMB2,613 million, while the net increase in cash and cash equivalents was RMB1,649 million in 2011.

The following table sets forth the cash flow position of the Group in 2011 and 2012:

	For the year ended 31 December	
	2012	2011
(RMB millions)		(restated)
Net cash flow from operating activities	70,667	73,009
Net cash used in investing activities	(48,252)	(43,637)
Net cash used in financing activities	(19,802)	(27,723)
Net increase in cash and cash equivalents	2,613	1,649

⁵ Please refer to note 2 to the audited financial statements in this annual report for details.

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

In 2012, the net cash inflow from operating activities was RMB70,667 million, a decrease of RMB2,342 million from RMB73,009 million in 2011.

In 2012, the net cash outflow for investing activities was RMB48,252 million, an increase of RMB4,615 million from RMB43,637 million in 2011, mainly resulting from an increase in capital expenditure compared to 2011.

In 2012, the net cash outflow for financing activities was RMB19,802 million, a decrease of RMB7,921 million from RMB27,723 million in 2011. The decrease in net cash outflow was mainly due to the decrease in the Group's repayment of the bank loans and other loans when compared to 2011.

Working Capital

At the end of 2012, the Group's working capital (total current assets minus total current liabilities) deficit was RMB128,251 million, an increase of deficit of RMB60,570 million from RMB67,681 million in 2011, mainly resulting from increased payables amounting to RMB58,005 million from Mobile Network Acquisition (including the first installment of RMB25,500 million of the final consideration and associated liabilities of RMB32,505 million). As at 31 December 2012, the Group's unutilised committed credit facilities was RMB163,130 million (2011: RMB118,970 million). At the end of 2012, the Group's cash and cash equivalents amounted to RMB29,982 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 97.6% (2011: 94.4%).

Assets and Liabilities

In 2012, the Group continued to maintain a solid financial position after the Mobile Network Acquisition. By the end of 2012, the total assets of the Group increased to RMB545,072 million from RMB419,151 million at the end of 2011, while total indebtedness increased to RMB99,808 million from RMB52,103 million in 2011. The ratio of the Group's total indebtedness to total assets increased to 18.3% at the end of 2012 from 12.4% at the end of 2011, mainly resulting from the deferred consideration of the Mobile Network Acquisition.

Indebtedness

The indebtedness analysis of the Group as of the end of 2011 and 2012 is as follows:

(RMB millions)	For the year ended 31 December	
	2012	2011
Short-term debt	6,523	9,187
Long-term debt maturing within one year	10,212	11,766
Long-term debt and payable (excluding current portion)	83,070	31,150
Finance lease obligations	3	
Total debt	99,808	52,103

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

By the end of 2012, the total indebtedness of the Group was RMB99,808 million, an increase of RMB47,705 million from the end of 2011. The main reason for the increase was the deferred consideration of the Mobile Network Acquisition. Of the total indebtedness of the Group, the Group's loans in Renminbi, US Dollars, Japanese Yen and Euro accounted for 98.9% (2011: 94.7%), 0.6% (2011: 1.3%), 0% (2011: 3.1%), and 0.5% (2011: 0.9%), respectively. 37.5% (2011: 96.3%) of this indebtedness are loans with fixed interest rates, while the remainders are loans with floating interest rates.

As at 31 December 2012, the Group did not pledge any assets as collateral for debt (2011: Nil).

Most of the Group's revenue receipts from and payments made for its business were denominated in Renminbi, therefore the Group did not have significant risk exposure to foreign exchange fluctuations.

Contractual Obligations

(RMB millions)	Total	1 January	1 January	Payable in 1 January	1 January	1 January	Thereafter
		2013 -	2014 -	2015 -	2016 -	2017 -	
		31 December	31 December	31 December	31 December	31 December	
Short-term debt	6,652	6,652					
Long-term debt and payable	110,705	14,571	23,997	3,075	3,074	65,292	696
Finance lease obligation	3		2	1			
Operating lease commitments	6,919	2,119	1,195	877	686	553	1,489
Capital commitments	7,103	7,103					
Total contractual obligations	131,382	30,445	25,194	3,953	3,760	65,845	2,185

Note: Amounts of short-term debt, long-term debt and payable, and finance lease obligation include recognised and unrecognised interest payable, and are not discounted.

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Report of the Directors

The Board of Directors (the Board) of China Telecom Corporation Limited (the Company) hereby presents its report together with the audited financial statements of the Company and its subsidiaries (collectively, the Group) prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012.

Principal Business

The principal business of the Company and the Group is the provision of basic communications services including comprehensive wireline telecommunications services, mobile telecommunications services, value-added services such as Internet access services, integrated information services and other related services within the service area of the Group.

Results

Results of the Group for the year ended 31 December 2012 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 110 to 174 in this annual report.

Dividend

The Board proposes a final dividend in the amount equivalent to HK\$0.085 per share (pre-tax), totalling approximately RMB5,522 million for the year ended 31 December 2012. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 29 May 2013. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average offer rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends at the Annual General Meeting. The proposed 2012 final dividends are expected to be paid on or about 19 July 2013 upon approval at the Annual General Meeting.

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China in 2008, the Company shall be obliged to withhold and pay 10% enterprise income tax when it distributes the proposed 2012 final dividends to non-resident enterprise shareholders of overseas H shares (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations) whose names appear on the Company's H share register of members on 11 June 2013.

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Report of the Directors

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No.348) and relevant laws and regulations, if the individual H share shareholders are Hong Kong or Macau residents and those whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual H share shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H share shareholders.

The Company will determine the country of domicile of the individual H share shareholders based on the registered address as recorded in the register of members of the company on 11 June 2013 (the Registered Address). If the country of domicile of an individual H share shareholder is not the same as the Registered Address or if the individual H share shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H share shareholder shall notify and provide relevant supporting documents to the Company on or before 5 June 2013. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H share shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaties notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H share shareholders or any disputes over the withholding mechanism or arrangements.

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Report of the Directors

Directors and Senior Management of the Company

The following table sets out certain information of the Directors and senior management of the Company as at the date of this Report:

Name	Age	Position in the Company	Date of Appointment
Wang Xiaochu	55	Chairman and Chief Executive Officer	20 December 2004
Yang Jie	51	Executive Director, President and Chief Operating Officer	20 October 2004
Wu Andi	58	Executive Director, Executive Vice President and Chief Financial Officer	10 September 2002
Zhang Jiping	57	Executive Director and Executive Vice President	10 September 2002
Li Ping	59	Executive Vice President	10 September 2002
Yang Xiaowei	49	Executive Director and Executive Vice President	9 September 2008
Sun Kangmin	56	Executive Director and Executive Vice President	20 October 2004
Ke Ruiwen	50	Executive Director and Executive Vice President	30 May 2012
Wu Jichuan	75	Independent Non-executive Director	9 September 2008
Qin Xiao	65	Independent Non-executive Director	9 September 2008
Tse Hau Yin, Aloysius	65	Independent Non-executive Director	9 September 2005
Cha May Lung, Laura	63	Independent Non-executive Director	9 September 2008
Xu Erming	63	Independent Non-executive Director	9 September 2005
Yung Shun Loy, Jacky	50	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary	1 February 2005
Gao Jinxing	50	Financial Controller	1 February 2012

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Report of the Directors

On 20 March 2012, Mr. Zhang Chenshuang retired as Executive Director and Executive Vice President of the Company due to his age. On the same day, the Board appointed Mr. Ke Ruiwen as Executive Vice President of the Company and on 30 May 2012, Mr. Ke Ruiwen was approved to be appointed as Executive Director of the Company at the Annual General Meeting. On 22 August 2012, Mr. Li Jinming retired as Non-Executive Director of the Company due to his age. On 16 October 2012, Mr. Chen Liangxian was approved in the extraordinary general meeting to be appointed as Non-Executive Director of the Company. On 20 March 2013, Mr. Chen Liangxian resigned as Non-Executive Director of the Company due to change in work arrangement. On the same date, the Board proposed to appoint Mr. Xie Liang as the Non-Executive Director of the Company. The proposed appointment of Mr. Xie Liang as Non-Executive Director of the Company is subject to shareholders' approval at the Annual General Meeting to be held on 29 May 2013.

Supervisors of the Company

The following table sets out certain information of the supervisors of the Company as at the date of this Report:

Name	Age	Position in the Company	Date of Appointment
Shao Chunbao	55	Chairman of the Supervisory Committee	16 October 2012
Zhu Lihao	72	Independent Supervisor	10 September 2002
Mao Shejun	59	Supervisor (Employee Representative)	20 May 2011
Zhang Jianbin	47	Supervisor (Employee Representative)	16 October 2012
Hu Jing	37	Supervisor	16 October 2012
Du Zuguo	50	Supervisor	20 May 2011

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Report of the Directors

On 22 August 2012, Mr. Miao Jianhua, Chairman of the Supervisory Committee, retired from his position as a Supervisor of the Company due to his age, and on the same day Mr. Xu Cailiao and Madam Han Fang also resigned from their positions as Supervisors of the Company due to changes in work arrangement. On 16 October 2012, Mr. Shao Chunbao and Mr. Hu Jing were appointed as Supervisors of the Company at the extraordinary general meeting. After the extraordinary general meeting and on the same day, the Supervisory Committee passed a written resolution to elect Mr. Shao Chunbao as the Chairman of the Supervisory Committee while Mr. Zhang Jianbin was elected by the employees of the Company democratically as an Employee Representative Supervisor.

Share Capital

The share capital of the Company as at 31 December 2012 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2012, the share capital of the Company comprised:

Share category	Number of shares	Percentage of the
	as at	total number of shares in issue as at 31 December 2012
	31 December 2012	(%)
Domestic shares (total):	67,054,958,321	82.85
Domestic shares held by:		
China Telecommunications Corporation	57,377,053,317	70.89
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	6.94
Zhejiang Financial Development Company	2,137,473,626	2.64
Fujian Investment & Development Group Co., Ltd	969,317,182	1.20
Jiangsu Guoxin Investment Group Co., Ltd.	957,031,543	1.18
Total number of H shares (including ADSs)	13,877,410,000	17.15
Total	80,932,368,321	100.00

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Report of the Directors

Material Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2012, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (the SFO) are as follows:

Name of shareholders	Number of shares	Type of shares	Percentage of the respective type of shares	Percentage of the total	
				number of shares in issue	Capacity
China Telecommunications Corporation	57,377,053,317 (Long Position)	Domestic shares	85.57%	70.89%	Beneficial owner
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653 (Long Position)	Domestic shares	8.37%	6.94%	Beneficial owner
Commonwealth Bank of Australia	1,528,811,281 (Long Position)	H shares	11.02%	1.89%	Interest of controlled corporation
Blackrock, Inc.	1,515,862,222 (Long Position)	H shares	10.92%	1.87%	Interest of controlled corporation
	168,170,541 (Short Position)	H shares	1.21%	0.21%	Interest of controlled corporation
JPMorgan Chase & Co.	1,387,102,999 (Long Position)	H shares	9.99%	1.71%	155,132,334 shares as beneficial owner; 104,000,000 shares as investment manager; and 1,127,970,665 shares as custodian corporation/ approved lending agent

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56,147,625	H shares	0.40%	0.07%	Beneficial owner
(Short Position)				
1,127,970,665	H shares	8.13%	1.39%	Custodian corporation/ approved lending agent
(Shares available for lending)				

Save as stated above, as at 31 December 2012, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

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Report of the Directors

Directors and Supervisors Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2012, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at 31 December 2012, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right.

Directors and Supervisors Interests in Contracts

For the year ended 31 December 2012, none of the Directors and Supervisors of the Company had any material interest, whether directly or indirectly, in any of the contracts of significance entered into by the Company, any of its holding companies or subsidiaries or subsidiaries of the Company's holding company, apart from their service contracts. None of the directors and supervisors of the Company has entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Emoluments of the Directors and Supervisors

Please refer to note 29 of the audited financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2012.

Purchase, Sale and Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

Public Float

As at the date of this Report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules and as agreed with The Stock Exchange of Hong Kong Limited.

Summary of Financial Information

Please refer to pages 175 to 176 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2012.

Bank Loans and Other Borrowings

Please refer to note 16 of the audited financial statements for details of bank loans and other borrowings of the Group.

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Report of the Directors

Capitalised Interest

Please refer to note 27 of the audited financial statements for details of the Group's capitalised interest for the year ended 31 December 2012.

Fixed Assets

Please refer to note 4 of the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2012.

Reserves

Pursuant to Article 147 of the Company's articles of association (the Articles of Association), where the financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises, materially differ from those prepared in accordance with either International Financial Reporting Standards, or accounting standards at a place outside the PRC where the Company's shares are listed, the distributable profit for the relevant accounting period shall be deemed to be the lesser of the amounts shown in those respective financial statements. Distributable reserves of the Company as at 31 December 2012, calculated on the above basis and before deducting the proposed final dividends for 2012, amounted to RMB74,494 million.

Please refer to note 21 of the audited financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2012.

Donations

For the year ended 31 December 2012, the Group made charitable and other donations with a total amount of RMB12 million.

Subsidiaries and Associated Companies

Please refer to note 8 and note 9 of the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2012.

Changes in Equity

Please refer to the consolidated statement of changes in equity as contained in the audited financial statements of this year (page 115 of this annual report).

Retirement Benefits

Please refer to note 38 of the audited financial statements for details of the retirement benefits provided by the Group.

Stock Appreciation Rights

Please refer to note 39 of the audited financial statements for details of the stock appreciation rights offered by the Company.

Pre-Emptive Rights

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There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

Major Customers and Suppliers

For the year ended 31 December 2012, sales to the five largest customers of the Group accounted for an amount no more than 30% of the operating revenues of the Group.

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Report of the Directors

For the year ended 31 December 2012, purchases from the five largest suppliers of the Group accounted for approximately 38.2% of the total annual purchases of the Group.

For the year ended 31 December 2012, purchases from the Group's largest supplier accounted for approximately 13.4% of the total annual purchases of the Group. The amount of the Group's annual purchases mainly includes terminals purchases, equipment purchases and investments in infrastructure.

To the knowledge of the Board, no Director of the Company, their associates, or any person holding more than 5% of the issued share capital in the Company has any interests in such suppliers.

Connected transactions in respect of the acquisition of certain CDMA network assets and associated liabilities

On 22 August 2012, the Company and the controlling shareholder of the Company, China Telecommunications Corporation, entered into an acquisition agreement, pursuant to which the Company has agreed to purchase, and China Telecommunications Corporation has agreed to sell, certain assets and associated liabilities relating to the CDMA network held by China Telecommunications Corporation through the network branches located in 30 provinces, municipalities and autonomous regions in the PRC (which do not include Xizang Autonomous Region).

The acquisition has been approved at the extraordinary general meeting convened on 16 October 2012. The final consideration of the acquisition would be payable in cash by the Company to China Telecommunications Corporation as follows: (i) RMB25,500 million to be paid within five business days following the completion date and (ii) the balance of the final consideration (the Deferred Payment) to be paid on or before the fifth anniversary of the completion date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecommunications Corporation at half-yearly intervals and the interest will accrue from the day following the completion date. The interest rate will be 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 and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. The Company has not pledged any assets for the Deferred Payment. The acquisition has been completed on 31 December 2012 and the final consideration is RMB87,210 million.

The above arrangements will save the significant CDMA network capacity lease fees that result from the rapid growth of mobile service, allow the Company to gain direct control over future CDMA network investment decisions and to remove the risk of potential increase in mobile network capacity lease fee rate. They will also allow the Company to better concentrate on network expansion and optimisation, provide better mobile service to satisfy the market's ever-increasing demand on data traffic flow, to better integrate the mobile network and service offerings in a manner that similar to the Company's wireline service, and to increase the overall operational efficiency and value of the Company's mobile service.

As mentioned above, as the acquisition has been completed on 31 December 2012, the statement of financial position as at 31 December 2012 has already reflected the relevant changes in asset and liabilities but it did not have any impact on the Company's profit in 2012. Please refer to note 2 to the audited financial statements in this annual report for details.

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Report of the Directors

Continuing Connected Transactions

The following table sets out the amounts of continuing connected transactions between the Group and China Telecom Group for the year ended 31 December 2012:

Transactions	Transaction Amounts (RMB millions)	Annual monetary cap for continuing connected transactions (RMB millions)
Net transaction amount of centralised services	570	800
Net expenses for interconnection settlement	366	1,000
Mutual leasing of properties	420	600
Provision of IT services by China Telecommunications Corporation and its subsidiaries (except for the Group) (the China Telecom Group)	764	1,200
Provision of IT services to China Telecom Group	370	500
Provision of supplies procurement services by China Telecom Group	3,029	3,800
Provision of supplies procurement services to China Telecom Group	2,685	3,000
Provision of engineering services by China Telecom Group	10,203	11,000
Provision of community services by China Telecom Group	2,652	2,900
Provision of ancillary telecommunications services by China Telecom Group	9,541	10,500
CDMA network capacity lease fee	23,027 ²	33,000

- 1 *China Telecommunications Corporation is a controlling shareholder of the Company. Each of China Telecommunications Corporation and its subsidiaries (except for the Group) constitutes a connected person of the Company under the Listing Rules.*
- 2 *The CDMA network capacity lease fee has already deducted the capacity maintenance related costs of CDMA network payable to the Company by China Telecommunications Corporation amounted to RMB2,519 million.*

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Report of the Directors

Centralised Services Agreement

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

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Centralised Services Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 10 September 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Interconnection Settlement Agreement), the telephone operator connecting 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 Group to China Telecommunications Corporation. The settlement regions include Beijing Municipality, Tianjin Municipality, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shanxi Province, Henan Province, Shandong Province, Inner Mongolia Autonomous Region and Xizang Autonomous Region.

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Report of the Directors

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Interconnection Settlement Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 30 August 2006 and the related supplemental agreement subsequently entered into between the two parties (collectively, the Property Leasing Framework Agreement), the Group 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.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Property Leasing Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 30 August 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the IT Services Framework Agreement), the Group and China Telecommunications Corporation and/or its associates can provide the other party with information technology services, including office automation and software testing. Each of the Group 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 in accordance with the IT Services Framework Agreement. 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 Group or China Telecommunications Corporation and/or its associates are no less favourable than those offered by an independent third-party provider, the Group or China Telecommunications Corporation and/or its associates may award the tender to the other party.

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Report of the Directors

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the IT Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 30 August 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 Group 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 but there are government-guided prices, the government-guided prices;
- (3) where there are neither government-prescribed prices nor government-guided prices, the market prices. Market prices shall mean 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 agreed on 22 August 2012 to renew the Community Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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.

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Report of the Directors

Supplies Procurement Services Framework Agreement

Pursuant to the supplies procurement services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 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 Group provide each other with supplies procurement services, including 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% of the contract value for procurement of imported telecommunications supplies; or
- (2) not more than 3% of the contract value for the procurement of domestic telecommunications supplies and domestic non-telecommunications supplies.

The pricing basis of 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 agreed on 22 August 2012 to renew the Supplies Procurement Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 30 August 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 Group services such as construction, design, equipment installation and testing and/or engineering project supervision services. 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 engineering construction projects with a value of over RMB2 million shall be determined by the tender award price.

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Report of the Directors

The Group does not accord any priority to China Telecommunications Corporation and/or its associates to provide such services, and the tender may be awarded to an independent third party. However, if the terms of an offer from China Telecommunications Corporation and/or its associates are at least as favourable as those offered by other tenderers, the Group may award the tender to China Telecommunications Corporation and/or its associates.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Engineering Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 30 August 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 Group 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 agreed on 22 August 2012 to renew the Ancillary Telecommunications Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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.

CDMA Network Capacity Lease Agreement

Pursuant to the CDMA network capacity lease agreement signed between the Company and China Telecommunications Corporation on 27 July 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% of the Company's audited CDMA service revenue per year (which is calculated by the total revenue from the CDMA services operations minus any upfront non-refundable revenue arising out of the CDMA operations and any revenue from sale of telecommunications products in connection with the CDMA operations, as derived from the Company's financial statements). Regardless of the revenue of the CDMA operations, the minimum annual leasing fee shall be 90% of the total amount of the leasing fee paid by the Company to China Telecommunications Corporation in the previous year. 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.

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Report of the Directors

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 have agreed that the CDMA Network Capacity Lease Agreement would not be renewed upon its expiry on 31 December 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 30 August 2006 and the related supplemental agreements (collectively, the Strategic Agreement), the Company agreed that, in the period between 1 January 2007 and 31 December 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% price discount to the Company based on the applicable standard prices for the services such as design, implementation and supervision of communications engineering projects. Meanwhile, the Company agreed that, in the period between 1 January 2007 and 31 December 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 with a total value of not 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 service 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 favourable 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 as favourable 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.

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Report of the Directors

The Company and China Communications Services have agreed that the Strategic Agreement would not be renewed upon its expiry on 31 December 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 framework 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.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants.

The Independent Non-executive Directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2012 to which the Group was a party:

1. had been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of business;
2. had been entered into either:
 - (i) on normal commercial terms; or
 - (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or (if applicable) from independent third parties; and

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Report of the Directors

3. had been entered into in accordance with the relevant terms that are fair and reasonable and in the overall interests of the shareholders of the Company as a whole.

The Independent Non-executive Directors have further confirmed that:

The values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

The auditors of the Group have reviewed the continuing connected transactions of the Group and have confirmed to the Board that the transactions:

1. have received the approval of the Board;
2. have been entered into in accordance with the pricing policies as stated in the relevant agreements; and
3. have been entered into in accordance with the terms of the agreements governing such transactions; and the values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

Compliance with the Code on Corporate Governance Practices and the Corporate Governance Code

Please refer to the Corporate Governance Report set out in page 64 of this 2012 annual report of the Company for details of our compliance with the Code on Corporate Governance Practices and the Corporate Governance Code.

Material Legal Proceedings

As at 31 December 2012, the Company was not involved in any material litigation or arbitration, and as far as the Company is aware, no material litigation or claims were pending or threatened or made against the Company.

Auditors

KPMG and KPMG Huazhen (Special General Partnership) were appointed as the international and domestic auditors of the Company for the year ended 31 December 2012. KPMG has audited the accompanying financial statements, which have been prepared in accordance with International Financial Reporting Standards. The Board of the Company, as proposed by the Audit Committee of the Company, has resolved to appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's international and domestic auditors, respectively for the year ending 31 December 2013. The relevant appointments will be proposed to the annual general meeting of the Company to be held on 29 May 2013.

By Order of the Board

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

20 March 2013

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Report of the Supervisory Committee

During the reporting period, all members of the Supervisory Committee acted in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company, followed the principles of integrity and diligently in carrying out their supervisory function to safeguard the interests of shareholders and the Company.

During the reporting period, the Supervisory Committee held three meetings and passed one written resolution. At the second meeting of the Fourth Session of the Supervisory Committee held on 16 March 2012, the Supervisory Committee reviewed and approved agenda items, including the financial statements for the year 2011, the independent auditor's report, the profit distribution and dividend proposal, the Supervisory Committee's report for the year 2011, the working plan of the Supervisory Committee for the year 2012, etc. On 16 August 2012 at the third meeting of the Fourth Session of the Supervisory Committee, the Supervisory Committee reviewed the interim financial statements and the independent auditor's review report for the year 2012. At the fourth meeting of the Fourth Session of the Supervisory Committee held on 21 August 2012, the Supervisory Committee reviewed and approved the change in the composition of the Supervisory Committee. On 16 October 2012, through the written resolution of the entire Supervisory Committee, Mr. Shao Chunbao was elected as the Chairman of the Fourth Session of the Supervisory Committee. During the reporting period, members of the Supervisory Committee supervised the major decision-making process of the Company and the performance of duties by the members of the Board and the senior management through their attendance at the relevant meetings such as the extraordinary general meeting held in 2012, meetings of the Board, and meetings of the Audit Committee.

The Supervisory Committee is of the view that in 2012, the Company persisted in deepening its transformation, firmly adhered to the main theme of promoting scale development through dual-leadership in innovation and service, and persisted in efficient scale operation and data traffic operation. While accelerating the scale development of fundamental services, the Company further stimulated the vitality of emerging services through system and institution innovation, integrated the operation of core services altogether and these services fostered synergetically. The Company achieved its best development since the commencement of full services operation. The business structure continued to optimise, resulting in significant enhancement in our core capabilities in innovation, service, centralised efficient management and operation. The corporate development is ignited with vitality. In 2012, the operating revenues of the Company reached RMB283,073 million, an increase of 15.5% from last year, which exceeded the industry average. Mobile subscriber market share was about 15% while 3G subscriber market share reached 30%. The Company reinforced its leadership position in the wireline broadband market, expanded its competitive edges in informatisation applications and increased its influence on the market. Pre-leasing fee EBITDA reached RMB96,387 million, representing an increase of 2.1% from last year. Profit attributable to equity holders of the Company reached RMB14,925 million, representing a decline of 9.5% from last year. The Company made an appropriate increase in marketing initiatives for the expansion into the high-end subscriber market to promote the revenue growth, which is believed to significantly enhance the long-term sustainable growth and value creation despite the short term pressure on the profitability. In summary, the Board and the management have grasped the industry development trend and directed the strategic development of the Company accurately, while they have continuously enhanced the Company's operation capability and efficiency, resulting in remarkable results in transformation. Meanwhile, the Company attached great importance to corporate governance and operation in good faith. In accordance with Section 404 of the US Sarbanes-Oxley Act of 2002 and other regulatory rules, the Company stepped up the development of its internal control system and strengthened the exercise of its internal control. As a result, the internal control environment and precision management of the Company continued to improve, and the Company's development is soundly and steadily on track. In addition, while conscientiously fulfilling its responsibility to shareholders, the Company voluntarily committed itself to the sustainable economic, social and environmental development and excelled in fulfilling its own corporate responsibilities, responsibilities towards customers, responsibilities towards employees, environmental responsibilities and public welfare responsibilities. The Supervisory Committee is satisfied with the performance of the Company in 2012 and is confident of the Company's prospects.

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Report of the Supervisory Committee

The Supervisory Committee believes that during 2012, all members of the Board and members of senior management have complied with rules and regulations, upheld the principles of diligence and integrity, safeguarded the interests of shareholders, fulfilled their responsibilities fully in accordance with the Articles of Association of the Company, diligently implemented the resolutions of the shareholders' general meetings and the Board meetings, and strictly complied with the relevant regulations for listed companies. The Supervisory Committee has not observed any behaviors that breached the laws, rules, and Articles of Association of the Company, or damaged the interests of shareholders.

Upon the review of the unqualified financial statements for the year 2012 and other relevant information, which were prepared in accordance with PRC Accounting Standards for Business Enterprises and regulations and International Financial Reporting Standards as audited by PRC certified accountants and international auditors of the Company, the Supervisory Committee is of the opinion that the financial statements truly and fairly reflect the Company's financial position, operating results and cash flows.

In 2013, the Supervisory Committee will continue to strictly adhere to the Articles of Association of the Company and relevant regulations, assume its responsibility to protect the interests of the shareholders and the Company, monitor the Company to fulfill its commitment to its shareholders, further broaden the planning of supervision and strengthen its efforts in monitoring to protect the interests of all investors.

By Order of the Supervisory Committee

Shao Chunbao

Chairman of the Supervisory Committee

Beijing, PRC

20 March 2013

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Recognition & Awards

1. The Company has been voted by investors the Overall Best Managed Company in Asia across all industries in the Asia Best Managed Companies 2012 by Euromoney.
2. The Company has been voted by investors the Best Managed Company in Asia's Telecommunications Sector in the Asia Best Managed Companies 2012 by Euromoney.
3. The Company was awarded the No. 1 Best Managed Company in Asia by FinanceAsia in the Asia's Best Companies Poll 2012.
4. Mr. Wang Xiaochu, Chairman and CEO, was awarded the Best CEO in China by FinanceAsia in the Asia's Best Companies Poll 2012.
5. Madam Wu Andi, Executive Vice President and CFO, was awarded the Best CFO in China by FinanceAsia in the Asia's Best Companies Poll 2012.
6. The Company has been voted by professional investors as the Asia's Most Honored Companies in 2012 All-Asia-Executive-Team ranking organised by Institutional Investor.
7. Mr. Wang Xiaochu, Chairman and CEO, was voted by professional investors as Asia's Best CEO in Telecommunications Sector in 2012 All-Asia-Executive-Team ranking organised by Institutional Investor.
8. Madam Wu Andi, Executive Vice President and CFO, was voted by professional investors as Asia's Best CFO in Telecommunications Sector in 2012 All-Asia-Executive-Team ranking organised by Institutional Investor.

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Recognition & Awards

9. The Company has been voted by professional investors as Asia's Best Investor Relations Company in Telecommunications Sector in 2012 All-Asia-Executive-Team ranking organised by Institutional Investor.
10. The Company was awarded the Platinum Award for All-Round Excellence in 2012 The Asset Corporate Awards.
11. The Company was awarded The Best of Asia by Corporate Governance Asia's Annual Recognition Awards 2012.
12. Mr. Wang Xiaochu, Chairman and CEO, was honoured with Asian Corporate Director Recognition Awards 2012 by Corporate Governance Asia.
13. The Company was honoured with the Grand Prix for Best Overall Investor Relations for Large-cap Companies, at the IR Magazine Awards Greater China 2012.
14. The Company's 2011 annual report won total 5 gold awards in the 2012 International ARC Awards and the Vision Awards Annual Report Competition by The League of American Communications Professionals LLC (LACP).
15. The corporate website of the Company (www.chinatelecom-h.com) won the No.1 Best Investor Relations Website in Asia & Pacific in IR Global Rankings 2012.
16. The Company's 2011 online annual report won the No.1 Best Online Annual Report in Asia and Pacific in IR Global Rankings 2012.

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Corporate Governance Report

An Overview of Corporate Governance

The Company strives to maintain a high level of corporate governance and has inherited an excellent, prudent and efficient corporate governance style and continuously improves its corporate governance methodology, regulates its operations, improves its internal control mechanism, implements sound corporate governance and disclosure measures, and ensures that the Company's operations are in line with the long-term interests of the Company and its shareholders as a whole. In 2012, the Shareholders' General Meeting, the Board and the Supervisory Committee maintained efficient operations in accordance with the rules, and the Company continued to optimise the organisational structure and has achieved a breakthrough in its organisation structure, which well supported the Company's strategic transformation to the Three New Roles – a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development. The Company further optimised its internal control and integrated comprehensive risk management into its operational practice. The sustained enhancement of the Company's corporate governance ensured alignment with the long-term best interest of shareholders and firmly protected the interests of shareholders.

As a company incorporated in the PRC, the Company adopts the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company dual-listed in Hong Kong and the United States, the current Articles of Association are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and the regulatory requirements for non-US companies listed in the United States, and these rules serve as guidances for the Company to improve the foundation of its corporate governance. The Company has regularly published statements relating to its internal control in accordance with the US Sarbanes-Oxley Act of 2002 and the regulatory requirements of the U.S. Securities and Exchange Commission (SEC) and the New York Stock Exchange to confirm its compliance with related financial reporting, information disclosure and corporate internal control requirements.

For the financial year ended 31 December 2012, save that (i) the roles of Chairman and Chief Executive Officer of the Company were performed by the same individual and (ii) certain Independent Non-executive Directors did not attend the shareholders' general meetings due to other business commitments or being overseas, the Company has been in compliance with all the code provisions under the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules. In the Company's opinion, through supervision of the Board and the Independent Non-executive Directors, and effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and execution and effectively capturing business opportunities. Many leading international corporations also have similar arrangements.

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Corporate Governance Report

In 2012, the Company's continuous efforts in corporate governance gained wide recognition from the capital market and was accredited with a number of awards. The Company was being voted the Overall Best Managed Company in Asia by *Euromoney* for four consecutive years, while at the same time being ranked as the No. 1 Best Corporate Governance in Asia, the No. 1 Most Convincing and Coherent Strategy in Asia and the No. 1 Best Shareholder Value in Asia in the individual categories. The Company was accredited by the investors as the No. 1 Best Managed Company in Asia, the No. 1 Best Managed Company in China and the No. 1 Best Investor Relations in China for two consecutive years in the Asia's Best Companies Poll 2012 organised by *FinanceAsia*. The Company was voted by investors as the Asia's Most Honored Companies and Asia's Best Investor Relations Company in telecommunications sector for two consecutive years in 2012 All-Asia-Executive-Team ranking organised by *Institutional Investor*. In addition, Mr. Wang Xiaochu, Chairman and CEO was voted as Asia's Best CEO in telecommunications sector and Madam Wu Andi, Executive Vice President and CFO was voted as Asia's Best CFO in telecommunications sector. The Company swept several top awards including the Grand Prix for Best Overall Investor Relations for Large-cap Companies, Best Investor Relations by a CEO for mainland China for Mr. Wang Xiaochu, Chairman and CEO and Best Investor Relations by a CFO for mainland China for Madam Wu Andi, Executive Vice President and CFO at the IR Magazine Awards Greater China 2012. The Company was awarded the Platinum Award for All-Round Excellence in 2012 The Asset Corporate Awards, for four consecutive years. In addition, the Company was awarded the The Best of Asia by *Corporate Governance Asia* for three consecutive years, and Mr. Wang Xiaochu, Chairman and Chief Executive Officer of the Company, was awarded Asian Corporate Director Recognition Awards 2012 by *Corporate Governance Asia* for three consecutive years. The Company's website was awarded the No. 1 Best Investor Relations Website in Asia & Pacific in *IR Global Rankings 2012* for two consecutive years.

Overall Structure of the Corporate Governance

A double-tier structure has been adopted as the overall structure for corporate governance: the Board and the Supervisory Committee are established under the Shareholders' General Meeting. The Audit Committee, Remuneration Committee and Nomination Committee were established under the Board. The Board is authorised by the Articles of Association to make major decisions on the Company's operation and to oversee the daily management and operations of the senior management. The Supervisory Committee is mainly responsible for the supervision of the performance of duties by the Board and the senior management. Each of the Board and the Supervisory Committee is independently accountable to the Shareholders' General Meeting.

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Corporate Governance Report

Shareholders' General Meeting

In 2012, the Company convened two shareholders' general meetings, the Annual General Meeting (AGM) for the year 2011 and one Extraordinary General Meeting (EGM). The AGM held on 30 May 2012 reviewed and approved numerous resolutions such as the financial statements for the year 2011, Report of the Independent International Auditor, proposal for profit and dividends distribution, authorisation to the Board for the formulation of a budget for 2012, re-appointment and remuneration of auditors, authorisation to the Board to issue debentures and appointment of directors and supervisors. The EGM held on 16 October 2012 reviewed and approved the acquisition of certain CDMA network assets and associated liabilities, the renewal of certain continuing connected transactions and the annual caps applicable thereto and appointment of directors and supervisors. The amendments to the Articles of Association of the Company were approved at the shareholders' general meetings, which mainly include the change in the business scope of the Company, change in the composition of the Supervisory Committee and change in the name of the domestic shareholder.

Since the Company's listing in 2002, at each of the shareholders' general meetings a separate shareholders' resolution was proposed by the Company in respect of each independent item. The circulars to shareholders also provided details about the resolutions. All resolutions tabled at the shareholders' general meetings of the Company were already conducted by poll and all voting results were published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The Company attaches great importance to the shareholders' general meetings and the communication between Directors and shareholders. The Directors provided detailed and complete answers to the questions raised by shareholders at the shareholders' general meetings. The Board adopted the shareholders communication policy to ensure that the shareholders are provided with comprehensive, equal, understandable and publicised information of the Company on a timely basis and to strengthen the communication between the Company, and the shareholders and investors.

Board of Directors

As at 31 December 2012, the Board comprises 13 Directors with seven Executive Directors, one Non-executive Director and five Independent Non-executive Directors. The Board is composed of experts from diversified professions such as telecommunications, finance, economics and law, resulting in a more comprehensive and balanced board structure and giving more comprehensive and balanced viewpoints in the decision-making process. The term of office for the fourth session of the Board lasts for three years, starting from May 2011 until the day of the Company's Annual General Meeting in 2014, upon which the fifth session of the Board will be elected.

The number of Independent Non-executive Directors constitutes more than one-third of the members of the Board. Mr. Tse Hau Yin, Aloysius, the Chairman of the Audit Committee, is an internationally renowned financial expert with expertise in accounting and financial management. The Audit Committee, Remuneration Committee and Nomination Committee under the Board all comprise solely Independent Non-executive Directors, which ensures that the committees are able to provide sufficient review and check and balance, and make effective independent judgments to protect the interests of shareholders and the Company as a whole.

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Corporate Governance Report

The Company strictly complies with the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) of the Listing Rules to rigorously regulate the operating procedures of the Board and the committees under it, and to ensure that the procedures of Board meetings are in compliance with related rules in terms of organisation, regulations and personnel. The Board responsibly and effectively supervises the preparation of financial statements for each financial period, so that such financial statements truly and fairly reflect the operational position, the operating results and cash flows of the Company for such period. In preparing the financial statements for the year ended 31 December 2012, the Directors adopted appropriate accounting policies and made prudent, fair and reasonable judgments and estimates, and prepared the financial statements on a going concern basis.

The Articles of Association of the Company provide that the Board is accountable to the shareholders' general meetings, and its duties include the execution of resolutions, formulation of major operational decisions, financial proposals and policies, the Company's basic management system, and the appointment of managers and other senior management personnel of the Company. The Articles of Association also clearly define the respective duties of the Board and the management. The management is responsible for the operation and management of the Company, the implementation of the Board resolutions and the annual operation plans and investment proposals of the Company, formulating the proposal of the Company's internal administrative organisations and sub-organisations, and performing other duties as authorised by the Articles of Association and the Board. In order to maintain highly efficient operations, as well as flexibility and swiftness in operational decision-making, the Board may delegate its management and administrative powers to the management when necessary, and shall provide clear guidance regarding such delegation so as to avoid seriously impeding or undermining the capabilities of the Board when exercising its powers as a whole.

All members of the Board/Committees are informed of the meeting schedule for the Board/Committees for the year at the beginning of each year. In addition, all Directors will receive a meeting notification at least 14 days prior to the meeting under normal circumstances. The Company Secretary is responsible for ensuring that the Board meetings comply with all procedures, related rules and regulations while all Directors can make inquiries to the Company Secretary for details to ensure that they have received sufficient information on various matters set out in the meeting agenda.

The Board meets at least four times a year. Additional Board meetings will be held as necessary. In 2012, the Board played a pivotal role in the Company's operation, budgeting, decision-making, supervision, internal control, organisational restructuring and corporate governance. The Company convened four Board meetings, four Audit Committee meetings, one Independent Board Committee Meeting, and several board and committee written resolutions were passed in this year.

At the Board meetings, the Board reviewed significant matters including the Company's annual, interim and quarterly financial statements, annual operational, financial and investment budgets, internal control implementation and assessment report, proposal for annual profit distribution, annual report, interim report and quarterly reports, acquisition of certain CDMA network assets and associated liabilities, renewal of certain continuing connected transactions and the annual caps applicable thereto and appointment and remuneration of auditors. All directors performed their fiduciary duties and devoted sufficient time and commitments in the affairs of the Company.

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Corporate Governance Report

The Company determines the Directors' remuneration with reference to factors such as their respective responsibilities and duties in the Company, as well as their experiences and market conditions at the relevant time.

The Board should develop and review the Company's policies and practices on corporate governance; review and monitor the training and continuous professional development of directors and senior management; review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; develop, review and monitor the code of conducts for employees; review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Directors' training and continuous professional development

The Company also arranges induction activities including the duties and continuing obligations of directors, relevant laws and regulations, the operation and business of the Company, so that all newly appointed Directors are provided with updated data on industry development. To ensure that the Directors are familiar with the Company's latest operations for decision-making, the Company arranges for key financial data and operational data to be provided to the Directors on a monthly basis since 2009. Through regular Board meetings and reports from management, the Directors are able to clearly understand the operations, business strategy and latest development of the Company and the industry. In addition, the Company reminds the Directors of their functions and responsibilities by continuously providing them with information about the latest development of the Listing Rules and other applicable regulations. The Directors also pay regular visits to our provincial branches to exchange ideas and study so as to achieve a better understanding of the latest business developments and share their valuable experiences. The Directors actively participate in training and continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Company.

In 2012, the Directors have participated in training and continuous professional development activities and the summary is as follows:

Directors	Training categories
Executive Directors	
Wang Xiaochu	A, B, C
Yang Jie	A, B, C
Wu Andi	A, B, C
Zhang Jiping	A, B, C
Zhang Chenshuang (retired on 20 March 2012)	A, B, C
Yang Xiaowei	A, B, C
Sun Kangmin	A, B, C
Ke Ruiwen (Appointed on 30 May 2012)	A, B, C
Non-Executive Directors	
Li Jinming (retired on 22 August 2012)	A, B, C, D
Chen Liangxian (appointed on 16 October 2012)	A, B, C
Independent Non-executive Directors	
Wu Jichuan	A, B, C, D

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Qin Xiao	A, B, C, D
Tse Hau Yin, Aloysius	A, C
Cha May Lung, Laura	A, B, C
Xu Erming	A, C, D

A: *attending relevant seminars and/or conferences and/or forums*

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B: delivering speeches at relevant seminars and/or conferences and/or forums

C: reading relevant newspaper, journals and updates relating to general economy, general business, telecommunications, corporate governance or directors' duties

D: writing articles relating to general economy, general business, telecommunications, corporate governance or directors' duties

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to govern securities transactions by the Directors. Based on the written confirmation from the Directors, all of the Company's Directors have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules regarding the requirements for directors in conducting securities transactions. The Company has received annual independence confirmations from each of the Independent Non-executive Directors, and considers them to be independent.

Audit Committee

The Audit Committee comprises four Independent Non-executive Directors, Mr. Tse Hau Yin, Aloysius as the chairman and Mr. Wu Jichuan, Dr. Qin Xiao and Mr. Xu Erming as the members. The Charter of the Audit Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Audit Committee. The Audit Committee's principal duties include the supervision of the truthfulness and completeness of the Company's financial statements, the effectiveness and completeness of the Company's internal control and risk management systems as well as the work of the Company's internal audit department. It is also responsible for the supervision and review of the qualifications, selection and appointment, independence and services of external independent auditors. The Audit Committee ensures that the management has discharged its duty to establish and maintain an effective internal control system including the adequacy of resources, qualifications and experience of staff fulfilling the accounting and financial reporting function of the Company together with the adequacy of the staff's training programmes and the related budget. The Audit Committee also has the authority to set up a reporting system to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company's accounting, internal control and audit matters. The Audit Committee is responsible to and regularly reports its work to the Board.

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In 2012, pursuant to the requirements of the governing laws and regulations of the places of listing and the Charter of the Audit Committee, the Audit Committee fully assumed its responsibilities within the scope of the clear mandate from the Board. The Audit Committee proposed a number of practical and professional recommendations for improvement based on the Company's actual circumstances in order to promote the continuous improvement and perfection of corporate management. The Audit Committee has provided important support to the Board and played a significant role in protecting the interests of independent shareholders.

In 2012, the Audit Committee convened four meetings, in which it reviewed important matters related to the Company's annual, interim and quarterly financial statements, assessment of the qualifications, independence and performance of the external auditors and their appointments, effectiveness of internal control, internal audit, acquisition of certain CDMA network assets and associated liabilities and connected transactions. The Audit Committee received quarterly reports in relation to the internal audit and connected transactions and provided guidance to the internal audit department. Additionally, the Audit Committee reviewed the internal control assessment report and the attestation report, followed up with the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the auditors twice a year.

Remuneration Committee

The Remuneration Committee comprises four Independent Non-executive Directors. Mr. Xu Erming as the chairman and Mr. Wu Jichuan, Dr. Qin Xiao and Mr. Tse Hau Yin, Aloysius as the members. The Charter of the Remuneration Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Remuneration Committee. The Remuneration Committee assists the Company's Board to formulate overall remuneration policy and structure for the Company's Directors and senior management personnel, and to establish related remuneration procedures that are standardised and transparent. The Remuneration Committee's principal duties include supervising the compliance of the Company's remuneration system with legal requirements, presenting the evaluation report on the Company's remuneration system to the Board, giving recommendations to the Board in respect of the overall remuneration policy and structure for the Company's Directors and senior management personnel and the establishment of a formal and transparent procedure for developing remuneration policy, and determining with delegated responsibility by the Board, the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment). Its responsibilities comply with the requirements of the Corporate Governance Code. The Remuneration Committee is responsible to and regularly reports its work to the Board. No meeting was held by the Remuneration Committee in year 2012.

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Nomination Committee

The Company's Nomination Committee comprises four Independent Non-executive Directors, Mr. Wu Jichuan as the chairman and Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura and Mr. Xu Erming as the members. The Charter of the Nomination Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Nomination Committee, and it specifically requires that the Nomination Committee members shall have no significant connection to the Company, and comply with the regulatory requirements related to independence. The Nomination Committee assists the Board to formulate standardised, prudent and transparent procedures and succession plans for the appointment of Directors, and to further optimise the composition of the Board. The principal duties of the Nomination Committee include regularly reviewing the structure, number of members and composition of the Board; identifying candidates and advising the Board with the appropriate qualifications for the position of Directors; evaluating the independence of Independent Non-executive Directors; advising the Board on matters regarding the appointment or re-appointment of Directors and succession plans for the Directors. The Nomination Committee is accountable to and regularly reports its work to the Board.

The Company will identify suitable candidates through multiple channels such as internal recruitment and recruiting from the labour market. The criteria of identifying candidates include, but are not limited to, their background, experience, professional skills, personal qualities, capability to commit to the affairs of the Company and, in case of Independent Non-executive Director, the candidates should fulfill the independence requirements set out in the Listing Rules from time to time. Upon the Nomination Committee and the Board reviewed and resolved to appoint the appropriate candidate, the relevant proposal will be put forward to the shareholders' general meeting in writing for approval.

Directors shall be elected at the shareholders' general meeting for a term of three years. At the expiry of a director's term, the director may stand for re-election and re-appointment. According to the Articles of Association, before the convening of the annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions (such as election of directors) in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if there are matters falling within the functions and powers of shareholders in general meetings. According to the Articles of Association, shareholders can also request for the convening of extraordinary general meeting provided that the shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held and they shall sign one or more written requisitions in the same format and with the same content, requiring the Board to convene an extraordinary general meeting and stating the resolutions of meeting (such as election of directors). The Board shall convene an extraordinary general meeting within two months. The minimum period during which written notice given to the Company of the intention to propose a person for election as a director, and during which written notice to the Company by such person of his willingness to be elected may be given, will be at least seven days. Such period will commence no earlier than the day after the despatch of the notice of the meeting for the purpose of considering such election and shall end no later than seven days prior to the date of such meeting. The ordinary resolution to approve the appointment of Directors shall be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

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In 2012, there were two written resolutions passed by the Nomination Committee, which approved the nomination of director candidates.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company's Independent Board Committee convened one meeting in 2012, with all five Independent Non-executive Directors attended where it reviewed the acquisition of certain CDMA network assets and associated liabilities and the renewal of certain continuing connected transactions and the annual caps applicable thereto and gave the relevant confirmation as well as submitted the recommendations on these matters to the independent shareholders.

The number of attendance¹⁵/meetings of the members of the Board and committees in year 2012

	Board	Audit Committee	Independent Board Committee	Shareholders meeting
Executive Directors				
Wang Xiaochu (Chairman)	4/4	N/A	N/A	1/2
Yang Jie	4/4	N/A	N/A	1/2
Wu Andi	4/4	N/A	N/A	1/2
Zhang Chenshuang*	N/A	N/A	N/A	N/A
Zhang Jiping	4/4	N/A	N/A	0/2
Yang Xiaowei	4/4	N/A	N/A	0/2
Sun Kangmin	4/4	N/A	N/A	0/2
Ke Ruiwen**	3/3	N/A	N/A	0/1
Non-Executive Directors				
Chen Liangxian***	2/2	N/A	N/A	N/A
Li Jinming****	1/1	N/A	N/A	1/1
Independent Non-Executive Directors				
Wu Jichuan	4/4	4/4	1/1	1/2
Qin Xiao	4/4	4/4	1/1	1/2
Tse Hau Yin, Aloysius	4/4	4/4	1/1	2/2
Cha May Lung, Laura	4/4	N/A	1/1	0/2
Xu Erming	4/4	4/4	1/1	1/2

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Note: Certain Independent Non-executive Directors did not attend the shareholders meeting due to other business commitments or being overseas.

- * *Mr. Zhang Chenshuang retired as the Executive Director and Executive Vice President of the Company on 20 March 2012 due to his age.*
- ** *Mr. Ke Ruiwen was appointed as the Executive Director of the Company on 30 May 2012.*
- *** *Mr. Chen Liangxian was appointed as the Non-Executive Director of the Company on 16 October 2012.*
- **** *Mr. Li Jinming retired as the Non-Executive Director of the Company on 22 August 2012 due to his age.*

1. *Mr. Wang Xiaochu attended 4 board meetings in person and did not appoint alternates to attend the meeting.*
2. *Mr. Yang Jie attended 4 board meetings in person and did not appoint alternates to attend the meeting.*
3. *Madam Wu Andi attended 4 board meetings in person and did not appoint alternates to attend the meeting.*
4. *Mr. Zhang Jiping attended 2 board meetings in person and appointed alternates to attend the meeting twice.*
5. *Mr. Yang Xiaowei attended 3 board meetings in person and appointed alternates to attend the meeting once.*
6. *Mr. Sun Kangmin attended 3 board meetings in person and appointed alternates to attend the meeting once.*
7. *Mr. Ke Ruiwen attended 3 board meetings in person and did not appoint alternates to attend the meeting.*
8. *Mr. Chen Liangxian did not attend board meetings in person and appointed alternates to attend the meeting twice.*
9. *Mr. Li Jinming did not attend the board meeting in person and appointed alternates to attend the meeting.*
10. *Mr. Wu Jichuan attended 3 board meetings in person and appointed alternates to attend the meeting once. Mr. Wu Jichuan attended 4 audit committee meetings in person and did not appoint alternates to attend the meeting. Mr. Wu Jichuan attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.*
11. *Dr. Qin Xiao attended 3 board meetings in person and appointed alternates to attend the meeting once. Dr. Qin Xiao attended 3 audit committee meetings in person and appointed alternates to attend the meeting once. Dr. Qin Xiao attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.*
12. *Mr. Tse Hau Yin, Aloysius attended 4 board meetings in person and did not appoint alternates to attend the meeting. Mr. Tse Hau Yin, Aloysius attended 4 audit committee meetings in person and did not appoint alternates to attend the meeting. Mr. Tse Hau Yin, Aloysius attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.*
13. *Madam Cha May Lung, Laura attended 4 board meetings in person and did not appoint alternates to attend the meeting. Madam Cha May Lung, Laura attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.*
14. *Mr. Xu Erming attended 4 board meetings in person and did not appoint alternates to attend the meeting. Mr. Xu Erming attended 3 audit committee meetings in person and appointed alternates to attend the meeting once. Mr. Xu Erming attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.*
15. *Include attendance in person, by telephone, by video conference, and by proxy.*

Supervisory Committee

The Company's Supervisory Committee comprises six Supervisors, with one External Independent Supervisor and two Employee Representative Supervisors. On 22 August 2012, Mr. Miao Jianhua, Chairman of the Supervisory Committee, retired from the Supervisory Committee due to his age. On the same date, Mr. Xu Cailiao and Madam Han Fang resigned as the Supervisors of the Company due to change in work arrangement. On 16 October 2012, the appointment of Mr. Shao Chunbao and Mr. Hu Jing as the Supervisors were approved at the EGM. On the same date after the close of the EGM, a written resolution was passed to appoint Mr. Shao Chunbao as the chairman of the Supervisory Committee. Meanwhile, Mr. Zhang Jianbin has been elected by the employees of the Company democratically as an Employee Representative Supervisor.

The principal duties of the Supervisory Committee include supervising, in accordance with the law, the Company's financials and performance of its Directors, managers and other senior management so as to prevent them from abusing their powers. The Supervisory Committee is a standing supervisory organisation within the Company, which is accountable to and reports to all shareholders. The Supervisory Committee holds

meetings at least once or twice a year.

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Attendance rates of individual members of the Supervisory Committee in 2012

The Fourth Session of the Supervisory Committee

Number of Supervisors (Fourth Session)	6
Number of meetings in 2012	3

	Number of Attendance/ Meetings
Supervisors	Meetings
Shao Chunbao (newly appointed Chairman of the fourth session of the Supervisory Committee)	0/0
Miao Jianhua (ex-Chairman of the fourth session of the Supervisory Committee)	3/3
Zhu Lihao (Independent Supervisor)	3/3
Mao Shejun (Employee Representative Supervisor of the fourth session of the Supervisory Committee)	3/3
Zhang Jianbin (newly appointed Employee Representative Supervisor of the fourth session of the Supervisory Committee)	0/0
Xu Cailiao (ex-Supervisor of the fourth session of the Supervisory Committee)	3/3
Han Fang (ex-Supervisor of the fourth session of the Supervisory Committee)	3/3
Hu Jing (newly appointed Supervisor of the fourth session of the Supervisory Committee)	0/0
Du Zuguo (Supervisor of the fourth session of the Supervisory Committee)	3/3

External Auditors

The international and domestic auditors of the Company are KPMG and KPMG Huazhen (Special General Partnership), respectively. In order to maintain their independence, the non-audit services provided by the external auditors did not contravene the requirements of the US Sarbanes-Oxley Act of 2002.

A breakdown of the remuneration received by the external auditors for audit and non-audit services provided to the Company for the year ended 31 December 2012 is as follows:

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Service item	Fee (RMB millions)
Audit services (inclusive of services provided for mobile network acquisition)	90.0
Non-audit services (mainly include internal control advisory and other advisory services)	6.0
Total	96.0

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The statements by the external auditors of the Company, KPMG, regarding their reporting responsibilities on the financial statements of the Company is set out in the Report of the Independent International Auditor on page 109.

The service term of KPMG and KPMG Huazhen (Special General Partnership), the international and domestic auditors of the Company for 2012, will expire at the annual general meeting for 2012. The Audit Committee and the Board have resolved to appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors for the financial year 2013, subject to the approval at the 2012 Annual General Meeting.

Internal Control

Internal Control System

The Board attaches great importance to the construction and perfection of the internal control system, and takes effective approaches to supervise the implementation of related control measures, whilst enhancing operation efficiency and effectiveness, and enhancing corporate governance, risk assessment, risk management and internal control so as to protect shareholders' investment and ensure the safety of the Company's assets. In this way, the Company can achieve long-term development goals. The Company's management is responsible for the establishment and implementation of the internal control system. The internal control system of the Company is built on clear organisational structure and management duties, an effective delegation and accountability system, definite targets, policies and procedures, comprehensive risk assessment and management, a sound financial accounting system, and continuing analysis and supervision of operational performance. It covers all services and transactions of the Company. The Company has formulated a code of conduct for the senior management and employees which ensures their ethical value and competency. The Company has formulated its internal reporting system, which encourages anonymous reporting of situations where employees, especially Directors and senior management personnel, breach the rules.

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Since the year 2003, based on the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework, and with the assistance of KPMG Advisory (China) Limited (Beijing office) and other advisory institutions, the Company has formulated manuals, implementation rules and related rules in relation to internal control, and has developed the Policies on Internal Control Management and Internal Control Accountability Management to ensure the effective implementation of the above systems. Over more than nine years, the Company has continuously revised and improved the manuals and implementation rules in view of the ever changing internal and external operation environment as well as the requirements of business development. In particular, the Company has further strengthened the control over key business processes based on the distinguishing features of mobile services since the commencement of the full services operation. While continuing to improve the internal control related policies, the Company has also been strengthening its IT internal control capabilities, which has improved the efficiency and effectiveness of internal control, enhancing the safety of the Company's information system so that the integrity, timeliness and reliability of data and information are maintained.

In 2012, the Company further enhanced the construction of internal control system, strengthened the key aspects of risk control, continuously improved the Company's internal control manuals and implementation rules, and focused on solving new problems arising from the innovation in connection with services, operation, collaboration and emerging services based on the adjustment requirements to the service and financial management processes under the promotion of the centralised efficient operation. Pursuant to the service development and risk analysis, key service processes were developed and certain key services processes management were perfected, such as electronic channel management, Best Pay management, information security of the Internet access and of the users. We strengthened the risk control on certain key aspects such as service cooperation, agency management and supplies procurement. We also enhanced the control requirements in relation to the segregation of incompatible duties and defined a list of incompatible duties in accordance with the characteristics of different services. We reinforced the internal control management mechanism for the newly established subordinated organisations to prevent internal control risk. The Company implemented the information system for the construction of internal control systems in certain provincial-level branches of the Company to improve the efficiency of the internal control systems construction and to regulate the system construction. In addition, we promoted the standardisation of the key control points within the internal control processes to reduce human intervention, so as to improve the effectiveness of the implementation of the internal control system.

Comprehensive Risk Management

The Company views comprehensive risk management as an important task within the Company's daily operation. Pursuant to regulatory requirements in capital markets of the United States and Hong Kong, the Company has formulated a unique five-step risk management approach based on risk management theory and practice, including risk identification, risk assessment, key risk analysis, risk reaction and risk management assessment. The Company has also designed a risk management template, implemented a standardised risk management procedure, established and refined the centralised risk directories and case studies database of the Company, so that risk management terminology is unified across all levels of the Company and the effectiveness of risk management was improved. Following the efforts made in the past five years, China Telecom has established a comprehensive risk management system and has gradually perfected its comprehensive risk monitoring and prevention mechanism.

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In 2012, pursuant to the requirement of provision C2 of the Code on Corporate Governance Practices and the Corporate Governance Code of The Stock Exchange of Hong Kong Limited, the Company further incorporated comprehensive risk management into its daily operation. The Company continued to strengthen the level-oriented, category-oriented and centralised risk management, with resources concentrated on the prevention of two types of major potential risk, including the external environment risk and operational risk, and has achieved satisfactory results. In 2012, the Company was not confronted with any major risk event.

After rigorous risk identification, assessment and analysis, the Company has conducted a preliminary assessment of potential major risks to the Company in 2013, such as the external environment risk and operational risk, and has put forward detailed responding measures. Through the strict and appropriate risk management procedures, the Company will ensure the impact from the above risks to the Company are limited to and within an expected range.

Annual Internal Control Evaluation

The Company has been continuously improving its internal control system. In order to meet the regulatory requirements of its places of listing, including the United States and Hong Kong, and strengthen its internal control while guarding against operational risk, the Company's internal audit department is responsible for coordinating the supervision and assessment of internal control.

The Company has adopted the COSO Internal Control Framework as the standard for the internal control assessment. With the management's internal control testing guidelines and the Audit Standard No. 5 that were issued by PCAOB as its directives, the Company's internal control assessment is composed of the self-assessment conducted by the persons responsible for internal control together with the independent assessment conducted by the internal audit department. In order to evaluate the nature of internal control deficiencies and reach a conclusion as to the effectiveness of the internal control system, the Company adopts the following four major steps of assessment: (1) analyse and identify areas which require assessment, (2) assess the effectiveness of the design of internal control, (3) assess the effectiveness of the execution of internal control, (4) analyse the impact of deficiencies in internal control. At the same time, the Company rectifies any deficiencies found during the assessment. By formulating *Interim Measures for the Internal Control Assessment*, *Manual for the Self-Assessment of Internal Control*, *Manual for the Independent Assessment of Internal Control* and other documents, the Company has ensured the assessment procedures are in compliance with related rules and regulations.

In 2012, the Company's internal audit department initiated and coordinated the assessment of internal control at the Company level, and reported the results to the Audit Committee and the Board.

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Self-assessment of internal control adopts a top-down approach which reinforces assessment in respect of control points at the corporate level and control points corresponding to major accounting items. The Company insisted on risk-oriented principles and, on the basis of comprehensive assessment, identified key control areas and control points for major assessment through risk analysis. In 2012, the Company, on the basis of a comprehensive self-evaluation, launched a special self-assessment work organised and led by the operational department and conducted self-assessment based on six selected hotspot issues in relation to operation and risk management. Meanwhile, we further enhanced the function of the internal control seminars, emphasised on solving the difficult issues on the cross-departmental and cross-processing internal control, and improved the level and quality of the self-assessment of internal control. During the period of conducting self-assessment, the Company organised self-assessment patrol inspections to facilitate the improvement of internal control evaluation quality and the implementation of the rectification work. The above measures effectively promoted the participation by various departments and units and ensured the self-assessment work covering 100% of the Company, and timely detected and rectified internal control deficiencies so as to effectively control and eliminate potential risks.

The Company, in respect of the independent assessment, has put forth the guiding principle that independent assessment shall focus on the major risks in relation to enterprise operation and management and be based on complete internal control system, so as to ensure that the nature of risks and problems will be identified and captured, and to improve the overall efficiency of auditing, which has actively assisted all departments and branches in raising the quality and efficiency of the independent assessment. In 2012, in accordance with the principle and arrangement of assessment for the Company, all units launched a proactive independent assessment, timely identified potential risk and oversaw the process to rectify the problems. This achieved positive results. The Company guided all units to launch independent assessments and also launched independent assessment focusing on key aspects of main service processes and risk control. The Company organised independent assessment for six provincial branches, assessed the effectiveness of the internal control and its implementation, and analysed and rectified the identified internal control deficiencies. Through independent assessment, the Company not only grasped the overall situation of internal control, but also developed key tests for its high-risk processes. In addition, the Company inspected the related units in respect of their rectification of internal control deficiencies and focused on the key issues in order to ensure the depth and quality of assessment.

Furthermore, the Company organised the internal control assessment team and other relevant departments to closely coordinate with the external auditors' internal control audit related to financial statements. The internal control audit covered the Company and all its subsidiaries as well as the key processes and control points in relation to major accounting items. The external auditors regularly communicated with the management in respect of the audit results.

All levels of the Company have been attaching great importance to rectifying internal control deficiencies. The Company pushes all units to carry out rectification in relation to deficiencies identified through self-assessment, independent assessment and the internal control audit. The Company also highlighted the participation of professional departments whilst exploring the establishment of an internal control mechanism with long-term efficiency. To ensure effective rectification, the Company also strengthened the verification and supervision of the rectification of internal control deficiencies. Pursuant to requests from the Company, all provincial branches launched rectification on any deficiencies identified from the assessment (including the internal control audit) in a positive manner.

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Through self-assessments and independent assessments conducted by branches at different levels, the Company carried out multi-layered and full-dimensional reviews of its internal control system, and put its utmost efforts into rectifying the problems which were identified. Through this method, the Company was able to ensure the effectiveness of its internal control and successfully passed the year-end attestation undertaken by the external auditors.

The Board, through the Audit Committee, reviewed the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2012, which covered its controls on financial reporting, operation and compliance, as well as its risk management functions. The Board is of the view that the Company's internal control system is solid, well-established and effective. The annual review also considers the adequacy of resources, qualifications and experience of staff fulfilling the Company's accounting and financial reporting functions, together with the adequacy of the staff's training programmes and the relevant budget.

Investor Relations and Transparent Information Disclosure Mechanism

The Company establishes an Investor Relations Department which is responsible for providing shareholders and investors with the necessary information, data and services in a timely manner. It also maintains proactive communications with shareholders, investors and other capital market participants so as to allow them to fully understand the operation and development of the Company. The Company's senior management presents the annual results and interim results in Hong Kong every year. Through various activities such as analyst meetings, press conferences, global investor telephone conferences and investors road shows, the senior management provides the capital markets and the media with important information related to key issues of which the investors are of prime concerns. This has helped reinforce the understanding of the Company's business and the overall development of the telecommunications industry in China. Since 2004, the Company has been holding the Annual General Meetings in Hong Kong to provide convenience and encourage its shareholders, especially public shareholders, to actively participate in the Company's Annual General Meetings and to promote the direct communication and exchange of ideas between the Board and shareholders. During the year, the Company proposed to acquire certain CDMA network assets and associated liabilities (the Transaction) and the Company's senior management proactively communicated with investors and the media through analyst meetings, press conference, global investor telephone conferences and investors road shows (in Hong Kong, Singapore, Europe and the United States), providing them with detailed information in relation to and the long-term benefits of the Transaction. The Transaction was duly passed by majority of the independent shareholders.

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With an aim of strengthening communications with the capital market and enhancing the transparency of information disclosure, the Company has provided the quarterly disclosure of revenue, operating expenses, EBITDA, net profit figures and other key operational data, and the monthly announcements of the number of access lines in service, mobile subscribers (including 3G subscribers) and wireline broadband subscribers. The Company attaches great importance to maintaining daily communication with shareholders, investors and analysts. In 2012, the Company has participated in a number of investors conferences held by a number of major international investment banks in order to maintain active communication with institutional investors.

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In 2012, the Company attended the following investors conferences held by major international investment banks:

Date	Name of Conference
January 2012	Deutsche Bank Access China Conference 2012
January 2012	UBS Greater China Conference 2012
January 2012	Standard Chartered Bank Non-Deal Roadshow 2012
March 2012	Credit Suisse Asian Investment Conference 2012
April 2012	ICBC Non-Deal Roadshow 2012
May 2012	Macquarie Greater China Conference 2012
May 2012	Morgan Stanley Hong Kong Investor Summit 2012
May 2012	UBS Asian Telecom Conference 2012
May 2012	BNP Paribas Asia Pacific TMT Conference 2012
May 2012	Mitsubishi UFJ Securities Non-Deal Roadshow 2012
May 2012	BOC International 10th Investors Conference 2012
May 2012	CLSA China Investment Forum 2012
May 2012	Deutsche Bank 3rd Annual Asia Conference
June 2012	Goldman Sachs Telecom & Internet Corporate Day 2012
June 2012	Nomura Asia Equity Forum 2012
June 2012	Piper Jaffray 9th Annual China Conference 2012
June 2012	UBS Non-Deal Roadshow 2012
June 2012	DBS Vickers Non-Deal Roadshow 2012
June 2012	Credit Suisse China Investment Conference 2012
July 2012	Daiwa Hong Kong China Investment Seminar 2012
September 2012	CLSA Hong Kong Investors Forum 2012
September 2012	J.P. Morgan Asia Pacific Equity Conference 2012
October 2012	Goldman Sachs Greater China Summit 2012
November 2012	BNP Paribas 19th Annual China Conference 2012
November 2012	Citi Greater China Investor Conference 2012
November 2012	J.P. Morgan Asia Pacific TMT Conference 2012
November 2012	Daiwa Investment Conference Hong Kong 2012

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November 2012	Morgan Stanley Asia Pacific Investor Conference 2012
November 2012	CIMB 8th Hong Kong/China Conference 2012
November 2012	Bank of America Merrill Lynch China Conference 2012
December 2012	Societe-Generale/Ji Asia Pan Asian Conference 2012

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Corporate Governance Report

The Company's investor relations website (www.chinatelecom-h.com) not only serves as an important channel for the Company to disseminate press releases and corporate information to investors and the capital market, but also plays a significant role in the Company's valuation and our compliance with regulatory requirements for information disclosure. In 2012, a number of new functions and contents were added, including debt information and debt maturity schedule of the Company, to the corporate website to further enhance the functions and the level of transparency of the Company's information disclosure on its website, so as to meet the international best practices. In addition, a mobile version of the Company's website was also offered, which allows the investors, shareholders, media and the general public to easily browse the updated information on the Company's website through mobile devices at any time and any place. The Company's website was awarded, for the second consecutive year, the No. 1 Best Investor Relations Website in Asia & Pacific in IR Global Rankings, indicating that the Company's website is highly recognised by professionals. The Company also actively seeks recommendations on how to improve the Company's annual report from shareholders through survey, and in accordance with its shareholders' recommendations prepared and distributed the annual report in a more environmentally friendly and cost-saving manner. The shareholders can ascertain their choice of receiving the annual reports and communications by electronic means, or receiving English version only, Chinese version only or both English and Chinese versions.

The Company has always maintained a good information disclosure mechanism. While keeping highly transparent communications with media, analysts and investors, we attach great importance to the handling of inside information. In general, the authorised speaker only makes clarification and explanation on the data available on the market, and avoid providing or divulging any unpublished inside information either by an individual or by a team. Before conducting any external interview, if the authorised speaker has any doubt about the data to be disclosed, he/she would seek verification from the relevant person or the person-in-charge of the relevant department, so as to determine if such data is accurate. In addition, discussions on the Company's key financial data or other financial indicators are avoided during the black-out period.

Shareholder Rights

According to the Articles of Association, shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

Two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one or more written requisitions in the same format and with the same content, stating the proposed matters to be discussed at the meeting, and requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof.