

Financial Highlights

	2011 ⁵ (restated)	2012 ⁵ (restated)	2013
Operating revenues (RMB millions)	245,149	283,176	321,584
EBITDA ¹ (RMB millions)	75,362	70,874	96,551
EBITDA margin ²	32.6%	27.4%	34.0%
Net profit ³ (RMB millions)	16,494	14,949	17,545
Capital expenditure (RMB millions)	49,584	53,748	79,992
Total debt/Equity ⁴	20.3%	37.6%	39.7%
Earnings per share (RMB)	0.2038	0.1847	0.2168
Dividend per share (HK\$)	0.085	0.085	0.095
Net asset value per share ⁴ (RMB)	3.165	3.276	3.432

1 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

2 EBITDA margin was calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

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

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

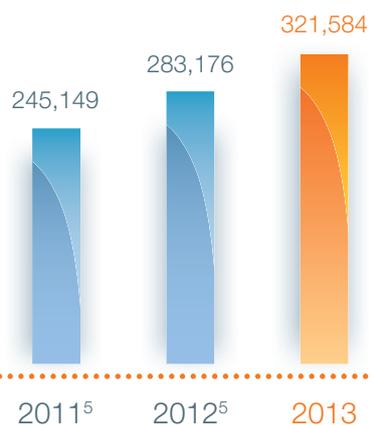
5 Certain prior years figures were retrospectively restated due to the acquisition of China Telecom (Europe) Limited. Please refer to note 1 to the audited financial statements in this annual report for details.



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

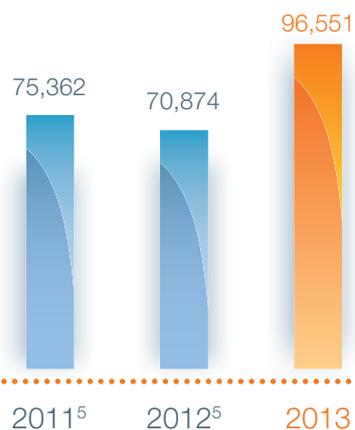
Operating Revenues

(RMB millions)



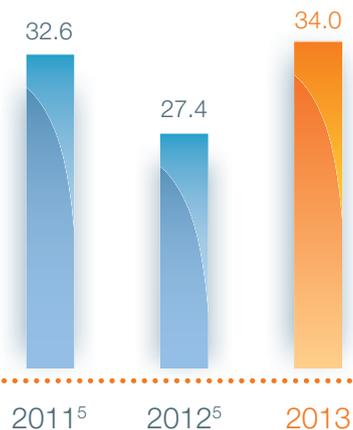
EBITDA¹

(RMB millions)



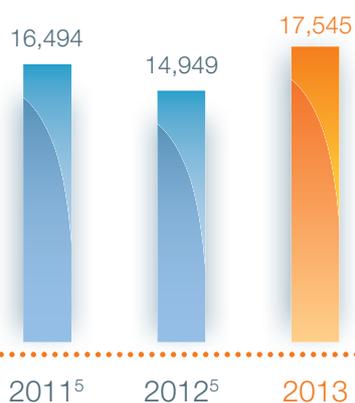
EBITDA Margin²

(%)



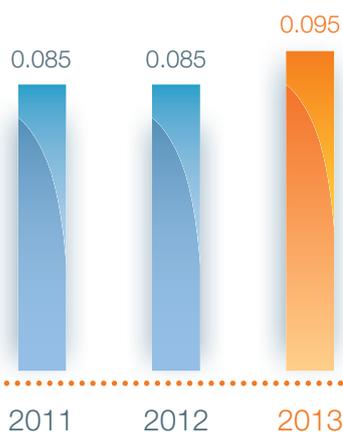
Net Profit³

(RMB millions)



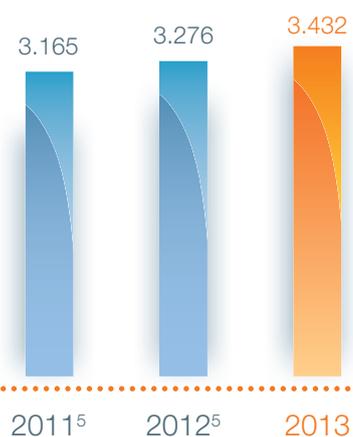
Dividend Per Share

(HK\$)



NAV Per Share⁴

(RMB)



The following table sets out key operating data for 2011, 2012 and 2013:

	Unit	2011	2012	2013	Rate of change over 2012
Mobile subscribers	million	126.47	160.62	185.58	15.5%
of which: 3G subscribers	million	36.29	69.05	103.11	49.3%
Wireline broadband subscribers	million	76.81	90.12	100.10	11.1%
Access lines in service	million	169.59	163.00	155.80	-4.4%
Mobile voice usage	million minutes	407,765	509,229	603,616	18.5%
Mobile SMS usage	million messages	49,941	55,789	64,235	15.1%
3G handset data traffic	KTB	23.60	72.30	175.10	142.2%
Mobile Colour Ring Tone subscribers	million	75.38	92.19	102.02	10.7%
Wireline local voice usage	million pulses	206,371	172,175	148,690	-13.6%



e-Surfing 3G Handset Fair & Mobile Internet Forum



In 2013, fully capitalising on the development opportunities brought forth by the rapid growth of 3G and the mobile Internet, the Company continued to deepen its strategic transformation, innovate development models and create competitive edges, leading to a continuous expansion of subscribers' scale, rapid growth of mobile services and steady growth of broadband services, and achieving remarkable increase in operating revenues, further optimising revenue structure and reinforcing its competitive edges in the market.

Key operating performance

Rapid growth in operating revenues, while business structure continued to optimise

In 2013, the Company's operating revenues increased by 13.6% to RMB321,584 million. Excluding revenues from mobile terminal sales, operating revenues were RMB284,149 million, representing an annual growth of 10.0%. The Company's revenue structure was further optimised, with mobile revenues accounting for 47.0% of operating revenues, and revenues from the mobile and wireline broadband services accounting for close to 70% of operating revenues.

Mobile revenues maintained rapid growth and subscribers' scale continued to expand, while customers' values were enhanced

In 2013, the Company persisted in the strategy that is terminal-led and application-driven and placed concurrent emphasis on integrated products and efficiently-centralised single products. The Company also strengthened cooperation with open channels and raised the sales capacities of channels, continuously expanding the mobile subscribers' scale. At the end of the year, the number of mobile subscribers reached 186 million, with a net addition of 24.96 million subscribers, and mobile service revenues increased by 22.6% to RMB113,751 million compared to last year.

Leveraging on the opportunity emerging from contact with our mobile customers, the Company offered customers coaching services on utilising mobile applications and launched promotional campaigns to raise the penetration and adoption of mobile applications, thereby increasing data traffic and enhancing customers' values. In 2013, mobile average revenue per user (ARPU) was RMB54.8, representing a year-on-year growth of 1.7%. 3G handset data traffic stood at 175.1KTB, up 142.2% year-on-year, and the monthly average data traffic per 3G handset subscriber came to 190MB.



China Telecom provides its customers with a wide variety of products and services

Wireline services maintained positive growth and wireline broadband service continued to develop steadily

In 2013, the Company deepened the implementation of wireline and mobile integration and stabilised the wireline revenues base. Revenues from wireline services were RMB170,398 million and up 3.1%, maintaining positive growth.

In the wireline broadband service, the Company reinforced its competitive edges by adopting the development strategy of “Emphasising quality on the high-end, significantly improving network speed for the mainstream market, and improving market share on the low-end”, with the deepened implementation of the “Lightening Fibre Residential Areas” initiative and “Broadband Excellence” programme, thereby further improving the broadband subscriber structure and achieving steady growth of subscribers’ scale and revenues. In 2013, revenues from wireline broadband services grew 6.1% to RMB70,821 million. The number of wireline broadband subscribers reached 100 million, with a net addition of 9.98 million subscribers, of which the number of fibre broadband service subscribers was close to 27 million, with subscribers of bandwidth of 4Mbps or above accounting for 80% of the total, up 7.0 percentage points compared with the beginning of 2013.



The iTV, ICT and IDC services became three key drivers of revenue growth of wireline value-added services (VAS) and integrated information services. In 2013, revenues from wireline VAS and integrated information services were RMB34,274 million, up 11.6% over last year. Riding on iTV, the Company promoted “Smart Family” to enhance customers’ experience by offering high-definition and intelligent products. By accelerating ICT development, the Company continued to provide customers with integrated information services that were convenient, differentiated and with high price-performance ratio. The deployment of six key Cloud data centres of the Company was in place.

In 2013, revenues from wireline voice service as a percentage of the Company’s operating revenues saw a further decline, signalling an effective alleviation of operational risks. Revenues from wireline voice service were RMB38,633 million, representing 12.0% of the operating revenues and a drop of 3.3 percentage points from the previous year.

Business operating strategies

In 2013, the Company adhered to the operating theme of “promoting dual enhancement in scale development and profitability through dual-leadership in innovation and service”, vigorously implemented the two key strategies of scale operation and data traffic operation, and carried out operational measures in “efficiently-centralised marketing, terminal-led approach, application-driven promotion, open channel expansion and excellent services provision”.

First, strengthened efficiently-centralised marketing intensity and raised sales efficiency

In 2013, the Company further refined package design to meet the customers’ demand, launching “e-Surfing Young” data-only and “DIY” mobile packages. At the same time, the Company optimised its package structure and centralised marketing resources and strategy that tilted towards high-valued clients and services. To actively adopt non-cost marketing model, the Company carried out various activities, including vigorous development of pre-paid subscribers and providing rebate to existing customers upon depositing of fees in advance. The Company further strengthened the centralised effort of marketing activities by organising four unified marketing campaigns during the year and substantially enhanced customer acquisition and terminal sales.

Second, strengthened terminal-led approach and optimised terminal portfolio structure

The Company continued to promote the “terminal-led” strategy that facilitated the continued prosperity of CDMA terminal industry value chain. For the whole year, a total of 334 CDMA handset models were newly launched, of which 270 were newly-launched 3G smartphone models. The smartphone sales volume accounted for 80.4% of the total sales volume, up 19 percentage points over last year. Through chipset upgrade, screen enlargement and other initiatives, the price-to-performance ratio of the smartphones priced around RMB1,000 was enhanced, strengthening the competitive edges of the market of smartphones priced around RMB1,000. The Company also successfully managed to participate in the global launches of various star handsets, such as Apple’s 5S/5C, Samsung’s S4 and NOTE3 and raised its market share in the high-end market. The Company also collaborated with upstream chipset manufacturers to launch low-end smartphones priced at RMB299, tackling the disadvantages of the lack of presence for CDMA network standard smartphones in the low-end market.

Third, the Company accelerated the promotion of applications to create differentiated competitive edges

The Company attached great importance to development and promotion of the industry applications for government and enterprise customers, and development of livelihood applications and mobile Internet applications. For industry application, the Company focused on promoting e-Surfing School, work unit e-Surfing RFID, field work assistant, integrated office, busy-shop assistant and campus e-Surfing RFID and the industry applications drove over 13 million of net addition of mobile subscribers. For livelihood application, the Company vigorously promoted applications for water, electricity and gas bills payment, gas refuel, traffic fines and public transport payments. For mobile Internet applications, the Company sped up the pace of corporatisation and equity restructuring of emerging services such as product centre businesses in order to establish competitive specialised corporates. China Telecom actively worked with mobile Internet companies and jointly launched “YiChat” with NetEase, Inc., serving as the mobile Internet portal.

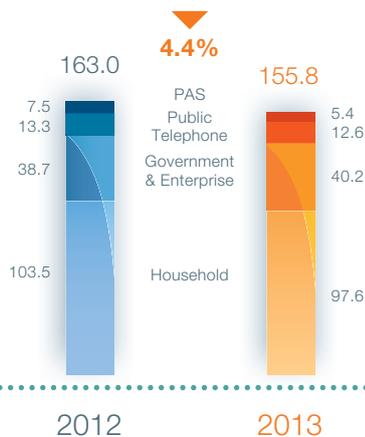
Mobile Subscribers

(million)



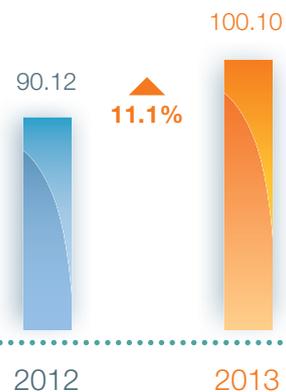
Access Lines in Service

(million)



Wireline Broadband Subscribers

(million)

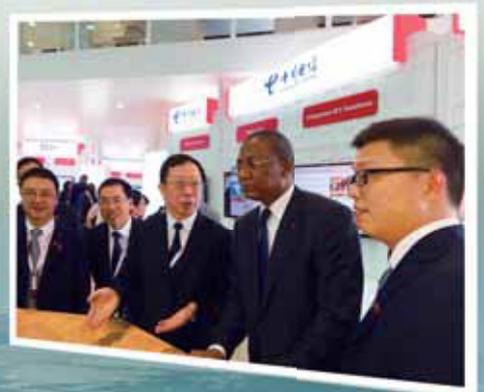


Fourth, the Company stepped up synergy of channels and improved sales capabilities of channels

The Company strengthened the collaboration of the three major channels, namely, direct sales, physical outlets and electronic channels, to converge the strengths and improve sales capabilities. For government and enterprises customers, the Company strengthened the training for direct sales managers and enhanced the capability to secure sizable contracts. At the same time, it adopted a synergistic marketing approach that combined “channel manager + agent + physical outlet” to enhance coverage of small to medium sized government and enterprise customers. For physical outlets, the Company continued to deepen

the implementation of “sub-division of performance evaluation units” in the self-operated outlets to motivate staff vitality and increase sales. The Company extensively cooperated with open channels, especially with chain stores and terminal manufacturers, as well as strengthened the direct supply of terminals and calling cards at the convenience outlets such as telephone booths and service outlets in rural areas. For electronic channels, the Company centralised its development and operation, established dedicated marketing policy and a B2B-focused distribution system, leading to improvement of the electronic channel’s ability to operate independently, and accelerating transformation to be an e-commerce operator as well as the closer cooperation with third party e-commerce companies.

The Company’s management attended customer activities and market studies



Fifth, the Company focused on customers' perception and improved customers' satisfaction

To improve customers' perception and enhance their satisfaction, the Company implemented the "Service of Excellence" strategy. Using service standard as a starting point, the Company promoted instant customer satisfaction feedback system in 10 pilot provinces, to evaluate services such as the physical outlets and broadband service installation and maintenance, strengthening the control over the service delivery to enhance customers' experience. With focus on key services, the Company enhanced 3G service standardisation, optimised data traffic queries, reminder service, credit control management and service cancellation process, strengthened the coaching of applications adoption and achieved EVDO network optimisation in urban areas. In addition, it provided customers of different tiers and clusters with differentiated broadband services, enhancing the efficiency of installation and maintenance, and effectively promoting customer access bandwidth upgrade. All these put the Company top in 3G and broadband satisfaction survey. To provide convenient

and fast service, the Company enriched its service channels by offering mobile "e-Surfing customer service", launching customer service platforms in "YiChat" and "WeChat".

Network and operation support

In 2013, the Company continued to uphold the "return-focused" investment principal, optimised investment structure, accelerated network upgrade and evolution and progressively expanded capacity, supporting business scale expansion and steadily enhancing resource utilisation.

First, the Company continued to enhance the core competitiveness of the mobile network. The Company appropriately implemented a "rapid and targeted" capacity expansion based on subscriber growth and network traffic loads in 2G/3G network to ensure the network quality and customers' satisfaction, raising the network utilisation by more than 2 percentage points. Leveraging on the 4G licensing, the Company promptly deployed LTE network in over 60 cities to provide network assurance for its 4G operation.



China Telecom announced the e-Surfing mobile wallet service

Second, the Company progressively promoted fibre network in cities and bandwidth upgrade. The Company focused on fibre network construction and upgrade in the urban areas based on customers' demand, enhancing the broadband network edges. More than 90% of the urban areas were covered with at least 20Mbps customer access bandwidth, with fibre access port utilisation reaching 40%, an improvement of 7.6 percentage points. In rural areas, the Company deployed wireline, wireless and other means subject to local conditions to meet the demand of new broadband users, with more than 91% coverage with at least 4Mbps customer access bandwidth.

Third, the Company accelerated Cloud-based development of open platforms and integrated information services expansion. The Company was in full efforts to promote its own platform integration and improve the efficiency of the platform, accelerating the construction of open integrated platforms and Cloud data centres for raising the operating and cooperative ability of Cloud resources. Riding on local government's implementation of "Smart Cities", the Company actively developed ICT services for government and enterprise customers while continued to expand the depth and breadth of ICT services.

Development measures and highlights for 2014

In 2014, 4G commercial launch, along with the rapid growth of the new Internet-based information consumption and e-commerce transactions, will bring new market opportunities and room for information consumption growth. The Company will accelerate the deployment of 4G services and plan to launch 4G products focusing on data traffic and multi-terminal sharing. The 4G services positioning will be targeted to mid-to-high-end users in mainly urban areas, while 3G will be positioned to mid-to-low-end users leveraging on the Company's superior 3G network coverage in rural areas with accelerated expansion of rural subscribers. The Company continues to enhance the utilisation of wireline broadband network through upgrade of customer access bandwidth and quality and iTV HD content enrichment to improve product competitiveness and maintain the market leadership in wireline broadband service. In addition, the Company continues to accelerate the coverage of its open channels, strengthen channels collaboration, and raise marketing capabilities and sales per store. The Company will actively expand in information services, accelerate the emerging business development, improve the data traffic product mechanism, cooperate with Internet companies to promote the adoption of heavy data traffic applications, such as video, and vigorously expand "data traffic backward monetisation". To speed up the expansion of Internet applications, the Company will strengthen the integrated platform as the fundamental, build the core capabilities on payment, location-based services and account operation and leverage on "YiChat" as portal for building Internet business system. The Company will reinforce traditional advantages in the integrated outsourcing, IDC and Cloud products, while nurturing new products in the areas of big data and Internet of thing, etc. We will also continue to optimise network resources, improve operating and maintenance efficiency, enhance service capabilities of full services and enhance customers' satisfaction to attain continuous growth in customer value and corporate value.

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

Summary

In 2013, the Group firmly adhered to the main theme of “promoting dual enhancement in scale and profitability through dual-leadership in innovation and service”, and further promoted the strategic transformation of “De-telecom”, “Market Orientation and Differentiation” and “Three New Roles”. The overall operating condition of the Company was stable and healthy. With the double-digit growth of both operating revenues and net profit, the business structure continued to be optimised and competitiveness continued to be enhanced. The Group's operating revenues in 2013 were RMB321,584 million, an increase of 13.6%¹ from 2012; operating expenses were RMB294,116 million, an increase of 12.3% from 2012; profit attributable to equity holders of the Company was RMB17,545 million, an increase of 17.4% from 2012; basic earnings per share were RMB0.22; EBITDA² was RMB96,551 million and the EBITDA margin³ was 34.0%.

Operating Revenues

In 2013, the Group continued to firmly seize the development opportunities, with the steady growth in its subscribers' scale, the operating revenues continued to maintain at a high double-digit growth rate, the Group's market share steadily increased and the revenue structure continued to be optimised. Operating revenues in 2013 were RMB321,584 million, an increase of 13.6% from 2012. Of this, the total mobile revenue was RMB151,186 million, an increase of 28.3% from 2012. The wireline services revenues were RMB170,398 million, an increase of 3.1% from 2012. The aggregate of mobile service revenue⁴, wireline broadband revenue, wireline value-added services and integrated information application services revenue accounted for 68.1% of the total operating revenues, an increase of 0.9 percentage points from 2012.

1 In 2013, the Group acquired China Telecom (Europe) Limited. As the transaction was recognised as a combination of entities under common control, the comparative figures of prior years have been restated accordingly. Please refer to note 1 to the audited financial statements in this annual report for details.

2 EBITDA was calculated from operating revenues minus operating expenses plus depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analysing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, debt raising ability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.

3 EBITDA margin was calculated from EBITDA divided by operating revenues excluding the revenue from mobile terminal sales.

4 Mobile service revenue represents total mobile revenue minus other mobile revenue. Of this, in 2013, other mobile revenue amounted to RMB37,435 million.

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

The following table sets forth a breakdown of the operating revenues of the Group for 2012 and 2013, together with their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		Rates of change
	2013	2012 (restated)	
Wireline voice	38,633	43,369	(10.9%)
Mobile voice	58,217	49,166	18.4%
Internet	99,394	87,662	13.4%
Value-added services	36,230	31,137	16.4%
Integrated information application services	25,233	23,181	8.9%
Telecommunications network resource services and lease of network equipment	17,586	15,737	11.7%
Others	46,291	32,924	40.6%
Total operating revenues	321,584	283,176	13.6%

Wireline Voice

Through measures of convergent packages and wireline monthly packages, the Group slowed down the loss of wireline voice revenue and the negative effect of wireline voice was further reduced. In 2013, revenue from wireline voice services was RMB38,633 million, a decrease of 10.9% from RMB43,369 million in 2012, accounting for 12.0% of our operating revenues.

Mobile Voice

In 2013, the Group continued to strengthen its effort on expanding the scale of mobile subscribers, and the mobile service has maintained rapid growth. In 2013, the net increase in the number of mobile subscribers was 24.96 million, reaching a total of 186 million. Revenue from mobile voice services was RMB58,217 million, an increase of 18.4% from RMB49,166 million in 2012, accounting for 18.1% of our operating revenues.

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

Internet

In 2013, revenue from Internet access services was RMB99,394 million, an increase of 13.4% from RMB87,662 million in 2012, accounting for 30.9% of our operating revenues. On one hand, the Group adopted the development strategy of “Emphasising quality on the high-end, significantly improving network speed for the mainstream market, and improving market share on the low-end”, and continued to deepen the implementation of the “Lightening Fibre Residential Areas” initiative, formulated the “Broadband Excellence” program and realised a quantum leap of broadband service speed, and promote the rapid development of broadband services. At the end of 2013, the number of wireline broadband subscribers reached 100 million, the wireline broadband revenue of the Group was RMB70,821 million, an increase of 6.1% from 2012. On the other hand, the Group fully leveraged its advantage in 3G network and services, and persisted in data traffic operation. Revenue from mobile Internet access services was RMB27,962 million, an increase of 40.7% from 2012.

Value-Added Services

In 2013, revenue from value-added services was RMB36,230 million, an increase of 16.4% from RMB31,137 million in 2012, accounting for 11.3% of our operating revenues. With the growth in the number of mobile subscribers, mobile value-added services such as SMS, MMS, and caller ID services developed rapidly. Revenue from mobile value-added services was RMB19,748 million, an increase of 17.2% from 2012. Due to the rapid growth of the Internet Data Centre services and iTV services, the revenue from wireline value-added services increased by 15.3% from 2012.

Integrated Information Application Services

In 2013, revenue from integrated information application services was RMB25,233 million, an increase of 8.9% from RMB23,181 million in 2012, accounting for 7.8% of our operating revenues. The increase in revenue was mainly due to the rapid development of Information and Communication Technology services. Revenue from mobile integrated information application services was RMB7,441 million, an increase of 10.3% from 2012.

Telecommunications Network Resource Services and Lease of Network Equipment

In 2013, revenue from telecommunications network resource services and lease of network equipment was RMB17,586 million, an increase of 11.7% from RMB15,737 million in 2012, accounting for 5.5% of our operating revenues. As the demand from government and enterprise customers for informatisation continued to increase, the revenue growth from domestic and international circuits services and lease of network equipment has increased quite rapidly. Revenue from lease of mobile network equipment was RMB383 million.

Others

In 2013, revenue from other services was RMB46,291 million, an increase of 40.6% from RMB32,924 million in 2012, accounting for 14.4% of our operating revenues. With the growth in the scale of mobile subscribers, the Group further increased the effort in the efficiently-centralised procurement and sales of mobile terminal equipment, especially “star” smartphones at different price levels. Revenue from sales of mobile terminal equipment was RMB37,435 million, an increase of 51.2% from 2012.

Operating Expenses

While reasonably coordinating our resources, the Group further strengthened our cost control efforts, and promoted profitable scale development of the enterprise. In 2013, operating expenses of the Group were RMB294,116 million, an increase of 12.3% compared with 2012, and the rate of growth of operating expenses was lower than the revenue growth rate. Operating expenses accounted for 91.5% of our operating revenues, a decrease of 1.0 percentage point from 2012.

The following table sets forth a breakdown of the operating expenses of the Group in 2012 and 2013 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		Rates of change
	2013	2012 (restated)	
Depreciation and amortisation	69,083	49,666	39.1%
Network operations and support expenses	53,102	65,979	(19.5%)
Selling, general and administrative expenses	70,448	63,099	11.6%
Personnel expenses	46,723	42,857	9.0%
Other operating expenses	54,760	40,367	35.7%
Total operating expenses	294,116	261,968	12.3%

Depreciation and Amortisation

In 2013, depreciation and amortisation was RMB69,083 million, an increase of 39.1% from RMB49,666 million in 2012, accounting for 21.5% of our operating revenues. The increase in depreciation and amortisation was mainly due to the increase in depreciation as a result of the acquisition of mobile network assets at the end of 2012.

Network Operations and Support Expenses

In 2013, network operations and support expenses were RMB53,102 million, a decrease of 19.5% from RMB65,979 million in 2012, accounting for 16.5% of our operating revenues. The decline was mainly due to the fact that the Group no longer needs to pay to China Telecommunications Corporation the CDMA network capacity lease fee after the completion of the acquisition of mobile network assets.

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

Selling, General and Administrative Expenses

In 2013, selling, general and administrative expenses amounted to RMB70,448 million, an increase of 11.6% from RMB63,099 million in 2012, accounting for 21.9% of our operating revenues. The growth was mainly attributable to the Group's increased efforts to expand social channels and appropriately increased marketing initiatives. Commission and service expenses for third parties amounted to RMB25,519 million, an increase of 30.6% from 2012. Advertising and promotion expenses amounted to RMB36,490 million, an increase of 4.5% from 2012. The cost of terminal equipment offered to customers for free or at a nominal price amounted to RMB22,795 million in 2013, an increase of 4.8% from 2012. At the same time, the Group continued its prudent control on general and administrative expenses. Compared to last year, general and administrative expenses decreased by 2.5%.

Personnel Expenses

In 2013, personnel expenses were RMB46,723 million, an increase of 9.0% from RMB42,857 million in 2012, accounting for 14.6% of our operating revenues. The ratio of personnel expenses to operating revenues decreased by 0.5 percentage points when compared to 2012. While the Group strengthened the control on personnel expenses, it appropriately increased the remuneration for frontline staff to increase their passion and promote business development. For details of the number of employees, remuneration policies and training schemes, please refer to the Human Resources Development Report in this annual report.

Other Operating Expenses

In 2013, other operating expenses were RMB54,760 million, an increase of 35.7% from RMB40,367 million in 2012, accounting for 17.0% of our operating revenues. The increase was mainly attributable to the increase in the cost of mobile terminal equipment sold. The cost of mobile terminal equipment sold amounted to RMB35,227 million, an increase of 52.5% from 2012.

Net Finance Costs

In 2013, the Group's net finance costs were RMB5,153 million, an increase of 229.9% from RMB1,562 million in 2012. The increase was mainly due to the interest expenses arising from the deferred consideration of the mobile network assets acquisition and new short-term loans. Net exchange losses were RMB3 million in 2013.

Profitability Level

Income Tax

The Group's statutory income tax rate is 25%. In 2013, the Group's income tax expenses were RMB5,422 million with the effective income tax rate of 23.5%. The difference between the effective income tax rate and the statutory income tax rate was mainly due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of its branches with operations in the western region of China and some of its subsidiaries.

Profit Attributable To Equity Holders of the Company

In 2013, profit attributable to equity holders of the Company was RMB17,545 million, an increase of 17.4% from RMB14,949 million in 2012.

Capital Expenditure and Cash Flows

Capital Expenditure

In 2013, in order to seize the development opportunities of mobile services, reinforce the advantages of broadband networks and enhance the core-competitiveness of the network, the Group increased its capital expenditure but at the same time emphasised the optimisation of its investment

structure, with particular emphasis on investment in high growth services, while investment in traditional wireline services were strictly controlled. In 2013, capital expenditure of the Group was RMB79,992 million, an increase of 48.8% from RMB53,748 million in 2012. The increase in capital expenditure was mainly attributable to the Group's obligation to invest into the mobile network after completion of the mobile network assets acquisition at the end of 2012.

Cash Flows

In 2013, net decrease in cash and cash equivalents for the Group was RMB13,960 million, while the net increase in cash and cash equivalents was RMB2,625 million in 2012.

The following table sets forth the cash flow position of the Group in 2012 and 2013:

<i>(RMB millions)</i>	For the year ended 31 December	
	2013	2012 (restated)
Net cash flow from operating activities	88,351	70,722
Net cash used in investing activities	(107,948)	(48,295)
Net cash from/(used in) financing activities	5,637	(19,802)
Net (decrease)/increase in cash and cash equivalents	(13,960)	2,625

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

In 2013, the net cash inflow from operating activities was RMB88,351 million, an increase of RMB17,629 million from RMB70,722 million in 2012. The increase was mainly due to the increase in operating revenues and that no CDMA network capacity lease fee was payable after the acquisition of mobile network assets.

In 2013, the net cash outflow used in investing activities was RMB107,948 million, an increase of RMB59,653 million from RMB48,295 million in 2012, mainly resulting from an increase in capital expenditures compared to 2012 and the payment of part of the consideration for the acquisition of mobile network assets.

In 2013, the net cash inflow from financing activities was RMB5,637 million. In 2012, the net cash outflow used in financing activities was RMB19,802 million. The reason of the fluctuation was mainly due to the increase in short-term loans.

Working Capital

The Group consistently upheld prudent financial principles and strict fund management policies. At the end of 2013, the Group's working capital (total current assets minus total current liabilities) deficit

was RMB147,315 million, an increase in deficit of RMB19,080 million from RMB128,235 million in 2012. The increase in deficit was mainly because medium-term notes amounting to RMB20,000 million will become mature in 2014, thus reclassified from non-current liabilities to current liabilities. As at 31 December 2013, the Group's unutilised credit facilities was RMB157,694 million (2012: RMB163,130 million). At the end of 2013, the Group's cash and cash equivalents amounted to RMB16,070 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 94.3% (2012: 97.2%).

Assets and Liabilities

In 2013, the Group continued to maintain a solid financial position. By the end of 2013, the total assets of the Group decreased to RMB543,239 million from RMB545,291 million at the end of 2012, while total indebtedness increased to RMB110,377 million from RMB99,808 million in 2012. The ratio of the Group's total indebtedness to total assets increased to 20.3% at the end of 2013 from 18.3% at the end of 2012, mainly resulting from the increase in short-term loans.