

CHINA TELECOM CORP LTD

Form 20-F

April 29, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

OR

..

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

Date of event requiring this shell company report

Commission file number 1-31517

(Exact Name of Registrant as Specified in Its Charter)

China Telecom Corporation Limited

(Translation of Registrant's Name into English)

People's Republic of China

(Jurisdiction of Incorporation or Organization)

31 Jinrong Street, Xicheng District

Beijing, People's Republic of China 100033

(Address of Principal Executive Offices)

Mr. Jian Liang

China Telecom Corporation Limited

31 Jinrong Street, Xicheng District

Beijing, People's Republic of China 100033

Email: liangj@chinatelecom.com.cn

Telephone: (+86-10) 5850 1503

Fax: (+86-10) 5850 1504

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2010, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

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

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

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

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

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

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

Edgar Filing: CHINA TELECOM CORP LTD - Form 20-F

U.S. GAAP ☐

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

Other ☐

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

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

Table of Contents

CHINA TELECOM CORPORATION LIMITED

TABLE OF CONTENTS

	Page
<u>PART I</u>	- 2 -
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	- 2 -
Item 2. <u>Offer Statistics and Expected Timetable</u>	- 2 -
Item 3. <u>Key Information</u>	- 2 -
Item 4. <u>Information on the Company</u>	- 15 -
Item 4A. <u>Unresolved Staff Comments</u>	- 36 -
Item 5. <u>Operating and Financial Review and Prospects</u>	- 36 -
Item 6. <u>Directors, Senior Management and Employees</u>	- 50 -
Item 7. <u>Major Shareholders and Related Party Transactions</u>	- 60 -
Item 8. <u>Financial Information</u>	- 67 -
Item 9. <u>The Offer and Listing</u>	- 68 -
Item 10. <u>Additional Information</u>	- 69 -
Item 11. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	- 81 -
Item 12. <u>Description of Securities Other than Equity Securities</u>	- 84 -
<u>PART II</u>	- 85 -
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	- 85 -
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	- 85 -
Item 15. <u>Controls and Procedures</u>	- 85 -
Item 16A. <u>Audit Committee Financial Expert</u>	- 87 -
Item 16B. <u>Code of Ethics</u>	- 87 -
Item 16C. <u>Principal Accountant Fees and Services</u>	- 87 -
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	- 88 -
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	- 88 -
Item 16F. <u>Change in Registrant's Certifying Accountant</u>	- 88 -
Item 16G. <u>Corporate Governance</u>	- 88 -
Item 17. <u>Financial Statements</u>	- 88 -
Item 18. <u>Financial Statements</u>	- 89 -
Item 19. <u>Exhibits</u>	- 90 -

Table of Contents

FORWARD-LOOKING STATEMENTS

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

our business and operating strategies;

our network expansion and capital expenditure plans;

our operations and business prospects;

the expected benefit of any acquisitions or other strategic transactions;

our financial condition and results of operations;

the expected impact of new services on our business, financial condition and results of operations;

the future prospects of and our ability to integrate the acquired business;

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 in this report, 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 risk factors set forth in Item 3. Key Information D. Risk Factors and the following:

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

the granting and approval of licenses;

tariff policies;

interconnection and settlement arrangements;

capital investment priorities;

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

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

spectrum and numbering resources allocation;

Table of Contents

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

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

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

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

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

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

CERTAIN DEFINITIONS AND CONVENTIONS

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

PART I

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The following table presents our selected financial data. The selected consolidated statement of financial position data as of December 31, 2009 and 2010, and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for

Edgar Filing: CHINA TELECOM CORP LTD - Form 20-F

the years ended December 31, 2008, 2009 and 2010, are derived from our audited consolidated financial statements included elsewhere in this annual report, and should be read in conjunction with those consolidated financial statements. The selected consolidated statement of financial position data as of December 31, 2006, 2007 and 2008 and the selected consolidated statement of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2006 and 2007 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS.

- 2 -

Table of Contents

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

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

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

	As of or for the year ended December 31,					
	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2010 US\$
	(in millions, except share numbers and per share and per ADS data)					
Consolidated Statement of Comprehensive Income Data:						
Operating revenues	177,218	180,804	186,529	209,370	219,864	33,313
Operating expenses ⁽¹⁾	(138,218)	(143,063)	(181,384)	(186,712)	(195,848)	(29,674)
Operating income	39,000	37,741	5,145	22,658	24,016	3,639
Earnings before income tax	34,564	30,996	186	19,175	20,908	3,168
Income tax	(6,919)	(6,704)	793	(4,549)	(5,031)	(762)
Net income attributable to equity holders of the Company	27,562	24,195	884	14,422	15,759	2,388
Basic earnings per share ⁽²⁾	0.34	0.30	0.01	0.18	0.19	0.03
Basic earnings per ADS ⁽²⁾	34.06	29.90	1.09	17.82	19.47	2.95
Cash dividends declared per share	0.08	0.08	0.08	0.08	0.07	0.01
Consolidated Statement of Financial Position Data:						
Cash and cash equivalents	23,113	21,427	27,866	34,804	25,824	3,913
Accounts receivable, net	16,373	16,979	17,289	17,438	17,328	2,625
Total current assets	45,671	44,110	55,499	60,936	55,245	8,370
Property, plant and equipment, net ⁽³⁾	330,436	329,292	299,159	286,328	275,248	41,704
Total assets ⁽³⁾	423,857	413,331	440,337	426,520	407,355	61,720
Short-term debt	80,378	67,767	83,448	51,650	20,675	3,133
Current portion of long-term debt	8,242	3,811	565	1,487	10,352	1,568
Accounts payable	32,968	29,013	34,458	34,321	40,039	6,067
Total current liabilities	159,451	140,245	176,790	143,481	126,923	19,231

Table of Contents

	As of or for the year ended December 31,					
	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2010 US\$
	(in millions, except share numbers and per share and per ADS data)					
Long-term debt	37,257	34,148	39,226	52,768	42,549	6,447
Deferred revenues (including current portion)	20,765	15,486	11,444	8,462	6,203	940
Total liabilities	213,060	187,359	225,789	203,907	175,391	26,574
Equity attributable to equity holders of the Company	209,349	224,521	213,036	221,732	231,468	35,071
Consolidated Cash Flow Data:						
Net cash from operating activities	75,042	75,783	76,756	74,988	75,571	11,450
Net cash used in investing activities ⁽⁴⁾	(50,333)	(46,618)	(75,819)	(43,255)	(45,734)	(6,929)
Capital expenditures ⁽⁴⁾	(50,399)	(46,847)	(46,652)	(40,311)	(41,597)	(6,303)
Net cash (used in)/generated from financing activities	(20,904)	(30,747)	5,585	(24,793)	(38,771)	(5,874)

- (1) Includes an impairment loss in 2008 on property, plant and equipment of RMB24,167 million, which primarily represented an impairment loss on our Personal Handyphone System, or PHS, specific equipment of RMB23,954 million, an impairment loss in 2009 on property, plant and equipment of RMB753 million, which mainly represented impairment made in respect of our Digital Data Network, or DDN, specific equipment and an impairment loss in 2010 on property, plant and equipment of RMB139 million, which mainly represented impairment made in respect of certain of our obsolete telecommunication equipment.
- (2) The basic earnings per share have been calculated based on the net income attributable to equity holders of the Company of RMB27,562 million, RMB24,195 million, RMB884 million, RMB 14,422 million and RMB15,759 million in 2006, 2007, 2008, 2009 and 2010, respectively, and the weighted average number of shares in issue during each of the relevant years of 80,932,368,321 shares. Basic earnings per ADS have been computed as if all of our issued and outstanding shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 H shares.
- (3) It includes the effect of the revaluation of property, plant and equipment as of December 31, 2007, which were carried out in accordance with the Company's accounting policies under IFRS.
- (4) Capital expenditures are part of and not an addition to net cash used in investing activities.

Pursuant to the shareholders' approval at the annual general meeting held on May 25, 2010, a final dividend of RMB6,031 million (RMB0.074514 equivalent to HK\$0.085 per share) in respect of the year ended December 31, 2009 was declared, all of which have been fully paid.

Pursuant to a resolution passed at the directors' meeting on March 22, 2011, a final dividend of approximately RMB5,778 million (HK\$0.085 per share) for the year ended December 31, 2010 was proposed for shareholders' approval at the annual general meeting.

Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 30, 2010 (RMB6.6000 to US\$1.00 and HK\$7.7810 to US\$1.00). We make no representation that any Renminbi or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars or vice versa, as the case may be, at any particular rate, the rates stated below, or at all. For a detailed explanation of the risk of currency rate fluctuations, please see Risk Factors Risks Relating to the People's Republic of China Fluctuation of the Renminbi could materially affect our financial condition and results of operations. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. Examples of such government regulations and restrictions are set forth in Risk Factors Risks Relating to the People's Republic of China Government control of currency conversion may adversely affect our financial condition.

Table of Contents

On April 22, 2011, the daily exchange rates reported by the Federal Reserve Board was RMB6.5067 to US\$1.00 and HK\$7.7707 to US\$1.00. The following table sets forth additional information concerning exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our future periodic reports or any other information to be provided to you.

	RMB per US\$1.00			HK\$ per US\$1.00	
	High	Low		High	Low
October 2010	6.6912	6.6397	October 2010	7.7642	7.7515
November 2010	6.6892	6.6330	November 2010	7.7656	7.7501
December 2010	6.6745	6.6000	December 2010	7.7833	7.7612
January 2011	6.6364	6.5809	January 2011	7.7978	7.7683
February 2011	6.5965	6.5520	February 2011	7.7957	7.7823
March 2011	6.5743	6.5510	March 2011	7.8012	7.7858
April 2011 (through April 22, 2011)	6.5477	6.4920	April 2011 (through April 22, 2011)	7.7784	7.7669

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2006, 2007, 2008, 2009 and 2010 calculated by averaging the noon buying rates on the last day of each month during each of the relevant years.

Average Noon Buying Rate

	RMB per US\$ 1.00	HK\$ per US\$1.00
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8295	7.7513
2010	6.7603	7.7692

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors***Risks Relating to Our Business***

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

The telecommunications industry in the PRC is rapidly evolving.

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

Table of Contents

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

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

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

We continued to lose wireline telephone subscribers including PHS subscribers and revenues derived from our wireline voice services continued to decline during the past several years mainly due to the increasing popularity of mobile voice services and other alternative means of communication, such as VoIP. Tariffs for mobile services have kept decreasing in recent years, which further accelerated substitution of the wireline voice services by the mobile services. The number of our fixed-line subscribers decreased by 9.5% at the end of 2009 compared to that at the end of 2008 and further decreased by 7.2% at the end of 2010. Revenues from our wireline voice services decreased by 18.5 % in 2009 compared to that in 2008 and further decreased by 20.3% in 2010. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 51.6% in 2008 to 37.5% in 2009 and 28.4% in 2010.

As a supplement to our wireline voice services, we provide PHS services in our service regions. PHS is a telecommunications technology that allows us to offer to our customers wireless local access services with mobility. However, our PHS services have been facing intense competition from substituting telecommunications services in the market, especially from mobile services, which makes the PHS services less acceptable to customers. As a result, our PHS service subscribers, usage volumes as well as revenue derived from such services decreased significantly in recent years, which though partially reflects our initiatives to migrate some middle and high-end PHS subscribers to our mobile services in order to retain them as our customers. In anticipation of continuing decrease in revenue derived from our PHS service, we recognized an impairment loss on our PHS specific equipment of RMB23,954 million in 2008.

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

Table of Contents

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

China Telecom Group, a wholly state-owned enterprise, owned approximately 70.89% of our outstanding shares as of April 22, 2011. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

controlling the election of our Directors and, in turn, indirectly controlling the selection of our senior management;

determining the timing and amount of our dividend payments;

approving our annual budgets;

deciding on increases or decreases in our share capital;

determining issuance of new securities;

approving mergers and acquisitions; and

amending our Articles of Association.

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

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

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

use of international gateway facilities;

provision of services in areas outside our service regions necessary to enable us to provide end-to-end services to our customers;

use of certain inter-provincial optic fibers; and

lease of properties and assets, including lease of the capacity on the CDMA network.

The interests of China Telecom Group and its other subsidiaries as providers of these services and facilities may conflict with our interests. We currently have limited alternative sources of supply for these services and facilities. Therefore, we have limited leverage in negotiating with China Telecom Group and its other subsidiaries over the terms for the provision of these services and facilities. Termination or adverse changes

Edgar Filing: CHINA TELECOM CORP LTD - Form 20-F

of the terms for the provisions of these services and facilities could materially and adversely affect our business, results of operations and financial condition. See Item 4. Information on the Company A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008 and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a description of the services and facilities provided by China Telecom Group and its other subsidiaries.

- 7 -

Table of Contents

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

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

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

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

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

our future financial condition, results of operations and cash flows;

general market conditions for financing activities by telecommunications companies; and

economic, political and other conditions in the markets where we operate or plan to operate.

We cannot assure you that we can obtain sufficient financing at commercially reasonable terms or at all. If adequate capital is not available on commercially reasonable terms, our growth potential and future prospects could be adversely affected.

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

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

Table of Contents

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

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

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

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

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

Risks Relating to the Telecommunications Industry in the PRC

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

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

industry policies and regulations;

licensing;

tariffs;

competition;

telecommunications resource allocation;

service standards;

Table of Contents

technical standards;

interconnection and settlement arrangements;

enforcement of industry regulations;

universal service obligations;

network information security;

network access license approval for telecom equipment and terminals; and

network construction plans.

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

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

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

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

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

Table of Contents

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

Risks Relating to the People's Republic of China

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

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

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

government involvement;

level of development;

growth rate;

control of foreign exchange; and

allocation of resources.

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

Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform in recent years, it still exercises significant control over the PRC's economic growth through, among others, economical, legislative and administrative measures. We cannot predict the purpose and effect of future economic policies of the PRC government or the impact of such economic policies on our business and operations.

The recent global financial crisis and an economic slowdown may reduce the demand for our services and have a material adverse effect on our business, financial condition and results of operations.

The global financial crisis that unfolded in 2008 has had a significant negative impact on businesses around the world. In particular, the global financial crisis, weak consumer confidence and diminished consumer and business spending may lead to a slowdown in the market demand for telecommunications services. Economic contraction or slower economic growth may also lead to limited access to or unavailability of financing for business developments of telecommunications services providers.

Table of Contents

Although we believe the PRC's economy has been recovering from the global financial crisis since 2010, there remain a lot of uncertainties. We cannot assure you that the PRC economy will fully recover from the global financial crisis, or, even when it does, that demand for telecommunications services will increase. If there is any further slowdown in the economic growth of the PRC or the demand for telecommunications services fails to increase, our business, as well as our financial condition and results of operations could be materially and adversely affected.

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

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

payment of interest and principal on foreign currency-denominated debt;

payment for equipment and materials purchased offshore; and

payment of dividends declared, if any, in respect of our H shares.

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

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

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

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On May 18, 2007, the PRC government expanded the floating band of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign currency exchange market from 0.3% to 0.5%. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, in which our obligations are denominated. For further information on our foreign exchange risks and certain exchange rates, see Item 3. Key Information A. Selected Financial Data Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Rate Risk. We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

Holders of H shares may be subject to PRC taxation.

On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC, or the New Tax Law, which took effect on January 1, 2008. On December 6, 2007, the State Council of the PRC enacted the Enterprise Income Tax Law Implementing Regulations, or the Implementing Regulations, which became effective on January 1, 2008. Prior to the New Tax Law and the Implementing Regulations, dividends paid by us to holders of our H shares who are enterprises outside the PRC were exempted from PRC income tax and gains realized by enterprises upon the sale or other disposition of our H shares were exempted from PRC capital gains tax. Under the New Tax Law and the Implementing Regulations, a foreign enterprise which is a non-resident enterprise is subject to a 10% tax for its income derived from sources in the PRC after January 1, 2008, unless reduced under an applicable double-taxation treaty. In addition, dividends paid by us to a resident enterprise, including a foreign enterprise whose de facto management body is located in the PRC, are not subject to any PRC income tax. The capital gains realized by such resident enterprise are subject to the PRC enterprise income tax. According to the Notice of the PRC State Administration of Taxation Concerning the Withholding Enterprise Income Tax on Dividend Distributed by PRC Resident Enterprises to Overseas Non-Resident Enterprise Holders of H shares issued in November 2008 and the Approval of the PRC State Administration of Taxation Concerning the Collection of Enterprise Income Tax on Dividend from B shares Received by Non-Resident Enterprise issued in July 2009, when PRC resident enterprises distribute dividend to overseas non-resident enterprise H share holders for the year 2008 and the years thereafter, a 10% withholding enterprise income tax will be levied. The Company will withhold the 10% enterprise income tax when it pays dividend to holders of H shares who are non-resident enterprises. See Item 10. Additional Information E. Taxation People's Republic of China.

Furthermore, under current PRC tax laws, regulations and rulings, dividends paid by us to holders of our H shares who are individuals outside the PRC are currently exempted from PRC income tax. In addition, gains realized by individuals upon the sale or other disposition of our H shares are temporarily exempted from PRC capital gains tax. If the exemptions are withdrawn in the future, holders of our H shares who are individuals may be required to pay withholding tax on dividends, which is currently imposed at the rate of 20%, or income tax, which may be imposed upon individuals at the rate of 20%, and holders of our H shares may be required to pay PRC capital gains tax upon the sale or other disposition of our H shares. See Item 10. Additional Information E. Taxation People's Republic of China.

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

Several natural disasters and health hazards have struck mainland China in recent years. For example, in 2008, parts of mainland China experienced what was reportedly the most severe snow storm in half a century, and a major earthquake registering 8.0 on the Richter scale struck Sichuan Province and certain other parts of mainland China. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment and other assets in the affected areas sustained some damage in the earthquakes, leading to service stoppage and other disruptions in our operations in those areas. In March 2011, a major earthquake registering 9.0 on the Richter scale struck Japan, which affected our international communications services. Moreover, certain countries and regions, including the PRC, have encountered incidents of the H5N1 strain of bird flu, or avian flu, and the outbreak of influenza A (H1N1) strain over the past six years. We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in the PRC or other regions in the world may have a material adverse effect on our financial condition and results of operations.

Table of Contents

Item 4. Information on the Company.

A. History and Development of the Company

Our Restructuring and Initial Public Offering in 2002

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

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

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

Our Acquisitions from China Telecom Group and Corporate Organization Restructuring

We carried out a series of acquisitions between 2003 and 2008, through which we acquired from China Telecom Group telecommunications operations conducted by its other regional subsidiaries. As a result, we significantly expanded the geographical coverage of our operations in Mainland China.

In June 2007, we acquired from China Telecom Group and its wholly owned subsidiary China Huaxin Post and Telecommunications Development Center 100% equity interest in each of China Telecom (Hong Kong) International Limited, China Telecom System Integration Co., Limited and China Telecom (Americas) Corporation (formerly known as China Telecom (USA) Corporation).

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

Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

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

Table of Contents

Our Acquisition of the CDMA Business

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

Related Transactions

Acquisition of the CDMA Network by China Telecom Group. On July 27, 2008, China Telecom Group, Unicom Group, and Unicom New Horizon Mobile Telecommunications Company Limited, or Unicom New Horizon, a wholly owned subsidiary of Unicom Group, entered into a CDMA network disposal agreement, pursuant to which Unicom Group and Unicom New Horizon sold the CDMA cellular telecommunications network constructed by Unicom New Horizon, or the CDMA Network, to China Telecom Group for a consideration of RMB66.2 billion, or the CDMA Network Acquisition. On October 1, 2008, China Telecom Group completed the acquisition of the CDMA Network.

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

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

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

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

Table of Contents

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

On April 28, 2011, we entered into an asset restructuring agreement with China Satcom Guomai Communications Co., Ltd. (Satcom Guomai), which is a subsidiary of China Telecommunications Corporation and listed on the Shanghai Stock Exchange. We have agreed to sell to Satcom Guomai our 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services, for an estimated consideration of RMB350 million, subject to adjustment. Satcom Guomai will pay the consideration by issuing to us a certain number of its shares, representing around 4% of its enlarged share capital. This transaction will be completed after the satisfaction of the closing conditions, including obtaining applicable government approvals.

- 17 -

Table of Contents

Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 28, 2011:

- 18 -

Table of Contents

- (1) Formerly known as China Unicom (Macau) Company Limited.
- (2) Formerly known as Unicom Huasheng Telecommunications Technology Co. Ltd.
- (3) We have agreed to sell our 100% equity interest in this company to Satcom Guomai. See Item 4. Information on the Company A. History and Development of the Company Our Proposed Sale of Besttone E- Commerce Co., Ltd.

In addition, our Company has a branch in each of 22 provinces, five autonomous regions and four centrally administered municipalities in the PRC. See Our Corporate Organization Restructuring in 2008 and Our Acquisition of Beijing Telecom in 2008 included elsewhere under this Item.

General Information

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

B. Business Overview

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

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

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

Our Operation Strategy

In 2010, facing a complex economic situation and increasing market competition, we continued to pursue integrated and differentiated development of our business. We further enhanced our integrated operation of wireline, mobile and Internet access services, which enabled us to effectively promote our services by providing our customers with single account access to all services, minute-sharing plans between wireline and mobile voice services, integrated information application services and a variety of integrated packages of telecommunication services. In addition, we focused on the development of 3G services and significantly expanded our mobile Internet business. With the expansion of our mobile services, our mobile handset value chain continues to improve. Our broadband and integrated information application services continues to maintain rapid growth, facilitating the optimization of our revenue structure and the coordinated development of our mobile, broadband, value-added, integrated information application, and wireline voice services. We have successfully embarked on the scale development of our full-service operations.

Table of Contents**Subscribers and Service Usage**

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

	As of or for the year ended December 31,		
	2008 ⁽⁴⁾	2009	2010
Wireline Voice Services:			
Local wireline access lines in service (in millions)	208.3	188.6	175.1
Residential	118.4	112.2	110.2
Enterprise	27.8	32.1	34.0
Public telephones	15.3	15.1	14.5
Wireless local access	46.8	29.2	16.4
Wireline local voice usage (in billion pulses)⁽¹⁾			
Domestic long distance wireline usage (in billion minutes) ⁽²⁾	372.5	320.6	251.4
International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes) ⁽³⁾	98.7	83.9	68.5
	1.6	1.2	1.2
Mobile Voice Services:			
Mobile subscribers (in millions)	27.9	56.1	90.5
Mobile voice usage (in billion minutes)	26.4	155.4	295.9
Internet Access Services:			
Wireline broadband subscribers (in millions)	44.3	53.5	63.5
Value-added Services:			
Mobile SMS Usage (in billion messages)	2.0	15.1	33.1
Mobile Color Ring Tone subscribers (in millions)	8.6	32.6	54.2
Wireline caller ID service subscribers (in millions)	146.7	128.5	119.0
Wireline Color Ring Tone subscribers (in millions)	79.2	74.1	73.9

(1) Pulses are the billing units for calculating local telephone usage fees.

(2) Includes calls originated by mobile subscribers that are carried over our long distance networks.

(3) Includes calls originated by subscribers of other operators that are carried through the international gateways of China Telecom Group.

(4) Our mobile services related operating data only relate to the fourth quarter of 2008 in which we commenced offering such services.

Table of Contents

Our Products and Services

Wireline Voice Services

The total number of wireline telephone subscribers decreased to 175.1 million as of December 31, 2010 from 188.6 million as of December 31, 2009. Among those subscribers we lost in 2010, 12.8 millions were PHS subscribers. As of December 31, 2010, we had 16.4 million PHS subscribers. Following the continual migration of PHS subscribers in recent years, the significance of the PHS services to our business has been significantly decreasing.

Our wireline voice services include local wireline services, domestic long distance wireline services and international, Hong Kong, Macau and Taiwan long distance wireline services. The total local wireline usage decreased by approximately 21.6% from 320.6 billion pulses in 2009 to 251.4 billion pulses in 2010. Total domestic long distance wireline usage was 68,544 million minutes in 2010, representing a decrease of approximately 18.3% from 83,882 million minutes in 2009. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2010 was 1,207 million minutes, representing a decrease of approximately 1.1% from 1,221 million minutes in 2009.

The decrease in the number of wireline telephone subscribers and our wireline voice service usage was primarily attributable to the continuing decline in tariffs for mobile services and the increasing penetration of mobile voice and other alternative communications means, such as VoIP.

In order to mitigate the impact of the decreases of our wireline voice services usage and stabilize our revenue in the increasingly competitive market environment for our wireline voice services, we have taken initiatives to implement our full services strategy. In particular, we promoted the in-depth integration of our voice services with our mobile, broadband, value-added and integrated information services in order to meet the diverse needs of our customers and build their loyalty to our services. We also focus on building customer loyalty and maintaining customer value with enhanced marketing initiatives such as promotion of monthly plans for wireline voice services, promotions based on service usage and promotions of minute-sharing plans between wireline and mobile voice services. In addition, with the continuing migration of our PHS subscribers, the risks relating to our wireline voice services are expected to further decrease.

Mobile Voice Services

Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2010, our mobile services have experienced significant growth. In 2010, the number of subscribers of our mobile voice services increased by 34.4 million to 90.5 million as of December 31, 2010. The number of subscribers of our 3G services increased by 8.2 million to 12.3 million as of December 31, 2010, representing 13.6% of our mobile voice subscribers. The mobile voice usage increased to 295.9 billion minutes in 2010 from 155.4 billion minutes in 2009.

In 2010, we continued to maintain our e surfing brand as a leading 3G services brand in the industry, which in combination with our high-quality network, contributed to the significant growth of our mobile services. Taking the lead to invigorate the industry value chain, we launched a number of new star 3G smartphone models. In addition, we target the key market segments of office staff and students while strengthening the development and promotion of differentiated applications. With proliferating mobile Internet applications, we attempted to enrich users experience and stimulate data traffic.

Table of Contents

Internet Access Services

Our Internet access services consist of wireline Internet access services, including dial-up and broadband services, and wireless Internet access services. Internet access services have become increasingly important in our revenue structure.

In 2010, we continued to strengthen our Internet access services. We upgraded the broadband speed to meet increasing customer needs for bandwidth and provide better customer experience. In addition, by utilizing our competitive wireline broadband access capacity, we continued to develop and incorporate new applications and services in order to build customer loyalty and increase the overall value of our services. Moreover, we further promoted new broadband products such as wireless broadband services to integrate operations of our mobile services and Internet access services. As of December 31, 2010, we have established close to 0.1 million Wi-Fi hotspots in the PRC, where our customers can have Internet access.

The number of our wireline broadband subscribers increased by 18.7% from 53.5 million as of December 31, 2009 to 63.5 million as of December 31, 2010. The number of our wireless broadband subscribers increased to 7.6 million as of December 31, 2010 from 6.3 million as of December 31, 2009, primarily due to our industry leading e-Surfing brand and high-quality network.

In 2011, we will implement the project Broadband China, Fiber Cities to significantly expand coverage of our broadband networks. Under the e-Surfing brand name, we will implement differentiated segment strategies based on bandwidth and integrate stream-based applications such as video, gaming and entertainment with the basic access services to create more value through a wide range of applications

Value-added Services

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

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

Our mobile value-added products primarily consist of mobile Color Ring Tong services, multimedia messaging services, or MMS, Mobile Global Mega-Eye services, as well as iMusic, 189 mailbox, e Live, ebook, e-Surfing Video, eStore, e Navi and egame services. Our broad portfolio of mobile Internet products and applications has gained wide market acceptance and contributed to the development of our mobile value-added services. The usage volumes of iMusic, e-Surfing Video and eStore increased significantly. For the government and enterprise market, industry-specific applications, such as government administration and supervision, transport and logistics, digital hospital and integrated e-surfing RFID, continue to gain market acceptance.

The usage volume of our wireless SMS increased by 118.8% from 15.1 billion messages in 2009 to 33.1 billion messages in 2010. The number of subscribers to our mobile Color Ring Tone services increased to 54.2 million as of December 31, 2010 from 32.6 million as of December 31, 2009. The number of subscribers to our wireline caller ID services was 119.0 million as of December 31, 2010, a decrease from 128.5 million as of December 31, 2009.

Integrated Information Application Services

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

Table of Contents

In 2010, our integrated information application services continued to expand. Through promotion of integrated operation and differentiated services, our Best Tone service continued to expand at a rapid pace and entered the business application market.

Managed Data and Leased Line Services

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

In 2010, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop shop, tailored services and comprehensive solutions to these customers. These customers can enjoy a full range of consulting, trouble-shooting, billing and collection, and technical support services by contacting any designated account manager in our Company.

Other Services

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

Our Customers and Brand Management

In 2010, we continued to promote our full-service brand names under our enterprise brand China Telecom. We continue to enhance our e-Surfing brand through providing contents for our e-Surfing 3G smartphones. Benefiting from the leading e-Surfing brand name, we also promoted the coordinated development of our other customer-based and service-based brands such as BizNavigator, One Home and Best Tone. As of the end of 2010, the number of subscribers of BizNavigator increased to approximately 4.99 million, or a 14.4% increase over 2009. Our One Home subscribers accounted for 44% of the total number of our residential users. Subscribers of our integrated mobile service packages, such as BizNavigator and One Home, accounted for 53% of the total number of our mobile subscribers.

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

Tariffs

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

Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Wireline Voice Services

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

Table of Contents

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

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

Mobile Voice Services

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

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

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

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

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

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

Managed Data and Leased Line Services

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

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

Interconnection and Roaming Arrangements

Interconnection

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

Table of Contents

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

International Roaming

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

As of December 31, 2010, subscribers of our CDMA mobile services using CDMA dual-mode UIM cards can roam on mobile networks through China Telecom Group's international roaming agreements with more than 1,000 GSM operators in 258 countries and regions and 17 CDMA operators in 15 countries and regions, and subscribers of our CDMA mobile services using CDMA single-mode UIM cards can roam on 17 CDMA mobile networks through China Telecom Group's international roaming agreements with CDMA operators in 15 countries and regions. A CDMA mobile service subscriber using roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenue with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

Marketing, Sales, Distribution and Customer Services

Marketing Sales and Distribution

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

In order to achieve the scaled development of our business, we tailored products and marketing strategies to target different customer groups. For the government and enterprise market, we leveraged our strong customer marketing capability and implemented the marketing model of integrating industry-specific applications, integrated services and differentiated products. We seek to replicate the success of our key industry-specific applications and unique product offerings in order to secure high-value, long-term customers. For the general public market, we leveraged our capability to provide broadband services, 3G services and WiFi hotspots to our customers, implemented the marketing model of integrating smartphones, application store and mobile Internet, and enhanced the promotional efforts of our 3G services. We seek to expand Internet usage by our customers, stimulate data traffic and enhance customer value. We implement our marketing strategy through an integrated sales and distribution channel network, which covers: (i) dedicated service channel comprising customer managers specifically assigned to market our services to large enterprises, communities and rural areas; (ii) electronic-based service channel such as customer service hotlines and online service centers; (iii) business outlet channel, including self-owned and third-party business outlets; and (iv) mobile handset chain stores, electronics chain stores, supermarkets and large-scale telecommunications equipment distribution stores, collectively, the open channel. As part of our strategy to provide integrated services, we continue to enhance information sharing with respect to information relating to sales and distribution across the integrated sales and distribution channel network. In 2010, we made a breakthrough in open channel sales through cooperation with over-a-thousand well-known electronics chain stores. In 2010, we gained over 50% of our new mobile subscribers through open channel sales, and open channel handset sales exceeded 60% of our total handset sales.

Table of Contents

In 2010, we significantly improved our handset sales to our customers. We leveraged on our significant increase in mobile subscribers to invigorate the handset value chain, and further stimulated the handset sales through subsidies to sales outlets and directly supplying our handsets to sales outlets. In 2010, we sold approximately 45 million CDMA handsets to our customers, including approximately 10 million EV-DO handsets. We offered more choices of handsets to our customers and continued to enhance the value to cost ratio of our handsets. As of December 31, 2010, we offered over 300 models of 3G handsets to our customers, including certain star 3G handsets priced around RMB1,000 per unit.

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

Customer Service

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

Information Technology System

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

Network System

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

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

Table of Contents

Network Architecture

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

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

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

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

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

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

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

Equipment procurement

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

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 22.7% of our total amount of annual purchases for 2010. Purchases from our largest supplier of telecommunications equipment accounted for approximately 10.1% of our total amount of annual purchases for 2010.

Competition

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

Since the PRC's accession to the WTO, foreign operators have been permitted to gradually increase their investments in the telecommunications industry in the PRC. Like domestic service providers, foreign operators are subject to the licensing requirements of the MIIT. In addition, investments by foreign operators may not exceed limits set forth in the relevant laws and regulations with respect to the amount of investment and percentage of total ownership interests that foreign operators are permitted to make in telecommunications enterprises in the PRC. For example, the foreign ownership in basic telecommunications services will be subject to a limit of 49%. See Regulatory and Related Matters Licensing included elsewhere under this Item.

Table of Contents

Trademarks

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

Regulatory and Related Matters

Overview

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

The MIIT, which is responsible for, among other things:

formulating and enforcing industry policies and regulations as well as technical standards;

granting telecommunications service licenses;

supervising the operations and quality of service of telecommunications service providers;

allocating and administering telecommunications resources such as spectrum and numbers;

together with other relevant regulatory authorities, including the National Development and Reform Commission, formulating tariff standards and tariff charging mechanisms for telecommunications services;

formulating interconnection and settlement arrangements between telecommunications networks; and

maintaining fair and orderly market competition among service providers.

Provincial communications administrations under the MIIT, which oversee the implementation of the Ministry's regulations and exercise regulatory authorities delegated by the Ministry within their respective provinces, autonomous regions and centrally administered municipalities.

The National Development and Reform Commission, which, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. The actual tariffs charged by providers of telecommunications services are determined by provincial communications administrations, together with the price bureaus of the provinces, autonomous regions or centrally administered municipalities where those providers operate. See Tariff Setting below. It also approves investment and

Edgar Filing: CHINA TELECOM CORP LTD - Form 20-F

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

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

- 28 -

Table of Contents

Telecommunications Regulations

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

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

Licensing

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

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

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

Table of Contents

For mobile voice and data services:

there is no longer any geographic restriction and the foreign ownership shall be no more than 49%.

For value-added telecommunications services:

there is no longer any geographic restriction and the foreign ownership shall be no more than 50%.

For fixed line services:

there is no longer any geographic restriction and the ownership shall be no more than 49%.

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

Tariff Setting

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

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

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

The MIIT has gradually liberalized the tariff level by allowing telecommunications providers to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the tariff plans. Effective October 1, 2005, the MIIT and the National Development and Reform Commission set the tariff ceiling for local services, domestic long distance services, and international, Hong Kong, Macau and Taiwan long distance services. With respect to the tariffs for domestic and international long distance services, telecommunications service providers are required to file the tariffs with the MIIT and the National Development and Reform Commission for record purposes, and, at the local level, the relevant provincial communications administrations and price bureaus. With respect to the tariffs for local services, filings of the tariffs with the relevant provincial communications administrations and price bureaus for record purposes are required. With respect to service discounts plans, filings with the MIIT or, if service discounts plans are provided by the provincial subsidiaries of the telecommunications operator, with the relevant provincial communications administrations, are required. Currently, the MIIT allows tariffs for VoIP, Internet access services and certain value-added services provided over wireline telephone networks to be set by service providers. We expect that the tariff ceilings for the long distance services will decrease and the tariff ceilings for other services will remain stable. Following the telecommunications industry restructuring in 2008 and the formation of three telecommunications service providers each with full-service capabilities and competitive strength, it is expected that the MIIT will gradually liberalize the regulation on tariff setting.

Table of Contents***Interconnection***

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

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

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

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Mobile operator	Wireline local operator	(1) Mobile operator collects the cellular usage charge from its subscribers (2) Mobile operator pays RMB0.06 per minute to wireline operator. For calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users) during the period from January 1, 2010 to December 31, 2011, mobile operator (China Mobile) pays RMB0.012 per minute to wireline operator
Wireline local operator	Mobile operator	(1) Wireline operator collects the usage charge from its subscribers (2) No revenue sharing or settlement prior to June 1, 2010. Wireline operator pays RMB0.001 per minute to mobile operator after June 1, 2010
Wireline local operator A	Wireline local operator B	(1) operator A collects the usage charge from its subscribers (2) In the case of local calls from operator A not using operator B's local inter-district trunk circuit, operator A pays 50% of usage charge to operator B

Table of Contents

Mobile operator A	Mobile operator B	(3) In the case of local inter-district calls from operator A using operator B's local inter-district trunk circuit, operator A pays no more than RMB0.06 per minute to operator B
		(1) Mobile operator A collects the cellular usage charge from its subscribers
		(2) Mobile operator A pays RMB0.06 per minute to mobile operator B. For calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users) during the period from January 1, 2010 to December 31, 2011, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B.

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

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

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

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Domestic wireline local or mobile operator A	Without using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) operator A collects the tariff from the subscribers (2) operator A retains RMB0.06 per minute, and operator B gets the rest of the international long distance tariff.
	Using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) operator B collects the tariff from the subscribers (2) operator B pays operator A RMB0.06 per minute

Edgar Filing: CHINA TELECOM CORP LTD - Form 20-F

International long distance operator

Operator B through domestic long distance network of operator C and international gateway of domestic operator A

(1) operator A pays not more than RMB0.54 per minute to operator C, operator C pays not more than RMB0.06 per minute to operator B, where operator A and operator C, or operator B and operator C can be the same operator

- 32 -

Table of Contents

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

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Wireline or mobile network A	Wireline local or mobile operator B	(1) operator C collects the IP long distance charges from its subscribers
	through the IP long distance network of operator C	(2) operator C pays RMB0.06 per minute to operator B on the terminating end
		(3) No settlement between operator C and operator A on the originating end

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

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

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

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

Technical Standards

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

Table of Contents

Telecommunications Resources

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

In 2010, we paid approximately RMB101 million of usage fees for the telecommunications network numbers and approximately RMB73 million of frequency usage fees, respectively.

Quality of Service

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

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

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

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

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

Universal Services

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

Table of Contents

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, but the formal timetable for the establishment of the systems to implement universal services has not been set up. Once the universal service regulatory framework is finalized, we expect to perform our duties thereunder accordingly. Currently, the PRC government implements the Village to Village projects which require telecommunications operators to provide telephone services in a number of remote villages in the PRC as transitional measures prior to the official implementation of a universal service obligation framework. Accordingly, China Telecom Group has initiated Village to Village projects. By the end of 2010, China Telecom Group had invested in the construction of network facilities in certain remote villages of 20 provinces and autonomous regions. We have been requested by China Telecom Group to operate and maintain such network facilities from 2006 onwards, and China Telecom Group will compensate us for all the related expenses. We believe the expenses for such operation and maintenance will not have a material effect on our financial condition.

State-Owned Assets Supervision

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

Three-Network Convergence Policy

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

C. Organization Structure

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

D. Property, Plants and Equipment

Properties

Executive Offices

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

Table of Contents

Properties

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

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects.

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

Overview

We are an integrated information service provider in the PRC. We offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, managed data and leased line services and other related services.

We are the leading provider of wireline telecommunications services in our service regions in the PRC. Prior to our acquisition of Beijing Telecom, our service regions for wireline telecommunications services consisted of Anhui Province, Chongqing Municipality, Fujian Province, Gansu Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Hainan Province, Hubei Province, Hunan Province, Jiangsu Province, Jiangxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Shaanxi Province, Shanghai Municipality, Sichuan Province, Xinjiang Uygur Autonomous Region, Yunnan Province and Zhejiang Province. On March 31, 2008, we entered into an Acquisition Agreement with China Telecom Group to acquire the entire equity interest in its wholly owned subsidiary, Beijing Telecom, for the purpose of expanding our telecommunications business in Beijing Municipality.

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

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

In 2010, we leveraged our full-service capabilities to further enhance our integrated and differentiated development of operation of wireline, mobile and Internet access services, and continued to distinguish us from our competitors.

Table of Contents**Financial Overview**

Our operating revenue increased by 5.0%, from RMB209,370 million in 2009 to RMB219,864 million in 2010. The increase was mainly attributable to revenue growth from mobile voice services, Internet access services, value-added services and integrated information application services. Our total operating expenses increased by 4.9%, from RMB186,712 million in 2009 to RMB195,848 million in 2010. The increase in operating expenses was primarily due to increases in network operation and support expenses and personnel expenses to support the full services operation so as to ensure our sustainable and healthy development. Our operating income increased by 6.0%, from RMB22,658 million in 2009 to RMB24,016 million in 2010. The net income attributable to equity holders of the Company increased from RMB14,422 million in 2009 to RMB15,759 million in 2010.

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

	Year Ended December 31,					
	2008	Percentage of Operating Revenue	2009	Percentage of Operating Revenue	2010	Percentage of Operating Revenue
	Amount		Amount		Amount	
(RMB in millions, except percentage data)						
Operating Revenue:						
Wireline voice services ⁽¹⁾	96,258	51.6%	78,432	37.5%	62,498	28.4%
Mobile voice services ⁽²⁾	3,955	2.1%	20,027	9.6%	28,906	13.1%
Internet access services ⁽³⁾	40,727	21.8%	51,567	24.6%	63,985	29.1%
Value-added services ⁽⁴⁾	16,253	8.7%	21,533	10.3%	22,571	10.3%
Integrated information application services ⁽⁵⁾	10,803	5.8%	12,659	6.0%	15,519	7.1%
Managed data and leased line services ⁽⁶⁾	10,231	5.5%	11,499	5.5%	12,389	5.6%
Other services ⁽⁷⁾	6,280	3.4%	12,502	6.0%	13,499	6.1%
Upfront connection fees ⁽⁸⁾	2,022	1.1%	1,151	0.5%	497	0.2%
Total operating revenue	186,529	100.0%	209,370	100.0%	219,864	100.0%

(1) Represents the aggregate revenue from monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections and upfront installation fees charged to customers for the provision of wireline telephony services.

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

(3) Represents revenue from broadband Internet access services.

(4) Represents revenue from wireline value-added services, mobile value-added services and Internet value-added services, including caller ID services, SMS, ring tone services, Internet data center and IP-VPN services.

(5) Represents revenue from integrated information application services, including voice-based hotline, IPTV, video monitoring and system integration and consulting services.

(6) Represents revenue from managed data transmission services and lease income from other domestic telecommunications operators and business customers for the usage of our wireline telecommunications networks and equipment.

(7) Represents revenue from sale, rental and repairs and maintenance of equipment.

(8) Represents the amortized amount of the upfront fees received for initial activation of wireline services.

Our total operating revenue increased 5.0% from RMB209,370 million in 2009 to RMB219,864 million in 2010. Revenue from our mobile voice services, Internet access services, value-added services, integrated information application services, managed data and leased line services and other services increased while revenue from our wireline voice services decreased.

Table of Contents

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

	2008		Year Ended December 31, 2009		2010	
	Amount	Percentage of Operating Revenue (RMB in millions, except percentage data)	Amount	Percentage of Operating Revenue	Amount	Percentage of Operating Revenue
Operating Expenses:						
Depreciation and amortization	53,880	28.9%	52,243	25.0%	51,656	23.6%
Network operations and support expenses ⁽¹⁾	36,096	19.4%	42,903	20.5%	47,288	21.5%
Selling, general and administrative expenses ⁽¹⁾	27,501	14.7%	40,507	19.3%	42,130	19.2%
Personnel expenses	28,946	15.5%	32,857	15.7%	35,529	16.2%
Other operating expenses	10,794	5.8%	17,449	8.3%	19,106	8.7%
Impairment loss on property, plant and equipment	24,167	13.0%	753	0.4%	139	0.1%
Total operating expenses	181,384	97.2%	186,712	89.2%	195,848	89.1%

(1) Excluding related personnel expenses.

Our total operating expenses increased by 4.9% from RMB186,712 million in 2009 to RMB195,848 million in 2010. Our depreciation and amortization expenses and impairment loss on properties, plant and equipment decreased while our network operations and support expenses, selling, general and administrative expenses, personnel expenses and other operating expenses increased. As a percentage of total operating revenue, total operating expenses remained stable at 89.1% in 2010 and 89.2% in 2009.

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

	2008		Year Ended December 31, 2009		2010	
	Amount	Percentage of Operating Revenue (RMB in millions, except percentage data)	Amount	Percentage of Operating Revenue	Amount	Percentage of Operating Revenue
Operating revenue	186,529	100.0%	209,370	100.0%	219,864	100.0%
Operating expenses	181,384	97.2%	186,712	89.2%	195,848	89.1%
Operating income	5,145	2.8%	22,658	10.8%	24,016	10.9%
Net income attributable to equity holders of the Company	884	0.5%	14,422	6.9%	15,759	7.2%
Net cash from operating activities	76,756		74,988		75,571	

Our operating income increased by 6.0%, from RMB22,658 million in 2009 to RMB24,016 million in 2010. Our net income attributable to equity holders of the Company increased from RMB14,422 million in 2009 to RMB15,759 million in 2010.

Critical Accounting Policies

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

Table of Contents

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 2 to our consolidated financial statements included elsewhere in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Accounting for Long-lived Assets

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

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

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

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

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

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

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

For the year ended December 31, 2008, an impairment loss on property, plant, and equipment of RMB24,167 million was recognized, which primarily represented an impairment loss on PHS specific equipment of RMB23,954 million. The primary factor causing the impairment loss was lower revenue expected to be generated from this equipment following our acquisition of the CDMA Business in 2008. For the year ended December 31, 2009, an impairment loss on property, plant, and equipment of RMB753 million was primarily recognized on DDN specific equipment. This was mainly due to the decrease in customer demand for DDN services and its technology being gradually substituted by other technologies, resulting in a significant decrease in the revenue generated from DDN specific equipment. For the year ended December 31, 2010, an impairment on property, plant and equipment of RMB139 million was recognized on certain of our obsolete telecommunication equipment.

Table of Contents

Revaluation. As required by the relevant PRC rules and regulations, our property, plant and equipment were revalued in connection with our incorporation and the acquisitions made in 2003 and 2004. In addition, in accordance with our accounting policy, our property, plant and equipment were also revalued in 2004 and 2007. These revaluations were carried out for each asset class by independent valuers on a depreciated replacement cost basis. Subsequent to the revaluation, property, plant and equipment are carried at the revalued amount, being the fair value as of the date of the revaluation, less subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period as of December 31, 2010. The results of subsequent revaluations may have an impact on our future results to the extent the fair values of our property, plant and equipment change significantly.

Revenue Recognition for Upfront Connection and Installation Fees

We defer the recognition of upfront fees for activation of wireline services and wireline installation fees and amortize them over the expected customer relationship period of ten years. The related direct incremental customer acquisition costs (including direct costs of installation) are also deferred and amortized over the same expected customer relationship period. We estimate the expected customer relationship period based on our historical customer retention experience and factoring in the expected level of future competition, the risk of technological or functional obsolescence to our services, technological innovation, and the expected changes in the regulatory and social environment. If our estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of our deferred revenue would change for future periods. There have been no changes to the estimated customer relationship period in any of the three years ended December 31, 2010.

Impairment Losses for Bad and Doubtful Debts

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

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

The following table summarizes the changes in the provision for impairment losses for bad and doubtful debts for each of the years in the three-year period ended December 31, 2010:

	Year Ended December 31, 2008 2009 2010 (RMB in millions)		
At beginning of year	1,443	2,118	2,073
Acquisition of CDMA Business	491		
Impairment losses for bad and doubtful debts	1,797	1,787	1,567
Accounts receivable written off	(1,613)	(1,832)	(1,616)
At end of year	2,118	2,073	2,024

Table of Contents***Recently Issued International Financial Reporting Standards***

Up to the date of issue of our 2010 financial statements, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended December 31, 2010 and which we have not adopted:

	Effective for accounting period beginning on or after
Amendments to IAS 32, Financial Instruments: Presentation Classification of Rights Issues	February 1, 2010
IFRIC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
Amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
Improvements to IFRSs 2010	July 1, 2010 or
	January 1, 2011
IAS 24 (revised), Related party disclosures	January 1, 2011
Amendments to IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements	January 1, 2011
Amendments to IFRS 7, Financial Instruments: Disclosures Transfer of Financial Assets	July 1, 2011
Amendments to IAS 12, Income Taxes Deferred Tax: Recovery of Underlying Assets	January 1, 2012
IFRS 9, Financial Instruments	January 1, 2013

We have not early adopted any of the above amendments, new standards or new interpretations. We are in the process of making an assessment of the expected impact of these amendments, new standards and new interpretations in the period of initial application. We believe that amendments to IAS 32, IFRIC Interpretation 19, amendment to IFRS 1 and amendments to IFRIC 14, IAS 19 are not applicable to any of our operations and that the adoption of the rest of the above amendments, new standards and new interpretations is unlikely to have a significant impact on our results of operations and financial position.

A. Operating Results***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009******Operating Revenue***

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

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

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

Table of Contents

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

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

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

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

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

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

Operating Expenses

Total operating expenses increased by 4.9%, from RMB186,712 million in 2009 to RMB195,848 million in 2010. The total operating expenses included impairment losses on property, plant and equipment of RMB753 million and RMB139 million recognized in 2009 and 2010, respectively. The increase in operating expenses was primarily due to increased network operations and support expenses, selling, general and administrative, personnel expenses as well as other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses decreased by 1.1%, from RMB52,243 million in 2009 to RMB51,656 million in 2010, mainly due to our continuous stringent control of capital expenditure in 2010. The depreciation and amortization expenses as a percentage of our operating revenue decreased from 25.0% in 2009 to 23.6% in 2010.

Network Operations and Support Expenses. Our network operations and support expenses increased by 10.2%, from RMB42,903 million in 2009 to RMB47,288 million in 2010, which was primarily attributable to the increased CDMA network capacity lease fees and the increased expenditure in network maintenance and our Transformation Business. Our CDMA network capacity lease fee increased by 58.9% from RMB8,383 million in 2009 to RMB13,320 million in 2010, corresponding to the increase in our mobile service revenue during that period.

Table of Contents

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

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

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

Net Finance Costs

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

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

Income Tax

In 2010, our income tax expense was RMB5,031 million with an effective tax rate of 24.1%. Our expected income tax expense at our statutory tax rate of 25% in 2010 would be RMB5,227 million. The difference between our effective tax rate and the statutory tax rate of 25% was primarily due to the exclusion of the upfront connection fees from taxable revenue and the preferential income tax rate of 22% or 15% applied to some of our branches located in special economic zones and in the western region of the PRC. See Note 24 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25%.

According to the New Tax Law and the Implementing Regulations, the corporate income tax rate for entities other than certain high-tech enterprises and small enterprises earning a small profit, as defined in the New Tax Law, has been revised to 25%. In addition, entities that are taxed at preferential rates are subject to a five-year transition period during which the tax rates will gradually be increased to the unified rate of 25% from January 1, 2008. Based on a tax notice issued by the State Council on December 26, 2007, the applicable tax rates for entities operating in special economic zones, such as some branches of ours, which were previously taxed at the preferential rate of 15%, are 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 onwards, respectively. According to the same notice, the applicable tax rate for entities operating in the western region of the PRC which were granted a preferential tax rate of 15% from 2004 to 2010, such as some branches of ours, remains at 15% in 2008, 2009 and 2010 and will be increased to 25% from January 1, 2011.

Table of Contents

Net Income Attributable to Equity Holders of the Company

As a result of foregoing, the net income attributable to equity holders of the Company was RMB 15,759 million in 2010, with a net margin of 7.2%, compared to net income attributable to equity holders of the Company of RMB14,422 million with a net margin of 6.9% in 2009.

Foreign Currency Fluctuation Impact

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

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Operating Revenue

Our operating revenue grew by RMB22,841 million, or 12.2%, from RMB186,529 million in 2008 to RMB209,370 million in 2009. This increase primarily reflected the revenue growth from mobile voice services and non-voice services, including Internet access services, value-added services, integrated information application services, managed data and leased line services and other services, which was partially offset by a decrease in revenue from wireline voice services.

Wireline Voice Services. Revenue from our wireline voice services decreased by 18.5%, from RMB96,258 million in 2008 to RMB78,432 million in 2009. The decrease in revenue from our wireline voice services was primarily due to the increasing popularity of mobile voice services and other alternative means of communication, such as VoIP, which continued to divert revenue from wireline voice services, as well as the impact of the economic slowdown in the PRC as a result of the recent global financial crisis. Revenue from our wireline voice services accounted for 37.5% of our operating revenues in 2009, compared to 51.6% in 2008.

Mobile Voice Services. Revenue from our mobile voice services was RMB20,027 million in 2009, representing 9.6% of our operating revenue in 2009. In the fourth quarter of 2008, we started to provide mobile voice services after acquiring the CDMA Business from China Unicom and CUCL. Revenue from our mobile voice services was RMB20,027 million in 2009, compared to RMB3,955 million in 2008. Revenue from our mobile voice services accounted for 9.6% of our operating revenues in 2009, compared to 2.1% in 2008. Our mobile voice services have become one of the major drivers for the growth of our operating revenues since we began to implement our full-service integrated operation strategy.

Internet Access Services. Revenue from our Internet access services increased by 26.6% from RMB40,727 million in 2008 to RMB51,567 million in 2009, representing 24.6% of our operating revenue in 2009. The increase in revenue from our Internet access services was primarily due to the continued expansion of our wireline broadband subscriber base. The number of our wireline broadband subscribers increased to 53.5 million as of December 31, 2009, representing an increase of 9.2 million or 20.8% from 44.3 million as of December 31, 2008. The average revenue per user per month of wireline broadband subscribers in 2009 was RMB80.3, representing a decrease of RMB3.5 from RMB83.8 in 2008. The decrease was primarily due to the increased competition in the Internet access services market. The revenue attributable to mobile Internet access services in 2009 was RMB3,760 million.

Value-Added Services. Revenue from our value-added services increased by 32.5% from RMB16,253 million in 2008 to RMB21,533 million in 2009, representing 10.3% of our operating revenue in 2009. The increase in revenue from value-added services was primarily due to revenue from our mobile value-added services, and the rapid development of our Internet value-added services, such as IDC services. The revenue attributable to mobile value-added services in 2009 was RMB5,602 million.

Table of Contents

Integrated Information Application Services. Revenue from our integrated information application services increased by 17.2% from RMB10,803 million in 2008 to RMB12,659 million in 2009, representing 6.0% of our operating revenue in 2009. The increase in revenue from our integrated information application services was primarily due to the rapid development of our IT service and IT application services, Best-tone services and V-Net services. The revenue attributable to mobile integrated information application services in 2009 was RMB607 million.

Managed Data and Leased Line Services. Revenue from our managed data and leased line services increased by 12.4%, from RMB10,231 million in 2008 to RMB11,499 million in 2009, representing 5.5% of our operating revenue in 2009. The increase was primarily due to increasing revenue growth in leased circuits services and the IP-VPN services, driven by the increasing demand for information and network resources.

Other Services. Revenue from other services increased by 99.1%, from RMB6,280 million in 2008 to RMB12,502 million in 2009. This increase was primarily due to revenue from sales of mobile terminal equipment. The revenue attributable to other mobile services in 2009 was RMB5,617 million.

Upfront Connection Fees. The amortized amount of upfront connection fee continued to decrease by 43.1%, from RMB2,022 million in 2008 to RMB1,151 million in 2009.

Operating Expenses

Total operating expenses increased by 2.9%, from RMB181,384 million in 2008 to RMB186,712 million in 2009. The total operating expenses included impairment losses on property, plant, and equipment of RMB24,167 million and RMB753 million recognized in 2008 and 2009, respectively. The increase in operating expenses was primarily due to significant expenditure in promoting our mobile services and increased expenditure in promoting our Transformation Business.

Depreciation and Amortization. Our depreciation and amortization expenses decreased by 3.0%, from RMB53,880 million in 2008 to RMB52,243 million in 2009, mainly due to the impairment loss on our PHS specific equipment in 2008 and our reduced capital expenditure in 2009. The depreciation and amortization expenses as a percentage of our operating revenue decreased from 28.9% in 2008 to 25.0% in 2009.

Network Operations and Support Expenses. Our network operations and support expenses increased by 18.9%, from RMB36,096 million in 2008 to RMB42,903 million in 2009, which was primarily attributable to the CDMA network capacity lease fee and the increased expenditure in our Internet access services, value added services and integrated information application services. Our CDMA network capacity lease fee increased by 4.6 times from RMB1,504 million in 2008 to RMB8,383 million in 2009, corresponding to the increase in the revenue from our mobile services.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 47.3% to RMB40,507 million in 2009 from RMB27,501 million in 2008. The increase was primarily due to the increased expenditure in our mobile services. This increase was primarily due to the fact that we commenced offering mobile services in October 2008 and thus such expenses in 2008 reflected only those in relation to the mobile services incurred from October through December 2008, while such expenses in 2009 reflected those in relation to the mobile services incurred throughout the full year 2009. In addition, in order to develop the mobile services, the related selling expenses, consisting mainly of expenses relating to handset subsidies and the development of sales channels, increased in 2009. In light of market competition, we expect that the expansion of mobile services will require continuous spending on promotions and other marketing efforts, which may cause our overall selling, general and administrative expenses to further increase in absolute amount in future periods. However, we intend to proactively control the relevant expenditures taking into account of our overall growth.

Personnel Expenses. Personnel expenses increased by 13.5%, from RMB28,946 million in 2008 to RMB32,857 million in 2009. This increase was primarily attributable to the inclusion of personnel expenses of employees transferred from CUCL and Unicom Huasheng in connection with our acquisition of the CDMA Business for the full year of 2009 (while the corresponding figure of 2008 representing the expenses that occurred during the fourth quarter only) and recruitment of professional personnel for our mobile services, IP, IT and information operations, as driven by our development strategy as a full-service telecommunications service provider.

Table of Contents

Impairment Loss of Property, Plant and Equipment. Our impairment loss of property, plant and equipment was RMB753 million in 2009, which primarily consisted of an impairment loss for our DDN specific equipment. The primary factor resulting in the impairment loss for our DDN specific equipment was due to lower revenue expected to be generated from this equipment as a result of the reduced customer demand for our DDN services and the DDN technology being gradually obsolete. In 2008, we recognized an impairment loss of property, plant and equipment of RMB24,167 million, which primarily consisted of an impairment for our PHS specific equipment of RMB23,954 million.

Other Operating Expenses. Our other operating expenses primarily consisted of interconnection charges, cost of goods sold, donations and other expenses. Our other operating expenses were RMB17,449 million in 2009, increased by 61.7% from RMB10,794 million in 2008, which was primarily attributable to an increase in expenses incurred in connection with the mobile interconnection settlement for mobile services and an increase in expenses for sales of mobile terminal equipment. Our expenses incurred in mobile interconnection settlement for mobile services and expenses for sales of mobile terminal equipment were RMB3,467 million and RMB4,980 million, respectively, in 2009.

Net Finance Costs

In 2009, our net finance costs decreased by 13.8% from RMB5,076 million in 2008 to RMB4,375 million in 2009. Our net interest expense decreased by 11.5 %, or RMB612 million, from RMB5,336 million in 2008 to RMB4,724 million in 2009. The decreases were mainly due to the reduced interest rate announced by the People's Bank of China at the end of 2008 and the subsequent effect of our low-cost financing in 2008.

The exchange income was RMB67 million in 2009, while the exchange loss was RMB170 million in 2008, which was mainly due to the appreciation of RMB against the Japanese Yen in 2009. According to the exchange rates published by the People's Bank of China on December 31, 2009, the exchange rate of Renminbi appreciated by 2.5% against the Japanese Yen from December 31, 2008.

Income Tax

In 2009, our income tax expense was RMB4,549 million with an effective tax rate of 23.7%. Our expected income tax expense at our statutory tax rate of 25% in 2009 would be RMB4,794 million. The difference between our effective tax rate and the statutory tax rate of 25% was primarily due to the exclusion of the upfront connection fees from taxable revenue and the preferential income tax rate of 20% or 15% applied to some of our branches located in special economic zones and in the western part in the PRC. See Note 24 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25%.

Net Income Attributable to Equity Holders of the Company

As a result of the forgoing, the net income attributable to equity holders of the Company was RMB14,422 million in 2009, with a net margin of 6.9%, compared to net income attributable to equity holders of the Company of RMB884 million with a net margin of 0.5% in 2008.

Foreign Currency Fluctuation Impact

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

Table of Contents**B. Liquidity and Capital Resources*****Cash Flows and Working Capital***

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

	Year Ended December 31,		
	2008	2009	2010
	(RMB in millions)		
Net cash generated from operating activities	76,756	74,988	75,571
Net cash used in investing activities	(75,819)	(43,255)	(45,734)
Net cash generated from/(used in) financing activities	5,585	(24,793)	(38,771)

Increase/(decrease) in cash and cash equivalents 6,522 6,940 (8,934)

Cash and cash equivalents decreased by 25.8%, from RMB34,804 million as of December 31, 2009, of which 94.7% was denominated in RMB to RMB25,824 million as of December 31, 2010, of which 91.2% was denominated in RMB. Our net cash outflow was RMB8,934 million in 2010, as compared with a net cash inflow of RMB6,940 million in 2009.

Our principal source of liquidity is cash generated from operating activities, which was RMB75,571 million in 2010, an increase of RMB583 million from RMB74,988 million in 2009.

Net cash used in investing activities increased by RMB2,479 million from RMB43,255 million in 2009 to RMB45,734 million in 2010 primarily as a result of increased capital expenditure in 2010, which were partially offset by increased proceeds from disposal of property, plant and equipment.

Net cash used in financing activities was RMB38,771 million in 2010 compared to RMB24,793 million net cash used in financing activities in 2009. This increase in cash outflow was primarily due to our increased repayment of bank loans and other loans in 2010.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB71,678 million as of December 31, 2010, compared to a deficit of RMB82,545 million as of December 31, 2009. The deficit decrease was mainly attributable to the increased operating revenues of RMB10,494 million.

We estimate that our current cash and cash equivalents, together with our existing credit facilities from domestic commercial banks, cash flows from operating activities, as well as funds available from short-term and long-term bank borrowings and commercial paper, will be sufficient to satisfy our future working capital requirements and capital expenditures through the end of 2011. We have established and maintained high credit ratings with our principal domestic commercial lenders, which have facilitated our ability to obtain short-term and long-term credit on favorable terms to meet our financing requirements. As of December 31, 2010, we had available credit facilities of RMB98,576 million from which we can draw upon.

Table of Contents**Indebtedness**

Our indebtedness as of the dates indicated was as follows:

	2008	As of December 31, 2009	2010
	(RMB in millions)		
Short-term debt	83,448	51,650	20,675
Current portion of long-term debt	565	1,487	10,352
Current portion of finance lease obligations	22	18	
Long-term debt, excluding current portion	39,226	52,768	42,549
Finance lease obligations, excluding current portion	18		

Total debt	123,279	105,923	73,576
------------	---------	---------	--------

Our short-term debt constituted 28.1% of our total debt as of December 31, 2010. The weighted average interest rate of our short-term debt was 4.3% as of December 31, 2010, representing an increase of 0.3 percentage points from that as of December 31, 2009.

Our total debt decreased by RMB32,347 million from RMB105,923 million as of December 31, 2009 to RMB73,576 million as of December 31, 2010, primarily due to our repayment of a portion of bank loans and other debts. Our debt-to-asset ratio (total debt divided by total assets) decreased from 24.8% in 2009 to 18.1% in 2010. We believe that our Company has maintained a solid capital structure.

Our long-term debt (including current portion) decreased from RMB54,255 million as of December 31, 2009 to RMB52,901 million as of December 31, 2010. In addition, our short-term debt decreased from RMB51,650 million as of December 31, 2009 to RMB20,675 million as of December 31, 2010.

Of our total debt as of December 31, 2010, 96.0%, 2.2%, 1.0% and 0.8% were denominated in Renminbi, Japanese Yen, U.S. dollars and Euros, respectively.

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

Capital Expenditure

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures for the periods after December 31, 2010 may differ from the amounts indicated below.

	Year Ended December 31, 2011		
	2009	2010	(Planned)
	(RMB in millions)		
Total capital expenditure	38,042	43,037	50,000

In 2010, we accelerated the development of broadband services and increased investment in optic fiber upgrade and broadband access capabilities. In the meantime, we continued to improve our capital expenditure structure and significantly reduced the capital expenditure in connection with traditional fixed line voice business. In 2010, our capital expenditure was RMB43,037 million, an increase of 13.1% from RMB38,042 million in 2009.

Table of Contents

Our capital expenditure for 2011 is projected to be approximately RMB50.0 billion, a portion of which will be invested in the project Broadband China, Fiber Cities, through which we seek to upgrade bandwidth access capacity of our broadband network across cities nationwide.

Capital Resources

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

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

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

D. Trend Information.

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

E. Off-Balance Sheet Arrangements

As of December 31, 2010, we did not have any off-balance sheet arrangements or guarantees.

F. Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2010:

	Total	2011	Payable in				After
			2012	2013	2014	2015	2015
			(RMB in millions)				
Contractual Obligations⁽¹⁾:							
Short-term debt	20,675	20,675					
Long-term debt	52,901	10,352	11,518	10,015	20,040	92	884
Interest payable	6,908	2,699	1,743	1,420	982	8	56
Operating lease commitments	27,180	13,525	11,531	577	439	412	696
Capital commitments	5,124	5,124					
Total contractual obligations	112,788	52,375	24,792	12,012	21,461	512	1,636

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

Table of Contents**Item 6. Directors, Senior Management and Employees.****A. Directors and Senior Management*****Directors and Senior Officers***

Pursuant to our Articles of Association, our Directors must be elected by our shareholders at a general meeting. Our Directors are generally elected for a term of three years and may serve consecutive terms if re-elected. On September 9, 2008, election of new members and re-election of current members of the Board of Directors was conducted which resulted in the third session of the Board of Directors, consisting of 14 Directors with eight executive Directors, one non-executive director, and five independent non-executive Directors, each having a period of office of three years.

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

Name	Age	Position
Wang Xiaochu	53	Chairman of the Board of Directors and Chief Executive Officer
Shang Bing	55	Executive Director, President and Chief Operating Officer
Wu Andi	56	Executive Director, Executive Vice President and Chief Financial Officer
Zhang Jiping	55	Executive Director and Executive Vice President
Zhang Chenshuang	59	Executive Director and Executive Vice President
Li Ping	57	Executive Vice President
Yang Xiaowei	47	Executive Director and Executive Vice President
Yang Jie	49	Executive Director and Executive Vice President
Sun Kangmin	54	Executive Director and Executive Vice President
Li Jinming	59	Non-executive Director
Wu Jichuan	73	Independent Non-executive Director
Qin Xiao	63	Independent Non-executive Director
Tse Hau Yin, Aloysius	63	Independent Non-executive Director
Cha May Lung, Laura	61	Independent Non-executive Director
Xu Erming	61	Independent Non-executive Director
Yung Shun Loy, Jacky	48	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary
Yang Jianqing	51	Financial Controller

Wang Xiaochu, age 53, is Chairman of the Board of Directors and Chief Executive Officer of our Company. He graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from The Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang Province, Director General of the Tianjin Posts and Telecommunications Administration, Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited, Vice President of China Mobile Group, and Chairman and Non-Executive Director of China Communications Services Corporation Limited. He is also President of China Telecommunications Corporation and the Honorary Chairman of China Communications Services Corporation Limited. He was responsible for the development of China Telecom's telephone network management systems and various other information technology projects and as a result, received the Third-Class Award from the State Scientific and Technological Progress Award and the First-Class Award from the former Ministry of Posts and Telecommunications, or the MPT, Scientific and Technological Progress Award. Mr. Wang has over 30 years of management experience in the telecommunications industry.

Shang Bing, age 55, is an Executive Director, President and Chief Operating Officer of our Company. Mr. Shang is a senior economist. He graduated in 1982 from Shenyang Chemical Industry Institution with a bachelor's degree in chemical industry and received a master's degree in business administration from New York State University in 2002. He received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Shang served as Director of Industrial Technology Development Centre in Liaoning Province, Deputy General Manager and General Manager of Economic and Technological Development Company in Liaoning Province. Mr. Shang also served as Deputy General Manager and General Manager of China United Telecommunications Corporation Liaoning Branch, Vice President, Director and President of China United Telecommunications Corporation and as Executive Director and President of China Unicom Limited. In addition, Mr. Shang served as Director and President of China United Telecommunications Corporation Limited and CUCL. He is also a Vice President of China Telecommunications Corporation. Mr. Shang has extensive experience in management and the telecommunications industry in the PRC.

Table of Contents

Wu Andi, age 56, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. She is responsible for the financial management of our Company. Madam Wu is a senior accountant. She graduated from the Beijing Institute of Economics with a bachelor's degree in finance and trading in 1983, and studied in a postgraduate program in business economics management at the Chinese Academy of Social Sciences from 1996 to 1998. Madam Wu studied in the master of business administration program at the Guanghua School of Management, Peking University from 2002 to 2003 and received an executive master of business administration degree. Prior to joining China Telecommunications Corporation in May 2000, she served as Director General of the Department of Economic Adjustment and Communication Settlement of the MII, and Director General, Deputy Director General and Director of the Department of Finance of the MPT. She is also a Vice President of China Telecommunications Corporation. Ms. Wu has 29 years of economic and financial management experience in the telecommunications industry in the PRC.

Zhang Jiping, age 55, is an Executive Director and Executive Vice President of our Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in radio telecommunications engineering in 1982, studied in a postgraduate program in applied computer engineering at Northeastern Industrial University from 1986 to 1988, and received a doctorate degree of 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 DGT of the MPT, a Deputy Director General and Director of the Telecommunications Technology Center of the Posts and Telecommunications Administration of Liaoning Province. He is also Vice President of China Telecommunications Corporation. Mr. Zhang has 29 years of experience in network operation and management in the telecommunications industry in the PRC.

Zhang Chenshuang, age 59, is an Executive Director and Executive Vice President of our Company. Mr. Zhang is a senior economist. Mr. Zhang graduated from the Party School of the PRC Communist Party and received an MBA degree from Hong Kong Polytechnic University. Mr. Zhang served as Executive Director and Vice President of China Mobile Limited, Vice President of China Mobile Group, Director of China Mobile Communication Co., Ltd., Director General of the Inner Mongolia Posts and Telecommunications Administration Bureau, Deputy Director General of the Office of the MPT. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has over 31 years of experience in the telecommunications industry.

Li Ping, age 57, is an Executive Vice President of our Company. Mr. Li graduated from the Beijing University of Posts and Telecommunications with a major in radio telecommunications in 1976 and received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. He served as Executive Director of our Company, Chairman and President of China Telecom (Hong Kong) International Limited, Vice Chairman and Executive Vice President of China Mobile (Hong Kong) Limited, Deputy Director General of the DGT of the MPT. He is also a Vice President of China Telecommunications Corporation, and Chairman of the Board of Directors and an Executive Director of China Communications Services Corporation Limited. Mr. Li has extensive experience in managing public companies and 35 years of operational and managerial experience in the telecommunications industry in the PRC.

Yang Xiaowei, age 47, is an Executive Director and Executive Vice President of our Company. Mr. Yang is a senior engineer. He received a bachelor's degree from the Computer Application Department of Chongqing University in 1998 and a master's degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director and Deputy Director of Chongqing Telecommunications Bureau, a Deputy Director of the Chongqing Telecommunications Administration Bureau and a Director of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the China United Telecommunications Corporation, Vice President of the China United Telecommunications Corporation, Director of China United Telecommunications Corporation and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of CUCL and Chairman of Unicom Huasheng. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Table of Contents

Yang Jie, age 49, is an Executive Director and Executive Vice President of our Company. He is a professor-level senior engineer. He graduated from Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration Bureau, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute and General Manager of the Business Department of the Northern Telecom of China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has 27 years of operational and managerial experience in the PRC telecommunications industry.

Sun Kangmin, age 54, is an Executive Director and Executive Vice President of our Company. He is a senior engineer. He holds an MBA degree from the University of Hong Kong. Mr. Sun served as the Department Head of the Information Industry Department of Sichuan Province, Director General of the Communications Bureau of Sichuan Province, and Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecom Group. Mr. Sun has 27 years of operational and managerial experience in the telecommunications industry in the PRC.

Li Jinming, age 59, is a Non-Executive Director of our Company, Chairman of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company) and Chairman of Shenzhen Zhongjin Lingnan Nonfemet Company Limited. Mr. Li graduated from Guangdong Radio and TV University, and holds an EMBA degree from Lingnan College, Zhong Shan University after the completion of his study in the postgraduate program of international economics and industrial commerce management. Mr. Li served as Chief and Deputy Director General of the Guangdong Provincial Discipline Inspection Commission, and Director and Deputy General Manager of Guangdong Rising Assets Management Co., Ltd. Mr. Li has extensive experience in enterprise management.

Wu Jichuan, age 73, is an Independent Non-Executive Director of our Company. He is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Telecommunications and Economics Specialists Committee, Director General of the Chinese Institute of Electronics, and Honorary Director General of the Chinese Institute of Communications. Mr. Wu graduated from Beijing Institute of Posts and Telecommunications with a major in wired telecommunications engineering in 1959. Mr. Wu served as Vice Minister and Minister of the MPT, Deputy Director of the PRC Committee of the Radio Management, Deputy Head of the Informatization Leading Group of the State Council, Minister of the MII, a member of the Eighth & Tenth National People's Congress, a member of the Standing Committee of the Tenth National People's Congress and Vice Chairman of the Subcommittee of Education, Science, Culture, Health and Sports of the National People's Congress.

Qin Xiao, age 63, is an Independent Non-Executive Director of our Company. He has a Ph.D. in economics from University of Cambridge. He is an Independent Non-Executive Director of HKR International Limited, AIA Group Limited and China World Trade Center Company Limited. The Board of Directors of our Company has determined that Mr. Qin's service on these other audit committees does not impair his ability to effectively serve on the Company's audit committee. Mr. Qin is a member of the Eleventh Chinese People's Political Consultative Conference and the Honorary Chairman of Hong Kong Chinese Enterprises Association, and a part-time professor at the School of Economics and Management of Tsinghua University and the Graduate School of the People's Bank of China. He served as Chairman of China Merchants Bank Co., Ltd. and China Merchants Group Limited, President and Vice Chairman of China International Trust and Investment Corporation, and Chairman of CITIC Industrial Bank. Mr. Qin was a deputy to the Ninth National People's Congress, a member of the Tenth Chinese People's Political Consultative Conference, an advisor on the Foreign Currency Policy of the State Administration of Foreign Exchange, and a member of Toyota International Advisory Board. Mr. Qin also served as Chairman of APEC Business Advisory Council for the year 2001. In addition, Mr. Qin is the author of several papers and books in the fields of economics and management.

Table of Contents

Tse Hau Yin, Aloysius, age 63, is an Independent Non-Executive Director of the Company. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Wing Hang Bank Limited, Linmark Group Limited, Sinofert Holdings Limited and SJM Holdings Limited. The Board of Directors of our Company has determined that Mr. Tse's service on these other audit committees does not impair his ability to effectively serve on the Company's audit committee. Mr. Tse was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010. He is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. Mr. Tse is a past president and the current Chairman of the Audit Committee of the Hong Kong Institute of Certified Public Accountants. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

Cha May Lung, Laura, age 61, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the Eleventh National People's Congress of the PRC, a Member of the Standing Committee of the Chinese People's Political Consultative Conference Shanghai Committee, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission, and a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region. She is the Non-Executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is a Non-Executive Director. She is also an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited and Tata Consultancy Services Limited. She is Vice-Chair of the Banking & Capital Markets Industry Agenda Council 2010 of the World Economic Forum and a member of the Yale School of Management Board of Advisors. Mrs. Cha served as Vice Chairman of the China Securities Regulatory Commission from February 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 in 1982.

Xu Erming, age 61, is an Independent Non-Executive Director of our Company. He is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, Deputy Secretary-General of the Tenth Session of the Academic Committee, and a member of the Third Session of the University Affairs Committee of the Renmin University of China, Associate Convener of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, Vice Chairman of the Chinese Enterprise Management Research Association, and Chairman of Beijing Contemporary Enterprise Research Association. He is also entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Power Equipment Company Limited. Professor Xu has conducted research in the areas of strategic management, organizational theories, international management and education management. He has completed numerous research projects sponsored by the PRC National Natural Science Foundation, the PRC National Social Science Foundation and other institutions in the PRC. Professor Xu's publications include Business Strategic Management, Introduction to International Business Management and Empirical Research of Effects on Performance of Supervision Mechanisms Substitution Effect of Listed Companies. Professor Xu is also a columnist of the Economic Daily. In addition, Professor Xu was granted both the first prize for Excellence in Higher Educational Publication and the second prize for the National Teaching Award by the Ministry of Education. He previously lectured at the State University of New York at Buffalo, Pennsylvania State University at Scranton, the University of Technology in Sydney, the Kyushu University in Japan and Hong Kong Polytechnic University.

Yung Shun Loy, Jacky, age 48, is the Assistant Chief Financial Officer, Qualified Accountant and Company Secretary of our Company. Mr. Yung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of United Kingdom, and a Certified Practising Accountant in Australia. He has a bachelor's degree in laws and a bachelor's degree in social sciences. Mr. Yung has over 20 years of experience in auditing, and acting as a company secretary and senior financial management member of listed companies.

Table of Contents

Yang Jianqing, age 51, has been the financial controller of our Company since October 28, 2010. Mr. Yang is a senior engineer and a visiting professor of Nanjing University of Posts and Telecommunications. He received a bachelor's degree in carrier wave communication from Beijing University of Posts and Telecommunications and an MBA degree from the University of Hong Kong. Mr. Yang served as Director General of the Xining Telecommunications Bureau in Qinghai Province, Deputy General Manager and General Manager of Qinghai Telecommunications Company and General Manager of Gansu Telecommunications Company. He is also the Managing Director of the Finance Department of China Telecom Group and was awarded the Ministry of Posts and Telecommunications Young management professional with outstanding contribution. Mr. Yang has 29 years of experience in the telecommunications industry in the PRC.

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

Supervisors

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory committee. Our supervisory committee consists of five supervisors. One member of our supervisory committee must be an employee representative elected by our employees. The remaining members must be appointed by shareholders at a general meeting. The term of office of our supervisors is three years, which is renewable upon re-election or re-appointment.

The following table sets forth certain information concerning our supervisors:

Name	Age	Position
Miao Jianhua	59	Chairman of the Supervisory Committee
Zhu Lihao	70	Independent Supervisor
Ma Yuzhu	57	Supervisor (Employee Representative)
Xu Cailiao	47	Supervisor
Han Fang	38	Supervisor

Miao Jianhua, age 59, is Chairman of the Supervisory Committee of our Company. He is the head of the Discipline Inspection Division of China Telecom Group. Mr. Miao obtained a master's degree in management from Australian National University. Mr. Miao held senior positions at the former Jilin Provincial Administration of Posts and Telecommunications and served as a Director of the Inspection Bureau of the former MPT and the MII. Mr. Miao also served as the General Manager of the Human Resources Department of China Network Communications Group Corporation and China Netcom Group Corporation (Hong Kong) Limited, Assistant to President of China Network Communications Group Corporation, Executive Director and the Joint Company Secretary of China Netcom Group Corporation (Hong Kong) Limited, the head of the Discipline Inspection Division and the Chairman of the union of China United Telecommunications Corporation, Executive Director of China Unicom Limited and Chairman of the Supervisory Committee of China United Telecommunications Corporation Limited. Mr. Miao is a senior economist and has extensive management experience in working for the government and enterprises in the PRC.

Zhu Lihao, age 70, is an independent Supervisor of the Supervisory Committee of our Company. Ms. Zhu is a senior auditor and a qualified accountant in the PRC. She graduated from Beijing Graduate School of Mining and Technology with a major in engineering economics in 1963. Ms. Zhu served as a Deputy Director General, Director General, Director and Deputy Director of the Department of Industry and Communications of the National Audit Bureau of the PRC, and the Director General of the Department of Foreign Affairs and Foreign-related Auditing of the Audit Bureau. Ms. Zhu has over 40 years of experience in management and auditing.

Ma Yuzhu, age 57, is an Employee Representative Supervisor of the Supervisory Committee of our Company, and Managing Director of the Corporate Culture Department of the Company. Mr. Ma graduated from the Beijing University of Posts and Telecommunications with a major in telecommunications in 1982. Mr. Ma studied part-time in Australian National University in 2000 and obtained a master's degree in International Business Administration in 2001. Mr. Ma served as Director General in China International Telecommunications Construction 1st Engineering Bureau, Director of the department of General Engineering of DGT. Mr. Ma is a senior Engineer and has over 30 years of telecommunications construction and operational management experience in the telecommunications industry.

Table of Contents

Xu Cailiao, age 47, is a Supervisor of the Supervisory Committee of our Company. He is a Director of the Corporate Strategic Department of our Company. He graduated from the Law School of Peking University with a master's degree in law in 1987. He served as a Director of the State Commission for Economic Restructuring and Managing Director of the Hong Kong branch of Irco Group. He was qualified to practice PRC law in 1988. Mr. Xu is highly experienced in respect of corporate governance, organizational development and process management.

Han Fang, age 38, is a Supervisor of the Supervisory Committee of our Company. Ms. Han is a Director of the Audit Department of our Company. Ms. Han graduated from Beijing University of Posts and Telecommunications with a bachelor's degree in engineering management in 1995. She obtained a master's degree in business administration from the Norwegian School of Management in 2007. She worked in finance-related areas when serving in the China Huaxin Post and Telecommunications Economy Development Centre and the audit department of China Telecom Group. Ms. Han is an international internal auditor, a qualified accountant in the PRC and a senior accountant and has 16 years of finance and audit experience.

Table of Contents**B. Compensation*****Compensation of Directors and Supervisors***

Our Directors and supervisors receive compensation in the form of fees, salaries, allowances and benefits in kind, including our contribution to the pension plans for our Directors and supervisors. The aggregate amount of compensation we paid to our Directors and supervisors as a group for the year ended December 31, 2010 was approximately RMB18.3 million. The following table sets forth the compensation received or receivable by our Company's Directors and supervisors:

	Directors / supervisors fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses RMB thousands	Share-based payments RMB thousands	Retirement scheme contributions RMB thousands	Total RMB thousands
2010						
<i>Executive Directors</i>						
Wang Xiaochu		340	1,083	1,414	73	2,910
Shang Bing		340	692		73	1,105
Wu Andi		289	920	352	63	1,624
Zhang Jiping		289	920	352	63	1,624
Zhang Chenshuang		289	773		63	1,125
Yang Xiaowei		289	588		62	939
Yang Jie		289	920	1,131	61	2,401
Sun Kangmin		289	920	1,131	62	2,402
<i>Non-executive Directors</i>						
Li Jinming						
<i>Independent non-executive Directors</i>						
Wu Jichuan	150					150
Qin Xiao	150					150
Tse Hau Yin	426					426
Cha May Lung	170					170
Xu Erming	150					150
<i>Supervisors</i>						
Miao Jianhua		289	589		63	941
Ma Yuzhu		166	415	294	61	936
Xu Cailiao		93	289	162	48	592
Han Fang		91	286	162	47	586
<i>Independent supervisor</i>						
Zhu Lihao	75					75
Total	1,121	3,053	8,395	4,998	739	18,306
<i>Discretionary Bonuses for Executive Directors</i>						

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

Discretionary Bonuses for Employee Supervisors

All of our supervisors other than the independent supervisor are also our employees. Such employee supervisors are entitled to receiving discretionary bonuses under our compensation policies that are generally applicable to all employees. The amounts of such discretionary bonuses are determined with reference to the performance of the department in which an employee serves as well as his or her individual

performance. The amounts of discretionary bonuses are reviewed and determined annually, based on the review of performance in the preceding year. The independent supervisor does not receive any discretionary bonus from our Company.

Table of Contents

Stock Appreciation Rights

We implemented a plan of stock appreciation rights for members of our senior management in order to provide further incentives for these employees. The plan, effective from November 15, 2002, is designed to link the financial interests of our senior management with our future results of operations and the performance of our H shares. The number of stock appreciation right units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation. Under this plan, stock appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in Renminbi, translated from the Hong Kong dollar amount equal to the product of the number of stock appreciation rights exercised and the difference between the exercise price and market price of our Company's H shares at the date of exercise based on the applicable exchange rate between Renminbi and Hong Kong dollar at the date of the exercise.

In March 2003, our remuneration committee approved the granting of 276.5 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from date of grant and an exercise price of HK\$1.48 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 18 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In April 2005, our remuneration committee approved the granting of 560.0 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from date of grant and an exercise price of HK\$2.78 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

In January 2006, our remuneration committee approved the granting of 837.3 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of six years from the date of grant and an exercise price of HK\$2.85 per unit. A recipient of these stock appreciation rights may not exercise the rights in the first 24 months after the date of grant. As of each of the third, fourth, fifth and sixth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total stock appreciation rights granted to such person.

During the years ended December 31, 2008, 2009 and 2010, 346 million, 0.2 million and 483 million stock appreciation right units were exercised, respectively.

We recognize compensation expense of the stock appreciation rights over the applicable vesting period. Changes in our payment obligation under the stock appreciation rights plan resulting from changes in fair value of our H shares for the period subsequent to the vesting period through the date of the exercise are also reflected in our earnings. For the year ended December 31, 2008, a reversal of compensation expense in the amount of RMB148 million was recognized in respect of stock appreciation rights as a result of a decline in the share price of the Company. For the year ended December 31, 2009, compensation expense recognized in respect of stock appreciation rights was RMB56 million. For the year ended December 31, 2010, compensation expense recognized in respect of stock appreciation rights was RMB592 million.

Table of Contents**C. Board Practices*****General***

Pursuant to our Articles of Association, our Directors must be elected by our shareholders at a general meeting. Our Directors are generally elected for a term of three years and may serve consecutive terms if re-elected. On September 9, 2008, election of new members and re-election of current members of the Board of Directors were conducted and this election generated the third session of the Board of Directors consisting of 14 Directors with eight executive Directors, one non-executive director, and five independent non-executive Directors, each having a period of office of three years. The period of this office ends on the day of our annual general meeting in 2011, upon which the fourth session of the Board of Directors will be elected. None of the service contracts with our Directors provide benefits to them upon termination.

Audit Committee

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

In 2010, the Audit Committee held five meetings, at which it considered matters within its responsibilities, including our Company's financial statements, assessment of the qualifications, independence and performance of independent auditors and appointment of independent auditors, effectiveness of internal control, internal audit and related party transactions. The Audit Committee received quarterly reports in relation to the internal audit and related party transactions and provided guidance to the internal audit department. In addition, the Audit Committee reviewed the internal control assessment report and attestation report, followed up with the recommendations proposed by our independent auditors, reviewed the annual report, and communicated independently with the auditors.

Remuneration Committee

The Remuneration Committee was established in 2003, and currently consists of four members, Mr. Xu Erming, Mr. Wu Jichuan, Mr. Qin Xiao and Mr. Tse Hau Yin, Aloysius, all of whom are independent non-executive Directors. The Remuneration Committee is accountable to the Board of Directors and reports to it on its work periodically. The Remuneration Committee meets when necessary. The Charter of the Remuneration Committee was approved by our Board of Directors in March 2005, pursuant to which the Remuneration Committee's principal responsibilities 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, making recommendations to the Board of Directors on our overall remuneration policies and structure relating to compensation of Directors and senior management, determining the specific remuneration packages of all executive Directors and senior management and reviewing and approving performance-based compensation.

The Remuneration Committee held no meeting in 2010.

Table of Contents***Nomination Committee***

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

The Nomination Committee held no meeting in 2010.

Independent Director Committee

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

The Independent Director Committee held one meeting in 2010, at which it reviewed and approved the renewal of the CDMA Network Capacity Lease Agreement and related annual caps, confirming that this related-party transaction is in the interests of the Company and is fair and reasonable to the independent shareholders. The committee also submitted recommendations on this matter to independent shareholders.

D. Employees***General***

As of December 31, 2010, we had 312,322 employees. The table below sets forth the number of our employees according to their functions as of December 31, 2008, 2009 and 2010:

	2008		Year Ended December 31, 2009		2010	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Management, finance and administrative	49,441	15.7	50,206	16.1	49,124	15.7
Sales and marketing	161,547	51.4	160,780	51.4	161,569	51.8
Operations and maintenance	101,956	32.4	99,904	32.0	99,704	31.9
Other	1,597	0.5	1,630	0.5	1,925	0.6
Total	314,541	100.0	312,520	100.0	312,322	100.0

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

Table of Contents**E. Share Ownership**

As of December 31, 2010, our Assistant Chief Financial Officer, Qualified Accountant and Company Secretary, Mr. Yung Shun Loy, Jacky held 156,000 H shares, representing 0.00112% of the total number of H shares and 0.00019% of the total number of all outstanding shares in our Company.

Apart from those disclosed herein, as of December 31, 2010, none of our Directors, supervisors or other senior managers is a legal or beneficial owner of any shares of our share capital.

Item 7. Major Shareholders and Related Party Transactions.**A. Major Shareholders**

The table below sets forth information regarding the ownership of our share capital as of April 15, 2011 by all persons who are known to us to be the beneficial owners of 5% or more of each class of our voting securities.

Title of Shares	Identity of Person or Group	Amount Owned	Percentage of the Respective Type of Shares	Percentage of Total Shares
Domestic shares	China Telecom Group	57,377,053,317	85.57%	70.89%
Domestic shares	Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	8.37%	6.94%
H shares	JPMorgan Chase & Co.	2,629,804,821 ⁽¹⁾	18.95%	3.25%
H shares	RFS Holdings B.V.	2,087,518,664 ⁽²⁾	15.04%	2.58%
H shares	Commonwealth Bank of Australia	1,526,032,000	11.00%	1.90%
H shares	Capital Research and Management Company	1,234,715,000	8.90%	1.53%
H shares	BlackRock, Inc.	1,068,610,782 ⁽³⁾	7.70%	1.32%
H shares	Templeton Investment Counsel, LLC	693,347,861	5.0%	0.86%

(1) Includes (i) 1,368,005,724 shares held by JPMorgan Chase & Co. in long position, or Long Position, as defined under the Securities and Futures Ordinance of Hong Kong, or the SFO, representing 9.86% of the total number of H shares and 1.69% of the total number of all outstanding shares; (ii) 45,861,500 shares held by JPMorgan Chase & Co. in short position, or Short Position, as defined under the SFO, representing 0.33% of the total number of H shares and 0.06% of the total number of all outstanding shares; and (iii) 1,215,937,597 shares held by JPMorgan Chase & Co. as a lending agent on behalf of its clients in a lending pool as defined under the SFO, representing 8.76% of the total number of H shares and 1.50% of the total number of all outstanding shares.

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

(3) Includes (i) 1,032,492,523 shares held by BlackRock, Inc. in Long Position, representing 7.44% of the total number of H Shares and 1.28% of the total number of all outstanding shares, and (ii) 36,118,259 shares held by BlackRock, Inc. in Short Position, representing 0.26% of the total number of H Shares and 0.04% of the total number of all outstanding shares.

China Telecom Group, located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033, is our controlling shareholder and is a wholly state-owned enterprise regulated by the State Council. Guangdong Rising Assets Management Co., Ltd., located at Kai Xuan Hua Mei Da Hotel, 15/F, No. 9, 1 Ming Yue Yi Road, Dongshan District, Guangzhou, Guangdong Province, PRC, is a state-owned enterprise owned and controlled by the provincial governments in Guangdong Province. JP Morgan Chase & Co. is located at 270 Park Avenue, New York 10017, USA. RFS Holdings B.V. is located at Strawinskylaan 3105, 1077 ZX, Amsterdam, the Netherlands. Commonwealth Bank of Australia is located at Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW, Australia. Capital Research and Management Company is located at 333 South Hope Street, 55th Floor, Los Angeles, CA 90071. BlackRock, Inc. is located at 40 East 52nd Street, New York, 10022 USA. Templeton Investment Counsel, LLC is located at 500 East Broward Boulevard, Fort Lauderdale, FL 33394-3091.

Table of Contents

Based solely on information contained in an Amendment No. 3 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the U.S. Securities Exchange Commission, or SEC, on February 3, 2011 by Franklin Resources, Inc., or FRI, Charles B. Johnson and Rupert H. Johnson, Jr., 1,311,479,470 H shares of our Company, or the FRI Shares, representing approximately 9.5% of the total number of our H shares outstanding as of December 31, 2010, were beneficially owned either by investment companies that were direct or indirect subsidiaries of FRI or by other managed accounts that were investment management clients of investment managers that were direct or indirect subsidiaries of FRI. These subsidiaries of FRI were generally granted all investment and/or voting power over the FRI Shares owned and, as a result, may be deemed to be the beneficial owners of the FRI Shares for the purposes of Rule 13d-3 of the Exchange Act. Each of Charles B. Johnson and Rupert H. Johnson, Jr., owned in excess of 10% of the outstanding common stock of FRI and was a principal shareholder of FRI. Each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. could be deemed a beneficial owner of securities held by persons and entities for whom or for which the subsidiaries of FRI provided investment management services. However, each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. disclaims beneficial ownership of any of the FRI Shares. The principal place of business of each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. is One Franklin Parkway, San Mateo, CA 94403-1906, USA. The above disclosure is based solely on the information contained in the FRI Schedule 13G/A. For the numbers of our H shares that each of the subsidiaries of FRI has sole power to vote or to direct the voting of, or sole power to dispose or to direct the disposition of, or shared power to dispose or to direct the disposition of, and other details of the FRI Schedule 13G/A, please see the Schedule 13G/A jointly filed with the SEC by FRI, Charles B. Johnson and Rupert H. Johnson, Jr. on February 3, 2011.

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

B. Related Party Transactions

As of April 25, 2011, China Telecom Group, a wholly state-owned enterprise, directly owned and controlled 70.89% of our issued share capital. Accordingly, transactions between China Telecom Group and us constitute connected transactions under the Listing Rules.

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

Our independent non-executive Directors have confirmed that all connected transactions for the year ended December 31, 2010 to which our Company was a party:

had been entered into, and the agreements governing those transactions were entered into, by our Company in the ordinary and usual course of business;

had been entered into either:

on normal commercial terms; or

where there was no available comparison to determine whether they are on normal commercial terms or on terms no less favorable than those available to or from independent third parties, as applicable; and

had been entered into on terms that are fair and reasonable so far as the overall interest of the independent shareholders of our Company are concerned.

The details of the related party arrangements are described below.

Table of Contents

Arrangements Relating to the Acquisitions

Indemnification

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

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

Ongoing Related Party Transactions between Us and China Telecom Group

Centralized Services Agreement

Pursuant to the Centralized Services Agreement entered into by us and China Telecommunications Corporation on September 10, 2002 and the related supplemental agreements, centralized services include management and operational services provided by our Company to China Telecommunications Corporation in relation to key corporate customers, the business support center and the network management center. Centralized services also include services provided by China Telecommunications Corporation to us in relation to certain premises of China Telecommunications Corporation, and the use of international telecommunications facilities by both parties. The aggregate costs incurred by China Telecommunications Corporation and us for the provision of management and operational services will be apportioned on a pro rata basis between China Telecommunications Corporation and us according to the revenues generated by each party.

We will pay premises usage fees to China Telecommunications Corporation on a pro rata basis according to the area actually allocated to us when we use any premises provided by China Telecommunications Corporation. The premises usage fees shall be determined through negotiation between the parties based on comparable market rates. When both parties use international telecommunications facilities provided by third parties and accept services provided by such third parties, such as restoration maintenance, the annual utilization fee and related service cost shall be determined on a pro rata basis according to the actual utilization each year. When both parties use the international telecommunications facilities provided by China Telecommunications Corporation, the associated costs shall be determined on a pro rata basis according to volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan, originating from each party divided by the aggregate volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan, originating from both parties. The utilization fee shall be determined through negotiation between the parties based on market rates.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Centralized Services Agreement, pursuant to which the Interconnection Settlement Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, the net transaction amount in respect of the Centralized Services Agreement was RMB466 million.

Table of Contents

Interconnection Settlement Agreement

Pursuant to the Interconnection Settlement Agreement entered into by us and China Telecommunications Corporation on September 10, 2002 and the related supplemental agreements, the telephone operator with respect to a telephone call made to its local access network shall be entitled to receive from the operator from which the telephone call originated a fee prescribed by the MIIT from time to time, which is currently RMB0.06 per minute. Interconnection charges are RMB0.06 per minute for local calls originated from us to China Telecommunications Corporation. The formula for settlement is based on the net volume of telephone calls originated from or made to each other multiplied by the standard settlement fees stipulated by the MIIT.

Beijing Municipality, Tianjin Municipality, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shanxi Province, Henan Province, Shandong Province, Inner Mongolia Autonomous Region and Tibet Autonomous Region have been covered as settlement regions.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Interconnection Settlement Agreement, pursuant to which the Interconnection Settlement Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for such further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation. In addition, we and China Telecommunications Corporation have agreed in the supplemental agreement that interconnection 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 charges, the parties shall apply such amended or new rules and regulations as acknowledged by both parties.

For the year ended December 31, 2010, the net settlement payment made by us to China Telecommunications Corporation pursuant to the Interconnection Settlement Agreement was RMB516 million.

Property Leasing Framework Agreement

Pursuant to the Property Leasing Framework Agreement entered into by us and China Telecommunications Corporation on August 30, 2006, we lease properties from China Telecommunications Corporation and/or its associates for use as business premises, offices, equipment storage facilities and sites for network equipment. On the other hand, we also lease certain properties to China Telecommunications Corporation and/or its associates. The rent shall be determined based on the market price with reference to the standard set forth by local pricing authorities. The rent is subject to review every three years.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Property Leasing Framework Agreement, pursuant to which the Property Leasing Framework Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, our expenditure on rental charges was RMB370 million. For the same period, the rental income derived from the subsidiaries of China Telecommunications Corporation was RMB43 million.

IT Services Framework Agreement

Pursuant to the IT Services Framework Agreement entered into by us and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements, each of us and China Telecommunications Corporation and/or its associates may participate in the bidding for the right to provide the other party with certain information technology services, such as office automation and software testing. The charges payable for such IT services shall be determined by reference to market rates or as determined by prices obtained through the tender process. If the terms and conditions offered by us or China Telecommunications Corporation and/or its associates are no less favorable than those offered by an independent third party, we or China Telecommunications Corporation and/or its associates may give priority to the other party.

Table of Contents

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the IT Services Framework Agreement, pursuant to which the IT Services Framework Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, our expenditure on information technology services provided by the subsidiaries of China Telecommunications Corporation to us was RMB556 million. For the same period, our income derived from providing information technology services to the subsidiaries of China Telecommunications Corporation was RMB295 million.

Community Services Framework Agreement

Pursuant to the Community Services Framework Agreement entered into by us and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements, China Telecommunications Corporation and/or its associates provide us with services relating to culture, education, property management, vehicle service, health and medical care, hotel and conference service, community and sanitary services.

Prices under such agreement should be determined in accordance with the government-prescribed prices. In the absence of the government-prescribed prices, the government-guided prices (if any) shall apply. In the absence of both government-prescribed prices and government-guided prices, the market prices shall apply, i.e., the prices at which the same type of services are provided by an independent third party in the ordinary course of business. If none of such prices is applicable, the prices shall be determined through consultation between the parties based on reasonable costs plus reasonable profits. For this purpose, reasonable costs shall mean the costs determined by the parties after negotiations.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Community Services Framework Agreement, pursuant to which the Community Services Framework Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, our expenditure on services provided to us under the Community Services Framework Agreement was RMB2,185 million.

Supplies Procurement Services Framework Agreement

Pursuant to the Supplies Procurement Services Framework Agreement entered into by us and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements, China Telecommunications Corporation and/or its associates and us provide the other party with comprehensive procurement services, including integrated supplies procurement services, sales 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 based on the following: (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 other domestic non-telecommunications materials. The pricing basis for the services for the provision of supplies procurement other than agency services under the Supplies Procurement Services Framework Agreement is the same as for those set forth in the Community Services Framework Agreement.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Supplies Procurement Services Framework Agreement, pursuant to which the Supplies Procurement Services Framework Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

Table of Contents

For the year ended December 31, 2010, our expenditure incurred under such agreement was RMB2,215 million, and our revenue generated under such agreement was RMB993 million.

Engineering Framework Agreement

The Engineering Framework Agreement entered into by us and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements set out provisions in respect of the supervision and management of services relating to construction, design, and equipment installation and testing, and/or services that the general contractors for the construction and supervision of engineering projects provided to us through bids made by China Telecommunications Corporation and/or its associates. The charges payable for such engineering services shall be determined by reference to market rates. The charges payable for the design or supervision of engineering projects with a value of over RMB500,000 or construction of engineering projects with a value of over RMB2 million shall be determined by referring to the tender price.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Engineering Framework Agreement, pursuant to which the Engineering Framework Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, our expenditure on engineering services under the Engineering Framework Agreement was RMB6,415 million.

Ancillary Telecommunications Services Framework Agreement

Pursuant to the Ancillary Telecommunications Services Framework Agreement entered into by us and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements, China Telecommunications Corporation and/or its associates provide us with certain repair and maintenance services, including repair of telecommunications equipment and 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.

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Ancillary Telecommunications Services Framework Agreement, pursuant to which the Ancillary Telecommunications Services Framework Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 30 days written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, our expenditure on services provided to us under the Ancillary Telecommunications Services Framework Agreement was RMB6,838 million.

CDMA Network Capacity Lease Agreement

Pursuant to the CDMA Network Capacity Lease Agreement entered into on July 27, 2008, China Telecommunications Corporation agreed to lease the capacity of its CDMA Network to us and we are entitled to the exclusive right to use and operate the CDMA Network to provide CDMA services.

The lease fee is 28% of our CDMA service revenue (the service revenue generated from the CDMA telecommunications business is calculated by our 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 our financial statements). Regardless the revenue of CDMA business, the minimum annual lease fee shall be 90% of the total amount of the lease fee paid by us to China Telecom Group in the previous year. For the period from October 1, 2008 to December 31, 2008 and the year ended December 31, 2009, there was no minimal annual lease fee. The cost of network construction will be borne by China Telecom Group, while the maintenance-related costs will be shared between us and China Telecom Group. The proportion of the maintenance-related costs to be borne by us will be calculated in accordance with the mechanism agreed by the parties.

Table of Contents

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

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the CDMA Network Capacity Lease Agreement, pursuant to which the CDMA Network Capacity Lease Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for further periods as the parties may agree, by 180 days written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, the total amount we paid to China Telecom Group with respect to the leasing of CDMA network capacity was RMB13,320 million. For the year ended December 31, 2010, we received reimbursement of RMB1,755 million with respect to the capacity maintenance related costs of CDMA network from China Telecom Group.

Strategic Agreement between Our Company and China Communications Services Corporation Limited

Pursuant to the Strategic Agreement entered by us and China Communications Services Corporation Limited, or CCS, on August 30, 2006, and a supplemental agreement dated June 15, 2007, we agreed that, in the period between January 1, 2007 and December 31, 2009, if the service terms relating to the design, implementation and supervision of the communications engineering projects offered by CCS are basically the same as those of other service providers, our provincial branches in the service regions of CCS shall purchase such services from the wholly-owned subsidiaries of CCS with a total annual value of no less than 10.6% of the total annual capital expenditure of the relevant provincial branches of our Company in the corresponding period. CCS will offer at least 5% price discount to our Company based on the applicable standard prices for the services in connection with the design, implementation and supervision of the communications engineering projects. Meanwhile, we agreed that, in the period between January 1, 2007 and December 31, 2009, if the service terms relating to certain maintenance management services offered by CCS are basically the same as those of other service providers, our provincial branches in the service regions of CCS shall purchase such services from the wholly-owned subsidiaries of CCS with a total value of no less than RMB1,780 million in any given year.

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

On October 29, 2009, we and CCS entered into a second supplemental agreement in relation to the Strategic Agreement, pursuant to which the Strategic Agreement was renewed for a further term expiring on December 31, 2012, and may be renewed for further periods.

China Telecommunications Corporation, the controlling shareholder of CCS, has signed certain framework agreements with our Company, including the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement and the Community Services Framework Agreement. The transactions contemplated under those framework agreements between China Telecom Group and our Company cover the transactions contemplated under the Strategic Agreement and its supplemental agreements. Since the transactions under those framework agreements between China Telecom Group and us are subject to annual caps, the proposed annual caps for the transactions under the Strategic Agreement and its supplemental agreements between CCS and us are subsumed under the annual caps of those framework agreements.

Table of Contents

Trademark License Agreements

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

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Trademark License Agreement, pursuant to which the license granted under the Trademark License Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for such further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

Optic Fiber Leasing Agreement

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

On August 25, 2010, we and China Telecommunications Corporation entered into a supplemental agreement in relation to the Optic Fiber Leasing Agreement, pursuant to which the Optic Fiber Leasing Agreement was renewed for a further term expiring on December 31, 2012 and may be renewed for such further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

For the year ended December 31, 2010, the total amount we paid to China Telecom Group with respect to the leasing of optic fibers was RMB58 million.

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

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

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings