

CHINA TELECOM CORP LTD  
Form 6-K  
September 09, 2011

# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

## **FORM 6-K**

**Report of Foreign Private Issuer**

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

**For the Month of September 2011**

**Commission File Number 1-31517**

## **China Telecom Corporation Limited**

**(Translation of registrant's name into English)**

**31 Jinrong Street, Xicheng District**

**Beijing 100033, China**

**(Address of principal executive offices)**

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

Form 20-F  Form 40-F

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

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

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

Yes  No

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

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**EXHIBITS**

| <b>Exhibit<br/>Number</b> |   | <b>Page<br/>Number</b> |
|---------------------------|---|------------------------|
| 1.1                       | 2011 Interim Report, dated August 23, 2011.<br>FORWARD-LOOKING STATEMENTS | A-1                    |

Certain statements contained in this Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

our business and operating strategies and our ability to successfully execute these strategies;

our network expansion and capital expenditure plans;

our operations and business prospects;

the expected benefit of any acquisitions or other strategic transactions;

our financial condition and results of operations;

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

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

the industry regulatory environment as well as the industry outlook generally; and

future developments in the telecommunications industry in the People's Republic of China, or the PRC.

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

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

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;

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

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

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

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

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

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

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

**SIGNATURES**

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

CHINA TELECOM CORPORATION LIMITED

Date: September 9, 2011

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

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China Telecom Corporation Limited | Interim Report 2011

**Financial Highlights****Excluding amortisation of the upfront connection fees**

|   | Six-month periods<br>ended 30 June |         | Rates of change |
|---|------------------------------------|---------|-----------------|
|   | 2010                               | 2011    |                 |
| Operating revenues ( <i>RMB millions</i> )          | 107,552                            | 120,110 | 11.7%           |
| EBITDA <sup>1</sup> ( <i>RMB millions</i> )         | 45,759                             | 48,501  | 6.0%            |
| EBITDA margin                                       | 42.5%                              | 40.4%   | (2.1pp)         |
| Net profit <sup>2</sup> ( <i>RMB millions</i> )     | 8,811                              | 9,710   | 10.2%           |
| Basic earnings per share ( <i>RMB</i> )             | 0.11                               | 0.12    | 10.2%           |
| Capital expenditure ( <i>RMB millions</i> )         | 17,918                             | 20,967  | 17.0%           |
| Free cash flow <sup>3</sup> ( <i>RMB millions</i> ) | 18,591                             | 15,458  | (16.9%)         |

**Including amortisation of the upfront connection fees**

|   | Six-month periods<br>ended 30 June |         |
|---|------------------------------------|---------|
|   | 2010                               | 2011    |
| Operating revenues ( <i>RMB millions</i> )      | 107,817                            | 120,208 |
| EBITDA <sup>1</sup> ( <i>RMB millions</i> )     | 46,024                             | 48,599  |
| EBITDA margin                                   | 42.7%                              | 40.4%   |
| Net profit <sup>2</sup> ( <i>RMB millions</i> ) | 9,076                              | 9,808   |

**Operating Revenues** (RMB millions)**EBITDA<sup>1</sup>** (RMB millions)**Net Profit<sup>2</sup>** (RMB millions)**Free Cash Flow<sup>3</sup>** (RMB millions)

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

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

3 Free cash flow is calculated from EBITDA (excluding amortisation of upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.

China Telecom Corporation Limited | Interim Report 2011

### **Chairman's Statement**

In the first half of 2011, we captured the valuable opportunities arising from the accelerated development of social and economic informatisation to deepen strategic transformation, amidst the rapid technological advancement in mobile Internet. We proactively implement our strategic positioning as a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development, adhering to integrated differentiated operation. Riding on mobile, broadband and industry applications as a breakthrough to promote scale development of full services operation, the business structure was further optimised and new development mode of innovation, centralised efficient operation, precision management and value enhancement was accomplished. The full services operation of the Company embarked on a healthy trajectory for sustainable growth.

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**Chairman's Statement (Continued)****Operating results**

In the first half of 2011, the Company's operation has progressed as planned. The operating revenues amounted to RMB120,208 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB120,110 million, an increase of 11.7% from the same period of last year. EBITDA<sup>1,2</sup> was RMB48,501 million, an increase of 6.0% from the same period of last year while the EBITDA margin was 40.4%. The profit attributable to equity holders of the Company was RMB9,710 million, a growth of 10.2% from the same period of last year, demonstrating concurrent achievements in scale development of subscribers and remarkable enhancement in profitability. Basic earnings per share were RMB0.12. Capital expenditure for the period was RMB20,967 million while free cash flow<sup>3</sup> reached RMB15,458 million.

Taking into consideration the Company's business development needs and its capital requirement for the planned acquisition of mobile network assets from the parent company in 2012, the Board of Directors has decided not to pay any interim dividends in order to maintain adequate funding flexibility. The Board of Directors will proactively consider the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

**Deepening transformation to facilitate scale development of full services operation**

In the first half of this year, the Company thoroughly explored the pattern and development path of full services operation. The Company deepened integrated offering and innovative development modes. New products and capabilities were nurtured, facilitating growth businesses in promoting full services operation and remarkable breakthrough in scale development.

**3G driving rapid growth of mobile services**

In the first half of 2011, mobile Internet applications became increasingly proliferating and gradually formed an integral part of mobile information consumption in society, with increasing tendency to use 3G services by the subscribers. Benefitting from the successful execution of terminal strategy, the consumption threshold of 3G terminals has significantly decreased, yielding rapid scale development of the mobile services of the Company. The number of mobile subscribers increased by 17.85 million in the first half of the year, reaching a total number of 108 million and successfully exceeding 100 million subscribers. The Company becomes the world's largest CDMA mobile network operator where 19.9% of the mobile subscribers were 3G subscribers, which is above the industry average level. Mobile service revenue increased by 36.8% over the same period of last year, reaching RMB31,139 million, and further rising to 25.9% as a percentage of operating revenue.

In the first half of the year, we have achieved a critical breakthrough in 3G smartphones. There are over 100 3G smartphone models available for sale, and the sales of 3G smartphones priced around RMB1,000 outperformed our peers with remarkable enhancement in price-performance factors. We closely followed the market momentum of mobile Internet services, leveraging the convergence of wireline and mobile services and riding on smartphone handset terminals. Through implementing the strategy of "selling handset first, matching by service package", we reinforced the sales and marketing to enhance customers' experience and vigorously promoted the transformation of self-operated sales outlets to handset specialty stores like electronic appliances stores. With the optimisation in commission and incentive policies for open channels, we effectively activated open channels and significantly increased their share of terminal sales and subscriber acquisition, which became an important channel in developing public customers. We persisted in high value data traffic operation strategy and actively promoted popular applications. In the first half of the year the monthly compound growth rate of 3G handset Internet traffic exceeded 12%. Through expansion in the depth and comprehensiveness of Wi-Fi coverage in hotspots areas and offloading mobile data traffic through Wi-Fi, we effectively enhanced the customers' mobile broadband experience.

*1 For the convenience of investors' analysis, EBITDA was calculated before CDMA network capacity lease fee.*

*2 Including the amortisation of upfront connection fees, EBITDA was RMB48,599 million, profit attributable to equity holders of the Company was RMB9,808 million, and basic earnings per share were RMB0.12.*

*3 Free cash flow was calculated from EBITDA (excluding amortisation of the upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.*

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## **Chairman's Statement**

### **Upgrading broadband bandwidth to promote scale development**

As a key high-speed carrier for information services, the data access speed and penetration rate of broadband services become vital benchmarks of national informatisation. The Company duly launched the "Broadband China, Fibre Cities" project and further optimised the measures in sales and marketing as well as services. In the first half of the year, the net addition of wireline broadband subscribers was 6.61 million, reaching a total number of 70.09 million. Revenue from wireline broadband services increased by 13.1% from the same period last year, reaching a total of RMB29,755 million, further rising to 24.8% as a percentage of the operating revenue.

In the first half of this year, we deepened unified customer account operation, primarily accomplishing unified authentication for broadband account, mobile account and self-operated content and application account to further improve customers' experience. We adopted initiatives to upgrade the broadband service and handle customers' complaints via multi-channels. Back-end workflow was optimised to shorten the response time to customer enquiries. Self-determined integrated service packages were offered to enrich customers' choice and to enhance customers' satisfaction. With acceleration in bandwidth upgrade, all cities in service areas basically had 8Mbps broadband access capability and the bandwidth capability with 20Mbps reached coverage of 65%. The bandwidth of our IP-based backbone core network has upgraded to 26 Tbps. Our competitive edges were further reinforced, which not only facilitated the growth of subscribers but also laid down a solid foundation for future competitiveness.

### **Riding on competitive edges of government and enterprise customers to boost industry informatisation applications**

Following the further deepening of scientific development mindset and implementation by the nation, the market of industry informatisation application becomes a rich gold mine. Leveraging our integrated strengths in ICT and mobile network and as a result of our accelerated expansion, in the first half of the year, revenue from value-added and integrated information service reached RMB22,359 million, an increase of 24.2% over the same period of last year.

In the first half of this year, we continued to expedite the scale replication and promotion of mature industry informatisation applications servicing Government supervision and enforcement, the finance industry, corporate clients and clustered small to medium-sized enterprises. For the government and enterprise market, we focused on addressing customers' key requirements on a segmental basis and offered targeted customised solutions, with synergic integration of fundamental services such as mobile and broadband services into industry applications to promote scale development of fundamental services. For the clustered small to medium-sized enterprises market, we vigorously boosted popular products such as "busy-shop assistant" and "e-Surfing RFID", and transformed the development approach leveraging open channel. Meanwhile, we proactively explored and developed the "Cloud Service" market and centrally built a nationwide "cloud resources management platform" to promote "Cloud Computing" for industry applications and to continuously enhance the capability of providing industry informatisation solutions.

### **Alleviating operational risk of wireline voice**

In the first half of this year, the total number of wireline access lines in service was 172 million, a net decline of 2.83 million. Revenue from wireline voice amounted to RMB26,462 million, accounting for 22.0% of the total revenue. The decline was further mitigated. The number of PAS subscribers continued to decline noticeably and the revenue contribution of PAS to total operating revenue decreased to below 1%. The business risk has primarily been alleviated.

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**Chairman's Statement (Continued)**

## **Planning ahead and fully preparing for the future**

From the overall perspective of the development in global communications industry, the multi-dimensional, multi-crossing, comprehensive restructuring and convergence of key industry players has become an inevitable trend, whereas the player with competitive edges in mobile Internet will be the future leader. As a telecom operator, we leverage our competitive strengths in network and customer base to tackle the dynamic challenges, emphasizing on adaptation to achieve excellence. We proactively execute our strategic positioning as a leader of the intelligent pipeline, a provider of an integrated platform and a participant in content and application development. To meet the dynamic needs of the market, we target to execute a progressive plan in the next three to five years to fully utilise the network strengths of full services operator in developing an intelligent pipeline enabled with customer identification and business awareness, a highly integrated, fully functional, open and fair integrated capability platform and self-operated core applications products. Through extensive collaboration with value chain participants, we also endeavour to support the deployment and operation of content and applications of the collaborative participants, persistently providing enriched communication information experience to our customers and promoting a healthy and vigorous value chain.

### **Leader of the Intelligent Pipeline**

Our intelligent pipeline will feature high-speed bandwidth, convergent wireline and mobile network, users' freedom to participate in network deployment and management, and multi-level quality of service levels for different subscribers and services. This year, we strengthened our access network construction that utilised the passive optical network (PON) technology and achieved comprehensive bandwidth upgrade for our core network and access network. We continued to optimise our 3G network coverage and continued to enhance our network quality to maintain our leading position amongst the peers. We consolidated our carrier-class Wi-Fi network and strengthened its coordinated traffic offloading from the 3G network. Technologies such as Deep Packet Inspection (DPI) have been deployed to reinforce the identification capability of the mobile network on customers and services, and to implement the precise mobile traffic management.

### **Provider of Integrated Platform**

Our integrated platform will be a highly-integrated service carrying platform of open capability to serve various businesses & customers with comprehensive and multifunctional capabilities. Through advancement and opening up of the basic operational capabilities of the platform, we will be able to gather more developers to attract more high-value traffic. From the beginning of the first half of this year, we started to consolidate our existing application platforms and progressively implemented centralised efficient operation, aiming at sharing of subscribers information and resources capability across the Group. We progressively built and provided to our partners various enabling capabilities such as unified authentication, electronic payment and mobile positioning. We vigorously leveraged Cloud Computing technology, set up cloud resources pools and meanwhile commenced to establish a nationwide centralised management and service platform for cloud resources. Leveraging the resources and capabilities of the existing platforms, we have already introduced various outstanding third-party content and applications such as QQ, weibo and the UC Browser to enhance the value of data traffic. In June this year, we took initiatives to form the Open Mobile Internet Alliance with Internet companies and manufacturers of mobile terminals to jointly strengthen cooperation and build up a win-win industry value chain.

### **Participant in content and application development**

In developing content and applications, we adhere to the principles of competitiveness and quality. Leveraging our own resources, we selectively develop self-operated converging content, applications and enabling features including payment and positioning. Through innovative mechanism and system as well as market-oriented operation and development models, we aim to pave the way to future revenue growth. In the first half of the year, the Company has set up the Business Innovation Department to strengthen the centralised efficient operation of innovative products, especially to realise the consolidated sales and marketing of self-operated products of our eight product centres and accelerate the scale promotion of content and applications. We continuously enhanced the penetration and popularity of the products of the product centres to accomplish the preliminary scale development. As a result, products such as 189 mailbox, e-Surfing LIVE, and eStore have achieved initial scale development and the number of subscribers reached 36.78 million, 28.35 million and 27.30 million respectively. Meanwhile, the Company has also accelerated the expansion of mobile payment service and the total value of transactions conducted through BestPay has reached RMB8,600 million in the first half of this year.



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## Chairman's Statement

### Social responsibility and corporate governance

As a sizeable integrated telecom operator, China Telecom fully understands its vital role in social responsibility. In recent years, we have been investing to enhance the information superhighway and to maintain the healthiness of the information on the Internet, promoting technological innovation and fostering the prosperity of industry value chain. Through continuous improvement in operation and services, we offered excellent integrated information services for individuals, households and enterprises customers, endeavouring to enhance customers' value. We actively took initiatives to fulfill environmental responsibility through promoting lower emissions and green operation with a view to building a green integrated information service provider. As a responsible corporate citizen, we actively participated in charitable activities aiming at alleviation of poverty and other welfare and donation projects to fulfill our community responsibility.

We continue to strive to maintain a high level of corporate governance and corporate transparency to ensure the healthy development of the Company and enhance corporate value. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We have been accredited with a number of awards and appreciation in the first half of this year, including the Overall Best Managed Company in Asia and Best Telecom Company in Asia by *FinanceAsia*, No. 1 Best Managed Company in Asia by *Euromoney*, being the first company receiving such an honour for two consecutive years; and Asia's Best Companies in Corporate Governance and The Best Corporate Social Responsibility in China by *Corporate Governance Asia*.

### Outlook

At present, the scale development of the Company is now facing valuable opportunities. 3G service is expanding rapidly and broadband service is undergoing fast growth development amidst strong demand for informatisation services from government and enterprises. The intensified market competition and the industry convergence in the mobile Internet era are bringing new challenges. In the second half of the year, we will persist in deepening strategic transformation, insisting on differentiated strategy and accelerating the scale development. As for the fundamental services, we will expand the government and enterprise markets through promotion of industry applications, develop the public customers leveraging integrated service offering, and expand mobile market riding on 3G services. We shall also attend to the cluster market and strengthen rural market development. As for the innovative services, we will persist in data traffic operation with overall collaboration and centralised efficient operation to drive expansion in mobile Internet services. As for government and enterprises customers, we will endeavour to expand the Cloud service market. We shall further optimise our distribution channel strategies to promote both self-operated outlets and open channels, while also further developing new mobile Internet sales channels. We shall insist on diversified development of mobile terminals and facilitate the continual prosperity of the industry value chain.

Looking forward, we are fully confident and will advocate innovation and transformation, win-win cooperation, pragmatism and strong execution with a view to achieving a new breakthrough in scale development and create more value for shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express my sincere thanks to Mr Shang Bing for his valuable contribution during his tenure of office as an Executive Director of the Company.

Wang Xiaochu

*Chairman and Chief Executive Officer*

Beijing, China

23 August 2011

**Independent Review Report of the International**

To the Board of Directors of

China Telecom Corporation Limited

**Introduction**

We have reviewed the interim financial statements set out on pages 8 to 28 which comprise the consolidated statement of financial position of China Telecom Corporation Limited as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period ended 30 June 2011 and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial statements in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at and for the six-month period ended 30 June 2011 are not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

*Certified Public Accountants*

8th Floor, Prince s Building

10 Chater Road

Central, Hong Kong

23 August 2011

China Telecom Corporation Limited | Interim Report 2011

**Consolidated Statement of Financial Position**

at 30 June 2011 (Amounts in millions)

|  |             | 30 June | 31 December |
|--|-------------|---------|-------------|
|  |             | 2011    | 2010        |
|  | <i>Note</i> | RMB     | RMB         |
| <b>ASSETS</b>  |             |         |             |
| Non-current assets                                     |             |         |             |
| Property, plant and equipment, net                     |             | 262,563 | 275,248     |
| Construction in progress                               |             | 23,374  | 14,445      |
| Lease prepayments                                      |             | 5,305   | 5,377       |
| Goodwill   |             | 29,919  | 29,920      |
| Intangible assets                                      |             | 8,460   | 9,968       |
| Interests in associates                                |             | 1,178   | 1,123       |
| Investments  |             | 723     | 854         |
| Deferred tax assets                                    | 8           | 9,845   | 10,779      |
| Other assets   |             | 3,967   | 4,396       |
| Total non-current assets                               |             | 345,334 | 352,110     |
| Current assets   |             |         |             |
| Inventories  |             | 3,723   | 3,170       |
| Income tax recoverable                                 |             | 2,461   | 1,882       |
| Accounts receivable, net                               | 4           | 20,383  | 17,328      |
| Prepayments and other current assets                   |             | 5,222   | 5,073       |
| Time deposits with original maturity over three months |             | 3,321   | 1,968       |
| Cash and cash equivalents                              | 5           | 25,911  | 25,824      |
| Total current assets                                   |             | 61,021  | 55,245      |
| Total assets   |             | 406,355 | 407,355     |

The notes on pages 14 to 28 form part of these interim financial statements.

**Consolidated Statement of Financial Position (Unaudited)**

at 30 June 2011 (Amounts in millions)

|   | <i>Note</i> | 30 June<br>2011<br>RMB | 31 December<br>2010<br>RMB |
|---|-------------|------------------------|----------------------------|
| <b>LIABILITIES AND EQUITY</b>                                     |             |                        |                            |
| Current liabilities   |             |                        |                            |
| Short-term debt   | 6           | 16,098                 | 20,675                     |
| Current portion of long-term debt                                 | 6           | 1,361                  | 10,352                     |
| Accounts payable  | 7           | 44,444                 | 40,039                     |
| Accrued expenses and other payables                               |             | 58,992                 | 52,885                     |
| Income tax payable  |             | 688                    | 327                        |
| Current portion of deferred revenues                              |             | 2,181                  | 2,645                      |
| <b>Total current liabilities</b>                                  |             | <b>123,764</b>         | <b>126,923</b>             |
| Net current liabilities   |             | (62,743)               | (71,678)                   |
| <b>Total assets less current liabilities</b>                      |             | <b>282,591</b>         | <b>280,432</b>             |
| Non-current liabilities   |             |                        |                            |
| Long-term debt  | 6           | 41,304                 | 42,549                     |
| Deferred revenues   |             | 3,252                  | 3,558                      |
| Deferred tax liabilities  | 8           | 2,152                  | 2,361                      |
| <b>Total non-current liabilities</b>                              |             | <b>46,708</b>          | <b>48,468</b>              |
| <b>Total liabilities</b>  |             | <b>170,472</b>         | <b>175,391</b>             |
| Equity  |             |                        |                            |
| Share capital   |             | 80,932                 | 80,932                     |
| Reserves  |             | 154,447                | 150,536                    |
| <b>Total equity attributable to equity holders of the Company</b> |             | <b>235,379</b>         | <b>231,468</b>             |
| Non-controlling interests   |             | 504                    | 496                        |
| <b>Total equity</b>   |             | <b>235,883</b>         | <b>231,964</b>             |
| <b>Total liabilities and equity</b>                               |             | <b>406,355</b>         | <b>407,355</b>             |

The notes on pages 14 to 28 form part of these interim financial statements.



China Telecom Corporation Limited | Interim Report 2011

**Consolidated Statement of Comprehensive Income**

for the six-month period ended 30 June 2011 (Amounts in millions, except per share data)

|   | Note | Six-month periods ended 30 June |             |
|---|------|---------------------------------|-------------|
|   |      | 2011<br>RMB                     | 2010<br>RMB |
| Operating revenues  | 9    | 120,208                         | 107,817     |
| Operating expenses  |      |                                 |             |
| Depreciation and amortisation   |      | (25,412)                        | (25,839)    |
| Network operations and support  |      | (25,490)                        | (22,812)    |
| Selling, general and administrative   |      | (22,205)                        | (19,752)    |
| Personnel expenses  | 10   | (19,237)                        | (17,196)    |
| Other operating expenses  | 11   | (13,373)                        | (8,398)     |
| Total operating expenses  |      | (105,717)                       | (93,997)    |
| Operating profit  |      | 14,491                          | 13,820      |
| Net finance costs   | 12   | (1,309)                         | (1,855)     |
| Investment income   |      | 4                               | 9           |
| Share of profits from associates  |      | 43                              | 28          |
| Profit before taxation  |      | 13,229                          | 12,002      |
| Income tax  | 13   | (3,380)                         | (2,885)     |
| Profit for the period   |      | 9,849                           | 9,117       |
| Other comprehensive income for the period:  |      |                                 |             |
| Change in fair value of available-for-sale equity securities                                      |      | (130)                           | (115)       |
| Deferred tax on change in fair value of available-for-sale equity securities                      |      | 32                              | 27          |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China |      | (35)                            | 13          |
| Share of other comprehensive income from associates   |      | (1)                             | 5           |
| Other comprehensive income for the period, net of tax   |      | (134)                           | (70)        |
| Total comprehensive income for the period   |      | 9,715                           | 9,047       |
| Profit attributable to:   |      |                                 |             |
| Equity holders of the Company   |      | 9,808                           | 9,076       |
| Non-controlling interests   |      | 41                              | 41          |
| Profit for the period   |      | 9,849                           | 9,117       |
| Total comprehensive income attributable to:   |      |                                 |             |
| Equity holders of the Company   |      | 9,674                           | 9,015       |
| Non-controlling interests   |      | 41                              | 32          |

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|   |    |        |        |
|---|----|--------|--------|
| Total comprehensive income for the period       |    | 9,715  | 9,047  |
| Basic earnings per share                        | 15 | 0.12   | 0.11   |
| Weighted average number of shares (in millions) | 15 | 80,932 | 80,932 |

The notes on pages 14 to 28 form part of these interim financial statements.

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**Consolidated Statement of Changes in Equity**

for the six-month period ended 30 June 2011 (Amounts in millions)

|  | Note | Attributable to equity holders of the Company |                           |                         |                                    |                              |                          |                             | Retained earnings<br>RMB | Total<br>RMB | Non-<br>controlling<br>interests<br>RMB | Total<br>equity<br>RMB |
|--|------|---|---------------------------|-------------------------|------------------------------------|------------------------------|--------------------------|-----------------------------|--------------------------|--------------|---|------------------------|
|  |      | Share<br>capital<br>RMB                       | Capital<br>reserve<br>RMB | Share<br>premium<br>RMB | Re-<br>valuation<br>reserve<br>RMB | Statutory<br>reserves<br>RMB | Other<br>reserves<br>RMB | Exchange<br>reserves<br>RMB |                          |              |   |                        |
| Balance as at<br>1 January 2010  |      | 80,932  | (2,804)                   | 10,746                  | 10,863                             | 60,606                       | 2,907                    | (667)                       | 59,149                   | 221,732      | 881                                     | 222,613                |
| Profit for the<br>period   |      |   |                           |                         |                                    |                              |                          |                             | 9,076                    | 9,076        | 41                                      | 9,117                  |
| Other<br>comprehensive<br>income   |      |   |                           |                         |                                    |                              | (74)                     | 13                          |                          | (61)         | (9)                                     | (70)                   |
| Total<br>comprehensive<br>income   |      |   |                           |                         |                                    |                              | (74)                     | 13                          | 9,076                    | 9,015        | 32                                      | 9,047                  |
| Deferred tax on<br>revaluation<br>surplus of<br>property, plant<br>and equipment<br>realised |      |   |                           |                         |                                    |                              | 57                       |                             | (57)                     |              |   |                        |
| Revaluation<br>surplus realised  |      |   |                           |                         | (255)                              |                              |                          |                             | 255                      |              |   |                        |
| Deferred tax on<br>land use rights<br>realised   |      |   |                           |                         |                                    |                              | (65)                     |                             | 65                       |              |   |                        |
| Distributions to<br>non-controlling<br>interests   |      |   |                           |                         |                                    |                              |                          |                             |                          |              | (65)                                    | (65)                   |
| Dividends  | 14   |   |                           |                         |                                    |                              |                          |                             | (6,031)                  | (6,031)      |   | (6,031)                |
| Balance as at<br>30 June 2010  |      | 80,932  | (2,804)                   | 10,746                  | 10,608                             | 60,606                       | 2,825                    | (654)                       | 62,457                   | 224,716      | 848                                     | 225,564                |
| Balance as at<br>1 January 2011  |      | 80,932  | (2,804)                   | 10,746                  | 10,339                             | 62,634                       | 2,913                    | (715)                       | 67,423                   | 231,468      | 496                                     | 231,964                |
| Profit for the<br>period   |      |   |                           |                         |                                    |                              |                          |                             | 9,808                    | 9,808        | 41                                      | 9,849                  |
| Other<br>comprehensive<br>income   |      |   |                           |                         |                                    |                              | (99)                     | (35)                        |                          | (134)        |   | (134)                  |
| Total<br>comprehensive<br>income   |      |   |                           |                         |                                    |                              | (99)                     | (35)                        | 9,808                    | 9,674        | 41                                      | 9,715                  |

|   |        |         |        |        |        |       |       |         |         |      |  |         |
|---|--------|---------|--------|--------|--------|-------|-------|---------|---------|------|--|---------|
| Deferred tax on revaluation surplus of property, plant and equipment realised |        |         |        |        |        | 63    |       | (63)    |         |      |  |         |
| Revaluation surplus realised  |        |         |        | (247)  |        |       |       | 247     |         |      |  |         |
| Deferred tax on land use rights realised                                      |        |         |        |        |        | (70)  |       | 70      |         |      |  |         |
| Distributions to non-controlling interests                                    |        |         |        |        |        |       |       |         |         | (26) |  | (26)    |
| Disposal of a subsidiary  |        |         |        |        |        |       |       |         |         | (7)  |  | (7)     |
| Dividends   | 14     |         |        |        |        |       |       | (5,763) | (5,763) |      |  | (5,763) |
| Balance as at 30 June 2011  | 80,932 | (2,804) | 10,746 | 10,092 | 62,634 | 2,807 | (750) | 71,722  | 235,379 | 504  |  | 235,883 |

The notes on pages 14 to 28 form part of these interim financial statements.

China Telecom Corporation Limited | Interim Report 2011  
**Consolidated Statement of Cash Flows**

for the six-month period ended 30 June 2011 (Amounts in millions)

|  | Note | Six-month periods ended 30 June |             |
|--|------|---------------------------------|-------------|
|  |      | 2011<br>RMB                     | 2010<br>RMB |
| Net cash from operating activities   | (a)  | 41,814                          | 39,091      |
| Cash flows from/(used in) investing activities   |      |                                 |             |
| Capital expenditure  |      | (20,433)                        | (17,518)    |
| Purchase of investments  |      | (5)                             |             |
| Lease prepayments  |      | (10)                            | (13)        |
| Proceeds from disposal of property, plant and equipment  |      | 1,090                           | 143         |
| Proceeds from disposal of investments  |      |                                 | 7           |
| Proceeds from return of investments  |      | 10                              |             |
| Proceeds from disposal of lease prepayments  |      | 50                              | 85          |
| Purchase of time deposits with original maturity over three months                             |      | (3,321)                         | (1,259)     |
| Maturity of time deposits with original maturity over three months                             |      | 1,968                           | 442         |
| Payment for the purchase price of the acquisition of CDMA business                             |      |                                 | (5,374)     |
| Net cash used in investing activities  |      | (20,651)                        | (23,487)    |
| Cash flows from/(used in) financing activities   |      |                                 |             |
| Proceeds from bank and other loans   |      | 14,464                          | 43,390      |
| Repayments of bank and other loans   |      | (29,309)                        | (61,336)    |
| Payment of dividends   |      | (6,174)                         | (5,608)     |
| Distribution to China Telecommunications Corporation in connection with the Fourth Acquisition |      |                                 | (534)       |
| Net cash distributions to non-controlling interests  | (b)  | (23)                            | (8)         |
| Net cash used in financing activities  |      | (21,042)                        | (24,096)    |
| Net increase/(decrease) in cash and cash equivalents   |      | 121                             | (8,492)     |
| Cash and cash equivalents at 1 January   |      | 25,824                          | 34,804      |
| Effect of changes in foreign exchange rate   |      | (34)                            | 13          |
| Cash and cash equivalents at 30 June   |      | 25,911                          | 26,325      |

The notes on pages 14 to 28 form part of these interim financial statements.

**Consolidated Statement of Cash Flows (Unaudited)**

for the six-month period ended 30 June 2011 (Amounts in millions)

## (a) Reconciliation of profit before taxation to net cash from operating activities

|   | Six-month periods ended 30 June |               |
|---|---------------------------------|---------------|
|   | 2011<br>RMB                     | 2010<br>RMB   |
| Profit before taxation                                    | 13,229                          | 12,002        |
| Adjustments for:  |                                 |               |
| Depreciation and amortisation                             | 25,412                          | 25,839        |
| Impairment losses for doubtful debts                      | 808                             | 940           |
| Impairment losses for intangible assets                   | 8                               |               |
| Write down of inventories                                 | 56                              | 19            |
| Investment income   | (4)                             | (9)           |
| Share of profits from associates                          | (43)                            | (28)          |
| Interest income   | (179)                           | (139)         |
| Interest expense  | 1,469                           | 2,035         |
| Unrealised foreign exchange loss/(gain)                   | 19                              | (41)          |
| (Gain)/loss on disposal of property, plant and equipment  | (163)                           | 919           |
| <b>Operating profit before changes in working capital</b> | <b>40,612</b>                   | <b>41,537</b> |
| Increase in accounts receivable                           | (3,895)                         | (3,208)       |
| (Increase)/decrease in inventories                        | (609)                           | 38            |
| Increase in prepayments and other current assets          | (172)                           | (297)         |
| Decrease in other assets                                  | 429                             | 532           |
| Increase in accounts payable                              | 3,988                           | 1,608         |
| Increase in accrued expenses and other payables           | 5,879                           | 3,979         |
| Decrease in deferred revenues                             | (770)                           | (1,201)       |
| <b>Cash generated from operations</b>                     | <b>45,462</b>                   | <b>42,988</b> |
| Interest received   | 182                             | 149           |
| Interest paid   | (1,000)                         | (1,502)       |
| Investment income received                                | 11                              |               |
| Income tax paid   | (2,841)                         | (2,544)       |
| <b>Net cash from operating activities</b>                 | <b>41,814</b>                   | <b>39,091</b> |

(b) The Fourth Acquisition represents the acquisition of the entire equity interests in China Telecom Group Beijing Corporation by the Company on 30 June 2008.

The notes on pages 14 to 28 form part of these interim financial statements.

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**Notes to the Unaudited Interim Financial**

for the six-month period ended 30 June 2011

**1. Principal activities**

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

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

**2. Basis of preparation**

These interim financial statements have been prepared in accordance with International Accounting Standard 34, (IAS

34) Interim Financial Reporting issued by the International Accounting Standards Board and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements, which were authorised for issuance by the Board of Directors on 23 August 2011, reflect the unaudited financial position of the Group as at 30 June 2011 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2011.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the adoption of IAS 24 (revised), Related Party Disclosures which has resulted in a change in the disclosures of the financial statements. The disclosures for the related party transactions with government-related entities were modified.

The preparation of interim financial statements in conformity with IAS 34, Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).

**Notes to the Unaudited Interim Financial Statements****(Continued)****2. Basis of preparation (continued)**

These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. These interim financial statements have also been reviewed by the Company's international auditor in accordance with Hong Kong Standards on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2010 that is included in these interim financial statements as being previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2010 are available from the Company's registered office. The Company's international auditor has expressed an unqualified opinion on those financial statements in their report dated 22 March 2011.

**3. Segmental reporting**

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker in order to allocate resources and assess performance of the segment. For the periods presented, management has determined that the Group has no operating segments as the Group is only engaged in an integrated telecommunications business. The location of the Group's assets and operating revenues derived from activities outside mainland China are less than 1% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amounts are immaterial.

**4. Accounts receivable, net**

Accounts receivable, net, are analysed as follows:

|   | <i>Note</i> | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB millions |
|---|-------------|---------------------------------|-------------------------------------|
| Third parties                                 |             | 21,112                          | 17,466                              |
| China Telecom Group                           | <i>(i)</i>  | 1,302                           | 1,182                               |
| Other telecommunications operators in the PRC |             | 762                             | 704                                 |
|   |             | 23,176                          | 19,352                              |
| Less: Allowance for doubtful debts            |             | (2,793)                         | (2,024)                             |
|   |             | 20,383                          | 17,328                              |

*Note:*

*(i) China Telecommunications Corporation together with its subsidiaries other than the Group are referred to as China Telecom Group. Amounts due from the provision of telecommunications services to customers are generally due within 30 days from the date of billing.*





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**Notes to the Unaudited Interim Financial Statements****(Continued)****4. Accounts receivable, net (continued)**

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

|                                    | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB<br>millions |
|------------------------------------|---------------------------------|--|
| Current, within 1 month            | 11,711                          | 10,769                                 |
| 1 to 3 months                      | 2,569                           | 2,049                                  |
| 4 to 12 months                     | 1,617                           | 1,384                                  |
| More than 12 months                | 1,089                           | 495                                    |
|                                    | 16,986                          | 14,697                                 |
| Less: Allowance for doubtful debts | (2,620)                         | (1,831)                                |
|                                    | 14,366                          | 12,866                                 |

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

|                                    | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB<br>millions |
|------------------------------------|---------------------------------|--|
| Current, within 1 month            | 2,350                           | 1,844                                  |
| 1 to 3 months                      | 1,563                           | 1,161                                  |
| 4 to 12 months                     | 1,547                           | 998                                    |
| More than 12 months                | 730                             | 652                                    |
|                                    | 6,190                           | 4,655                                  |
| Less: Allowance for doubtful debts | (173)                           | (193)                                  |
|                                    | 6,017                           | 4,462                                  |

**5. Cash and cash equivalents**

| 30 June<br>2011 | 31 December<br>2010 |
|-----------------|---------------------|
|-----------------|---------------------|

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|  | RMB millions | RMB millions |
|--|--------------|--------------|
| Cash at bank and in hand                                 | 24,344       | 24,071       |
| Time deposits with original maturity within three months | 1,567        | 1,753        |
|  | 25,911       | 25,824       |

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## Notes to the Unaudited Interim Financial Statements

(Continued)

### 6. Short-term and long-term debt

Short-term debt comprises:

|  | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB millions |
|--|---------------------------------|-------------------------------------|
| Loans from banks unsecured               | 9,371                           | 11,578                              |
| Other loans unsecured                    | 80                              | 80                                  |
| Loans from China Telecom Group unsecured | 6,647                           | 9,017                               |
| Total short-term debt                    | 16,098                          | 20,675                              |

The weighted average interest rate of the Group's total short-term debt as at 30 June 2011 is 5.0% (31 December 2010: 4.3%). As at 30 June 2011, the loans from banks and other loans bear interest at rates ranging from 4.4% to 6.3% (31 December 2010: 3.5% to 5.8%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at rates ranging from 4.3% to 4.7% (31 December 2010: 3.9%) per annum and are repayable within one year.

Long-term debt comprises:

|                             | Note | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB<br>millions |
|-----------------------------|------|---------------------------------|--|
| Loans from banks unsecured  | (i)  | 2,785                           | 3,054                                  |
| Other loans unsecured       | (i)  | 1                               | 1                                      |
| Medium-term notes unsecured | (ii) | 39,879                          | 49,846                                 |
| Total long-term debt        |      | 42,665                          | 52,901                                 |
| Less: current portion       |      | (1,361)                         | (10,352)                               |
| Non-current portion         |      | 41,304                          | 42,549                                 |

Note:

- (i) The loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2010: 1.00% to 8.30%) per annum with maturity through 2060.
- (ii) On 22 April 2008, the Company issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 5.30% per annum. The medium-term note was repaid by the Company on 23 April 2011.

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*On 23 October 2008, the Company issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum.*

*On 16 November 2009, the Company issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 3.65% per annum.*

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

*All of the above medium-term notes are unsecured.*

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**Notes to the Unaudited Interim Financial Statements****(Continued)****6. Short-term and long-term debt (continued)**

The Group's short-term and long-term debts do not contain any financial covenants. As at 30 June 2011, the Group has unutilised committed credit facilities amounting to RMB126,085 million (31 December 2010: RMB98,576 million).

**7. Accounts payable**

Accounts payable are analysed as follows:

|   | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB millions |
|---|---------------------------------|-------------------------------------|
| Third parties                                 | 33,013                          | 30,838                              |
| China Telecom Group                           | 10,829                          | 8,571                               |
| Other telecommunications operators in the PRC | 602                             | 630                                 |
|   | 44,444                          | 40,039                              |

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

Ageing analysis of accounts payable is as follows:

|  | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB<br>millions |
|--|---------------------------------|--|
| Due within 1 month or on demand        | 11,688                          | 10,308                                 |
| Due after 1 month but within 3 months  | 8,918                           | 8,626                                  |
| Due after 3 months but within 6 months | 12,334                          | 9,830                                  |
| Due after 6 months                     | 11,504                          | 11,275                                 |
|  | 44,444                          | 40,039                                 |

## Notes to the Unaudited Interim Financial Statements

(Continued)

### 8. Deferred tax assets and liabilities

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

|  | Assets               |                     | Liabilities          |                     | Net Balance          |                     |
|--|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
|  | 30 June              | 31 December<br>2010 | 30 June              | 31 December<br>2010 | 30 June              | 31 December<br>2010 |
|  | 2011<br>RMB millions | RMB millions        | 2011<br>RMB millions | RMB millions        | 2011<br>RMB millions | RMB millions        |
| <i>Current</i>   |                      |                     |                      |                     |                      |                     |
| Provisions and impairment losses, primarily for doubtful debts | 1,266                | 1,047               |                      |                     | 1,266                | 1,047               |
| <i>Non-current</i>   |                      |                     |                      |                     |                      |                     |
| Property, plant and equipment                                  | 2,221                | 3,214               | (1,393)              | (1,520)             | 828                  | 1,694               |
| Deferred revenues and installation costs                       | 1,003                | 1,093               | (610)                | (660)               | 393                  | 433                 |
| Land use rights  | 5,355                | 5,425               |                      |                     | 5,355                | 5,425               |
| Available-for-sale equity securities                           |                      |                     | (149)                | (181)               | (149)                | (181)               |
| Deferred tax assets/(liabilities)                              | 9,845                | 10,779              | (2,152)              | (2,361)             | 7,693                | 8,418               |

|  | Balance at<br>1 January<br>2011<br>RMB millions | Recognised<br>in<br>statement of<br>comprehensive<br>income<br>RMB millions | Balance at<br>30 June<br>2011<br>RMB millions |
|--|---|---|---|
|  |   |   |   |
| <i>Current</i>   |   |   |   |
| Provisions and impairment losses, primarily for doubtful debts | 1,047   | 219   | 1,266   |
| <i>Non-current</i>   |   |   |   |
| Property, plant and equipment                                  | 1,694   | (866)   | 828   |
| Deferred revenues and installation costs                       | 433   | (40)  | 393   |
| Land use rights  | 5,425   | (70)  | 5,355   |
| Available-for-sale equity securities                           | (181)   | 32  | (149)   |
| Net deferred tax assets  | 8,418   | (725)   | 7,693   |

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**Notes to the Unaudited Interim Financial Statements****(Continued)****9. Operating revenues**

Operating revenues represent revenues from the provision of telecommunications services. The components of the Group's operating revenues are as follows:

|   |        | Six-month periods ended 30 June |              |
|---|--------|---------------------------------|--------------|
|   |        | 2011                            | 2010         |
|   | Note   | RMB millions                    | RMB millions |
| Wireline voice                              | (i)    | 26,462                          | 32,915       |
| Mobile voice                                | (ii)   | 18,002                          | 14,102       |
| Internet                                    | (iii)  | 36,150                          | 31,114       |
| Value-added services                        | (iv)   | 12,541                          | 10,849       |
| Integrated information application services | (v)    | 9,818                           | 7,153        |
| Managed data and leased line                | (vi)   | 6,998                           | 6,066        |
| Others                                      | (vii)  | 10,139                          | 5,353        |
| Upfront connection fees                     | (viii) | 98                              | 265          |
|   |        | 120,208                         | 107,817      |

Note:

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnection fees and amortised amount of upfront installation fees charged to customers for the provision of wireline telephony services.
- (ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnection fees charged to customers for the provision of mobile telephony services.
- (iii) Represent amounts charged to customers for the provision of Internet access services.
- (iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services.
- (v) Represent primarily the aggregate amount of fees charged to customers for system integration and consulting services and Best Tone information services, which comprise hotline enquiry and booking services.
- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of managed data transmission services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, rental and repairs and maintenance of equipment.
- (viii) Represent the amortised amount of the upfront fees received for initial activation of wireline services.



**Notes to the Unaudited Interim Financial Statements****(Continued)****10. Personnel expenses**

Personnel expenses are attributable to the following functions:

|                                     | Six-month periods ended 30 June |                      |
|-------------------------------------|---------------------------------|----------------------|
|                                     | 2011<br>RMB millions            | 2010<br>RMB millions |
| Network operations and support      | 12,640                          | 11,098               |
| Selling, general and administrative | 6,597                           | 6,098                |
|                                     | 19,237                          | 17,196               |

**11. Other operating expenses**

Other operating expenses consist of:

|                         | Note | Six-month periods ended 30 June |                      |
|-------------------------|------|---------------------------------|----------------------|
|                         |      | 2011<br>RMB millions            | 2010<br>RMB millions |
| Interconnection charges | (i)  | 6,181                           | 5,293                |
| Cost of goods sold      | (ii) | 7,172                           | 3,087                |
| Donations               |      | 3                               | 6                    |
| Others                  |      | 17                              | 12                   |
|                         |      | 13,373                          | 8,398                |

*Note:*

- (i) *Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.*
- (ii) *Cost of goods sold primarily represents cost of telecommunications equipment sold.*

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**Notes to the Unaudited Interim Financial Statements****(Continued)****12. Net finance costs**

Net finance costs comprise:

|                                     | Six-month periods ended 30 June |                      |
|-------------------------------------|---------------------------------|----------------------|
|                                     | 2011<br>RMB millions            | 2010<br>RMB millions |
| Interest expense incurred           | 1,610                           | 2,172                |
| Less: Interest expense capitalised* | (141)                           | (137)                |
| <b>Net interest expense</b>         | <b>1,469</b>                    | <b>2,035</b>         |
| Interest income                     | (179)                           | (139)                |
| Foreign exchange losses             | 59                              | 69                   |
| Foreign exchange gains              | (40)                            | (110)                |
|                                     | <b>1,309</b>                    | <b>1,855</b>         |

\* Interest expense was capitalised in construction in progress at the following rates per annum

1.0% 5.2% 1.3% 4.6%

**13. Income tax**

Income tax in the profit or loss comprises:

|   | Six-month periods ended 30 June |                      |
|---|---------------------------------|----------------------|
|   | 2011<br>RMB millions            | 2010<br>RMB millions |
| Provision for PRC income tax                        | 2,606                           | 2,353                |
| Provision for income tax in other tax jurisdictions | 17                              | 27                   |
| Deferred taxation                                   | 757                             | 505                  |
|   | <b>3,380</b>                    | <b>2,885</b>         |

**Notes to the Unaudited Interim Financial Statements****(Continued)****13. Income tax (continued)**

A reconciliation of the expected tax expense with the actual tax expense is as follows:

|   | Note  | Six-month periods ended 30 June |                      |
|---|-------|---------------------------------|----------------------|
|   |       | 2011<br>RMB millions            | 2010<br>RMB millions |
| Profit before taxation  |       | 13,229                          | 12,002               |
| Expected income tax expense at statutory tax rate of 25%      | (i)   | 3,307                           | 3,001                |
| Differential tax rate on PRC subsidiaries and branches income | (i)   | (26)                            | (333)                |
| Differential tax rate on other subsidiaries income            | (ii)  | (7)                             | (10)                 |
| Non-deductible expenses                                       | (iii) | 248                             | 458                  |
| Non-taxable income  | (iv)  | (112)                           | (227)                |
| Other tax benefits  |       | (30)                            | (4)                  |
| Actual income tax expense                                     |       | 3,380                           | 2,885                |

Note:

- (i) The provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries and branches which are taxed at preferential rates of 15% or 24%.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 35%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts primarily represent miscellaneous incomes which are not subject to income tax.

**14. Dividends**

Pursuant to the shareholders' approval at the Annual General Meeting held on 20 May 2011, a final dividend of RMB0.071208 (equivalent to HK\$0.085) per share totalling approximately RMB5,763 million in respect of the year ended 31 December 2010 was declared and paid on 30 June 2011.

Pursuant to the shareholders' approval at the Annual General Meeting held on 25 May 2010, a final dividend of RMB0.074514 (equivalent to HK\$0.085) per share totalling approximately RMB6,031 million in respect of the year ended 31 December 2009 was declared and of which RMB5,608 million was paid on 30 June 2010 and the remaining amounts were settled by June 2011.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2011.



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**Notes to the Unaudited Interim Financial Statements****(Continued)****15. Basic earnings per share**

The calculation of basic earnings per share for the six-month periods ended 30 June 2011 and 2010 is based on the profit attributable to equity holders of the Company of RMB9,808 million and RMB9,076 million, respectively, divided by 80,932,368,321 shares in issue.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the periods presented.

**16. Capital commitments**

As at 30 June 2011 and 31 December 2010, the Group had capital commitments as follows:

|  | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB<br>millions |
|--|---------------------------------|--|
| <b>Authorised and contracted for</b>           |                                 |  |
| Property                                       | 442                             | 395                                    |
| Telecommunications network plant and equipment | 4,564                           | 4,729                                  |
|  | 5,006                           | 5,124                                  |
| <b>Authorised but not contracted for</b>       |                                 |  |
| Property                                       | 683                             | 716                                    |
| Telecommunications network plant and equipment | 7,636                           | 4,928                                  |
|  | 8,319                           | 5,644                                  |

**17. Related party transactions**

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

## Notes to the Unaudited Interim Financial Statements

(Continued)

### 17. Related party transactions (continued)

#### (a) Transactions with China Telecom Group

The Group is a part of companies under China Telecommunications Corporation, a company owned by the PRC government, and has significant transactions and business relationships with members of China Telecom Group.

The principal transactions with China Telecom Group which were carried out in the ordinary course of business are as follows:

|   | Note   | Six-month periods ended 30 June |                      |
|---|--------|---------------------------------|----------------------|
|   |        | 2011<br>RMB millions            | 2010<br>RMB millions |
| Purchases of telecommunications equipment and materials             | (i)    | 1,277                           | 812                  |
| Sales of telecommunications equipment and materials                 | (i)    | 737                             | 390                  |
| Construction and engineering services                               | (ii)   | 3,576                           | 2,600                |
| Provision of IT services  | (iii)  | 138                             | 152                  |
| Receiving IT services   | (iii)  | 226                             | 971                  |
| Receiving community services  | (iv)   | 1,077                           | 170                  |
| Receiving ancillary services  | (v)    | 3,713                           | 3,234                |
| Operating lease expenses  | (vi)   | 208                             | 192                  |
| Net transaction amount of centralised services                      | (vii)  | 269                             | 206                  |
| Interconnection revenues  | (viii) | 24                              | 28                   |
| Interconnection charges   | (viii) | 240                             | 292                  |
| Interest on loans from China Telecom Group                          | (ix)   | 145                             | 606                  |
| CDMA network capacity lease fee                                     | (x)    | 8,696                           | 6,365                |
| Reimbursement of capacity maintenance related costs of CDMA network | (xi)   | 633                             | 463                  |

Note:

- (i) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (iii) Represent IT services provided by and received from China Telecom Group.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
- (v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (vi) Represent net amounts paid and payable to China Telecom Group for leases of business premises and the amounts paid and payable to China Telecom Group for inter-provincial transmission optic fibres.

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**Notes to the Unaudited Interim Financial Statements****(Continued)****17. Related party transactions (continued)****(a) Transactions with China Telecom Group (continued)**

- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 6).
- (x) Represent amounts paid and payable to China Telecom Group for lease of CDMA mobile telecommunications network ( CDMA network ) capacity.
- (xi) Represent amounts shared between the Company and China Telecom Group for the capacity maintenance related costs in connection with the CDMA network capacity used by the Company.

Amounts due from/to China Telecom Group are summarised as follows:

|   | 30 June<br>2011<br>RMB millions | 31 December<br>2010<br>RMB millions |
|---|---------------------------------|-------------------------------------|
| Accounts receivable                               | 1,302                           | 1,182                               |
| Prepayments and other current assets              | 841                             | 1,044                               |
| <b>Total amounts due from China Telecom Group</b> | <b>2,143</b>                    | <b>2,226</b>                        |
| Accounts payable                                  | 10,829                          | 8,571                               |
| Accrued expenses and other payables               | 515                             | 389                                 |
| Short-term debt                                   | 6,647                           | 9,017                               |
| <b>Total amounts due to China Telecom Group</b>   | <b>17,991</b>                   | <b>17,977</b>                       |

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt, bear no interest,

are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt payable to China Telecom Group are set out in Note 6.

As at 30 June 2011 and 31 December 2010, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

On 25 August 2010, the Company and China Telecommunications Corporation entered into supplemental agreements to renew the CDMA network capacity lease agreement ( the 2010 CDMA Network Lease ), which it first entered into with China Telecommunications Corporation and which were approved by the Company's independent shareholders at an Extraordinary General Meeting held on 16 September 2008, for a further term of two years expiring on 31 December 2012. Pursuant to the 2010 CDMA Network Lease, the lease fee for the capacity on the constructed CDMA network shall be 28% of the CDMA service revenue. For the year ending 31 December 2011 and 2012, the minimum annual

lease fee shall be 90% of the total amount of the lease fee paid by the Company to China Telecommunications Corporation in the previous year.

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**Notes to the Unaudited Interim Financial Statements****(Continued)****17. Related party transactions (continued)****(b) Key management personnel compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group.

Key management personnel compensation of the Group is summarised as follows:

|                              | Six-month periods ended 30 June |               |
|------------------------------|---------------------------------|---------------|
|                              | 2011                            | 2010          |
|                              | RMB thousands                   | RMB thousands |
| Short-term employee benefits | 4,492                           | 4,024         |
| Post-employment benefits     | 410                             | 360           |
|                              | 4,902                           | 4,384         |

The above remuneration is included in personnel expenses.

**(c) Contributions to post-employment benefit plans**

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 18% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the six-month period ended 30 June 2011 were RMB1,698 million (six-month period ended 30 June 2010: RMB1,562 million).

The amount payable for contributions to defined contribution retirement plans as at 30 June 2011 was RMB236 million (31 December 2010: RMB206 million).

**(d) Transactions with other government-related entities**

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as government-related entities).

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## Notes to the Unaudited Interim Financial Statements

(Continued)

### 17. Related party transactions (*continued*)

#### (d) Transactions with other government-related entities (*continued*)

Apart from transactions with parent company and its affiliates (Note 17(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

rendering and receiving services, including but not limited to telecommunications services

sales and purchases of goods, properties and other assets

lease of assets

depositing and borrowing money

use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

The directors believe the above information provides appropriate disclosure of related party transactions.

## Other Information

### Management discussion and analysis

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules ), save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2010 Annual Report.

### Purchase, sale or redemption of securities

During the six-month period ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### Directors and supervisors' interests and short positions in shares, underlying shares and debentures

As at 30 June 2011, none of the Directors or Supervisors had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the SFO )) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code ).

As at 30 June 2011, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

### Change in directors and supervisors

On 20 May 2011, the term of office of the third session of the Board of Directors and the Supervisory Committee expired. All directors of the third session of the Board of Directors were re-elected as the Board of Directors of the fourth session at the annual general meeting held on that date. All four supervisors representing shareholders of the third session of the Supervisory Committee were also re-elected as the supervisors of the fourth session of the Supervisory Committee. On the same date, Mr. Du Zuguo has been elected at the annual general meeting as a supervisor of the fourth session of the Supervisory Committee. Mr. Ma Yuzhu, the employee elected supervisor of the third session of the Supervisory Committee retired as supervisor of the Company on 20 May 2011 and was succeeded by Mr. Mao Shejun. Due to change in work arrangement, Mr. Shang Bing has resigned as the president, chief operating officer and executive director of the Company on 13 July 2011, and has been appointed as deputy minister of Ministry of Industry and Information Technology of the People's Republic of China.

Save as those disclosed above, there is no other information for the Directors or Supervisors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors and Supervisors are available on the website of the Company ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)).

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**Other Information****Material interests and short positions in shares and underlying shares of the company**

As at 30 June 2011, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

| Name of shareholder                         | Number of shares held          | Type of shares  | Percentage of the respective type of shares in issue (%) | Percentage of the total number of shares in issue (%) | Capacity   |
|---|--------------------------------|-----------------|--|---|--|
| China Telecommunications Corporation        | 57,377,053,317                 | Domestic shares | 85.57%   | 70.89%  | Beneficial owner   |
|   | (Long position)                |                 |  |   |  |
| Guangdong Rising Assets Management Co., Ltd | 5,614,082,653                  | Domestic shares | 8.37%  | 6.94%   | Beneficial owner   |
|   | (Long position)                |                 |  |   |  |
| Commonwealth Bank of Australia              | 1,524,752,000                  | H shares        | 10.99%   | 1.88%   | Interest of controlled corporation   |
|   | (Long position)                |                 |  |   |  |
| JPMorgan Chase & Co.                        | 1,398,823,090                  | H shares        | 10.08%   | 1.73%   | 85,896,265 shares as beneficial owner; 167,008,000 shares as investment manager; and 1,145,918,825 shares as security interest holder/approved lending agent |
|   | (Long position)                |                 |  |   |  |
|   | 49,264,024                     | H shares        | 0.35%  | 0.06%   | 47,264,024 shares as beneficial owner; 2,000,000 shares as investment manager  |
|   | (Short position)               |                 |  |   |  |
|   | 1,145,918,825                  | H shares        | 8.26%  | 1.42%   | Security interest holder/ approved lending agent   |
|   | (Shares available for lending) |                 |  |   |  |
| Blackrock, Inc                              | 1,031,731,831                  | H shares        | 7.43%  | 1.27%   | Interest of controlled corporation   |
|   | (Long position)                |                 |  |   |  |
|   | 80,466,883                     | H shares        | 0.58%  | 0.099%  | Interest of controlled corporation   |
|   | (Short position)               |                 |  |   |  |
| RFS Holdings B.V.                           | 907,191,530                    | H shares        | 6.54%  | 1.12%   | Interest of controlled corporation   |
|   | (Long position)                |                 |  |   |  |
|   | 1,180,327,134                  | H shares        | 8.51%  | 1.46%   | Interest of controlled corporation   |
|   | (Short position)               |                 |  |   |  |

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|                                      |             |          |       |       |                    |
|--------------------------------------|-------------|----------|-------|-------|--------------------|
| Templeton Investment Counsel,<br>LLC | 693,347,861 | H shares | 5.00% | 0.86% | Investment manager |
| (Long position)                      |             |          |       |       |                    |

Save as stated above, as at 30 June 2011, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

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## **Other Information**

### **Audit committee**

The audit committee has reviewed with management and the Company's international auditor, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2011.

### **Compliance with the code on corporate governance practices**

The Company has attached great importance to corporate governance. We continued to make efforts in improving the Company's internal control mechanisms, strengthening information disclosure and enhancing the Company's transparency, developing corporate governance practices and protecting shareholders' interests to the maximum degree.

The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, for the six months period ended 30 June 2011. In the Company's opinion, through supervision of the Board and Independent Non-executive Directors, and effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and execution, and effectively capture business opportunities. Many international leading corporations also have a similar arrangement.

Save as stated above, the Company has been in compliance with all the code provisions as set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the six months period ended 30 June 2011.

### **Compliance with model code for securities transactions by directors**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code throughout the period from 1 January 2011 to 30 June 2011.

### **Forward-looking statements**

Certain statements contained in this report may be viewed as forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the SEC) and in the Company's other filings with the SEC.