China Telecom Corporation Limited
中國電信股份有限公司

HKEx Stock Code 香港交易所股份代碼：728
NYSE Stock Code 紐約證券交易所股份代碼：CHA

Interim Report 2012 二零一二年中期報告

Contents

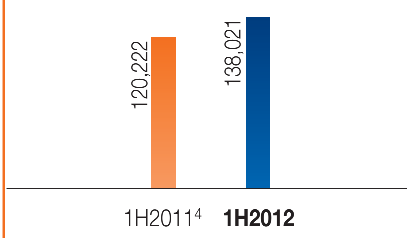
Financial Highlights

Including amortisation of the upfront connection fees

	Six-month period ended 30 June 2011[4] (restated)	2012	Rates of change
Operating revenues *(RMB millions)*	120,222	**138,021**	14.8%
EBITDA[1] *(RMB millions)*	48,599	**48,760**	0.3%
EBITDA margin[2]	42.7%	**38.5%**	(4.2pp)
Net profit[3] *(RMB millions)*	9,616	**8,814**	(8.3%)
Earnings per share *(RMB)*	0.119	**0.109**	(8.3%)
Capital expenditure *(RMB millions)*	20,967	**25,647**	22.3%
Net asset value[5] per share *(RMB)*	3.081	**3.202**	3.9%

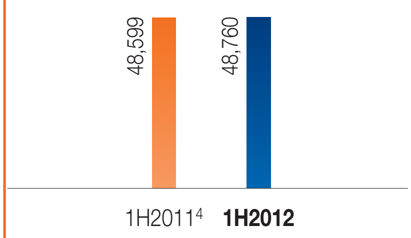
Operating Revenues

(RMB millions)



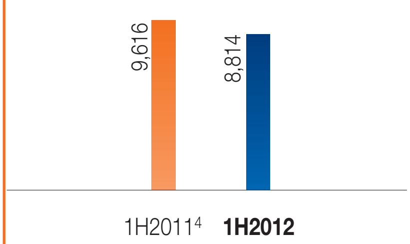
EBITDA[1]

(RMB millions)



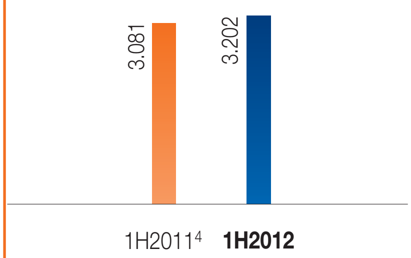
Net Profit[3]

(RMB millions)



NAV[5] per share

(RMB)



1 *For convenience of the investors' analysis, EBITDA is calculated before CDMA network capacity lease fee.*
2 *EBITDA margin is calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.*
3 *Net profit represents profit attributable to equity holders of the Company.*
4 *Certain prior years figures were restated mainly due to the impact of the adoption of the amendment to IFRS 1. Please refer to note 3 of the unaudited interim financial statements in this report for details.*
5 *Net asset value represents equity attributable to equity holders of the Company.*

Chairman's Statement

In the first half of 2012, we firmly seized the accelerating trend of social informatisation and leveraged on the valuable opportunities of proliferating mobile Internet to unwaveringly implement our development strategy of dual leadership in innovation and services. We comprehensively promoted the scale development of our three core services, mobile, broadband and informatisation applications, took thorough steps to enhance our management and focused to optimise corporate operation mechanisms. While strengthening the centralised efficient operation capabilities, the Company persistently accelerated its steps in strategic transformation and scale development to steadily enhance corporate long term competitiveness and corporate value.

Operating results

In the first half of 2012, the Company achieved record revenue growth. The operating revenues amounted to RMB138,021 million, representing an increase of 14.8% over the same period last year. Excluding the mobile terminals sales, the operating revenues were RMB126,580 million, representing an increase of 11.2% over the same period last year. The growth rate in operating revenues surpassed the industry average. With the continued optimisation of the business structure, the proportion of revenues from the growth businesses increased to 83.9%. The risk of traditional business was further alleviated with wireline voice revenue as a proportion to total revenues decreased to 16.1%. EBITDA[1] was RMB48,760 million, representing an increase of 0.3% over the same period last year while EBITDA margin[2] was 38.5%. The profit attributable to equity holders of the Company was RMB8,814 million, decreasing by 8.3% from the same period last year. The Company believes that the launch of the iPhone to expand the high-end market would require an appropriate increase in marketing initiatives which would create short-term pressure on profitability, however, it would enhance long-term sustainable growth and value creation for the Company. Basic earnings per share of the Company was RMB0.11. Capital expenditure was RMB25,647 million, accounted for 18.6% of the total revenues, while free cash flow[3] reached RMB8,548 million.

Taking into consideration the cash flow of the Company and the capital required for the forthcoming acquisition of mobile network assets from its parent company, the Board of Directors has decided not to pay any interim dividend this year 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.

Accelerated development achieving scale breakthrough

3G traction driving rapid mobile expansion

With the increasing proliferation of mobile Internet applications and 3G smart terminals, users' habit on 3G services has progressively been cultivated. The accelerated migration trend from 2G to 3G in China's mobile communications market is becoming more noticeable. In view of such a momentous development opportunity, we proactively allocated resources and adopted effective measures to achieve scale breakthrough in mobile services. In the first half of the year, mobile service revenue showed a strong and industry leading growth momentum with an increase of 36.7% over the same period last year, reaching RMB42,556 million. The net addition of mobile subscribers was 17.71 million, reaching a total number of 144 million. The mobile subscriber market share increased to 13.8%, of which the net addition of 3G subscribers was 14.67 million, reaching a total number of 50.96 million. Significantly driven by our product center applications, our Best Tone service and Best Pay service, 3G handset data traffic increased rapidly with average monthly data usage per user reaching 111MB. The competitive advantages of Company's mobile services become more noticeable and sustainable growth momentum of mobile services is irresistible.

In the first half of the year, by adhering to our development philosophy of "terminal driven, brand focused and channel oriented", we adopted an innovative development model to effectively promote the scale expansion of mobile service, in particular selling 3G as a single product. We persisted in a 3G smartphone-driven strategy and strengthened the cooperation with vendors to enrich offerings of large-screen smartphones priced around RMB1,000. At the same time, we timely launched iPhone to cater the demand for the mid-to-high end markets and further promoted the breakthrough into the high-end market. We continued to carry out the transformation of sales outlets into specialty stores to strengthen the experience marketing of Internet handsets. Through service demonstrations and customer assistance on applications, users' habit on 3G services was cultivated and hence data traffic was stimulated, which had effectively increased data traffic per 3G handset user. We continued to reinforce the brand promotion of "e-Surfing 3G Internet handset" which focused on key customer groups, such as office staff and trendy youngster. We emphasised on enriching contents, highlighted and promoted the differentiation of high-end brand image. Led by our brand "Young", we proactively expanded in the campus market. We further strengthened our open sales channels for wider coverage in the core business districts. By introducing the private enterprise operating mechanism in our self-operated sales outlets, we effectively improved the outlet sales capability. We perfected our electronic sales channel and implemented centralised efficient operation while driving the transformation of online sales outlets from service-oriented websites to sales-oriented e-commerce websites.

1 For convenience of investors' comparative analysis, EBITDA is calculated before CDMA network capacity lease fee.
2 EBITDA margin is calculated based on EBITDA divided by the operating revenues excluding mobile terminals sales.
3 Free cash flow is calculated from EBITDA minus CDMA network capacity lease fee, capital expenditure and income tax.

Broadband upgrade boosting scale development

In the first half of the year, we seized the opportunities arising from broadband development as a national strategy. We accelerated the penetration of "fibre broadband" to build a superior network with good customer perception. We proactively enriched the content applications, further extracted broadband development potential and strengthened our broadband's leading position in the market. In the first half of the year, wireline broadband revenue was RMB33,369 million, representing an increase of 12.1% over the same period last year. The net addition of broadband subscribers was 6.89 million and the total number of broadband subscribers reached 83.70 million, maintaining our leading position in subscriber market share.

We continuously adhered to the overall development strategy of "bandwidth upgrade, content enrichment and brand building". With proactive promotion in "Broadband China • Fibre Cities" project, we accelerated the fibre roll-out in key areas. FTTH covered approximately 40 million households, which manifested the superior quality of China Telecom's fibre broadband network. We further strengthened the marketing promotion of "Lightening Fibre Residential Areas" to speed up the bandwidth upgrade of the mainstream customers and transform the network strengths into competitive edges. Broadband customers with 4Mbps bandwidth and above accounted for more than 60% of the total. Concurrent with bandwidth upgrade, we proactively developed high-bandwidth Internet applications, such as online media, video chatting and interactive games, to boost high-bandwidth demand and inject new impetus for the high growth broadband market.

Focusing on key industries to expedite informatisation applications

Facing the rich gold mine of informatisation applications market, we fully leveraged our integrated strengths to satisfy the core demand of customers. Driven by the promotion of "Smart Cities" development, we focused on three key field areas, namely smart government, smart living and smart industry. We emphasised to develop key industries applications, such as e-Surfing RFID, e-administration, transport and logistics, digital campus and busy-shop assistant, and accelerated the scale replication and promotion of matured products. Meanwhile, we organically integrated our fundamental services, such as mobile, broadband etc., into industry applications, to effectively drive the scale development of our core services. We proactively expanded the cloud service market and established a cloud computing company to operate the full network cloud service in a centralised efficient manner. The launch of basic products, such as cloud central processing, cloud storage etc., were completed. We vigorously promoted and developed cloud computing in industry applications to continuously enhance our capabilities in providing industry informatisation solutions. In the first half of the year, revenue from wireline value-added services and integrated information services reached RMB16,343 million, an increase of 7.4% over the same period of last year.

Alleviating operational risk of wireless voice

We adopted effective measures to consolidate wireline usage and strived to mitigate the decline of wireline voice service. The operating risk was gradually alleviated. As at the end of June, the total number of access lines in service was 167 million, a net decline of 2.1 million in the first half of the year. Wireline voice revenue in the first half of the year amounted to RMB22,241 million.

Innovative development mode promoting management enhancement

"Three New Roles" transformation achieving substantive progress

In the first half of the year, we pragmatically promoted the development of our Three New Roles — "a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development" to lay a solid foundation for the sustainable growth of the Company. We speeded up the commercialization of an intelligent pipeline by implementing self-served bandwidth upgrades for wireline broadband services in certain provinces and cities and accelerating the promotion of intelligent network trials and upgrades for mobile network based on service identification and traffic management. We proactively promoted the construction of an integrated platform to promptly realize the resource integration and open operation in order to enhance the rapid product deployment capability. We continued to expand the creativity in developing content and application-type products with fast growing subscriber scale of our product centre services and increasing activity level. e-Surfing open platform has gathered nearly 400 co-operative application developers. The scale of content applications development emerged.

Invigoration through mechanism innovation

Following the development pattern of Internet businesses, we proactively promoted innovation in mechanisms and systems and devoted to establish a new system appropriate for emerging businesses. We introduced private capital into the e-Surfing Media Company to deepen its market operation, invigorate its development potential and build a specialised enterprise with market competitiveness. We set up a product incubator centre, cooperated with venture capital firms, activated the system, stimulated the passion of entrepreneurship of our employees and cultivated new growth drivers. By fully utilizing social resources, we focused on the open co-operation with Internet application dominant enterprises and system developers of key industry applications and proactively explored new modes of co-operation to develop the informatisation application market together. We consolidated overseas operation units and established China Telecom Global Limited, which would unify customer interface and operate in a centralized efficient manner with global resource allocation and coordinate the development of overseas market.

Leveraging data traffic operation to enhance quality of development

While expanding our subscriber scale, we expedited our transformation from traditional voice operation to data traffic operation to enhance quality of development. We endeavoured to develop a new system of mobile Internet products and grasped the first customer contact point with "e-Surfing Cloud Desktop". We continued to expand the subscriber scale of product centre services to invigorate data traffic demand. We promoted the coordinated development of various channels, implemented precision sales of data traffic and increased customer activity level to drive data usage per subscriber. We also speed up the development of services such as Best Tone and Best Pay service to promote data traffic aggregation. In the first half of the year, mobile data revenue was RMB19,267 million, representing an increase of 46.7% over the same period last year. Mobile data revenue accounted for 45.3% of the mobile service revenue, which is at an industry-leading level.

Enhancing centralised efficient capability and deepening precision management

To adapt to the development pattern of mobile Internet, we strengthened the coordination and centralised efficient operation of our sales and marketing systems, IT support and supplies procurement. We strived to achieve the goal of "one-point access and entire-network operation" to maximize the operating efficiency of the entire network. We reinforced the coordination and planning together with centralized efficient management in five areas, namely brand promotion, product optimisation, tariff standardisation, terminal management and services enhancement, to expand the market. In addition, through refining IT system and structure, we offered greater support to our centralised efficient operation. We strengthened the degree of centralised procurement, effectively enhancing investment cost savings per unit. Focusing on key areas, like sales and marketing and network construction, we continued to deepen implementation of the sub-division performance evaluation units to increase the efficiency of sales and marketing cost as well as network investment.

Acquisition of Mobile network for corporate value enhancement

This year, we would complete the acquisition of the CDMA network assets from our parent company pursuant to statutory procedures and integrate mobile assets and business altogether. The acquisition of CDMA network assets will be beneficial to strengthening the overall operation efficiency of the Company's mobile service and improving profitability in the future. It will also enhance the Company's ability to coordinate the mobile network investment and construction with its operation management and upgrade planning, appropriately grasping the opportunity of advancement to new technologies with a view to fostering the development of the mobile service.

Corporate Governance and Social 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 were accredited with a number of awards and appreciation in the first half of the year, including the "Overall Best Managed Company in Asia" by *FinanceAsia* for two consecutive years, "No. 1 Best Managed Company in Asia" by *Euromoney*, being the first company receiving such honour for three consecutive years, and also "The Best of Asia" by *Corporate Governance Asia* for three consecutive years.

We persist in operating with integrity and strive to maintain fair and well disciplined market competition. We promote collaboration with value chain partners with the aim to achieve a win-win scenario among all parties to foster the healthy development of the whole industry. We proactively participated in relief activities for the natural disasters such as the earthquake in Xinjiang and mudslides in Sichuan. We also provided telecommunications assurance services for the launching of Shenzhou-9 spacecraft and Shanghai Cooperation Organisation Summit, receiving high regards and appreciation from the society.

Outlook

At present, in respect of the changes of China's mobile telecommunications market, the trend of migration from 2G to 3G services has emerged. Approximately 900 million 2G service users nationwide are potential 3G service users of the Company. The development of broadband service still has great prospects while the demand for social informatisation is ever increasing. However, we are also facing new challenges brought by intensifying market competition and cannibalisation of traditional businesses by advanced technologies.

Aiming to achieve a breakthrough of its full services development, we will grasp the opportunities and cope with the challenges. In the second half of the year, the Company will adhere to its strategy of advancing its dual leadership in innovation and service quality. The Company will exert efforts in accelerating the scale development of its three core services, including 3G service, broadband service and informatisation applications, to increase revenue market shares of its full services. Furthermore, we will endeavour to enhance our management to strengthen four major capabilities, including innovation, services, efficient centralisation and operation. The Company will also consolidate its differentiated competitive edges of its products, services, networks and terminals to enhance both customer value and corporate value.

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. Zhang Chenshuang, Mr. Li Jinming, Mr. Miao Jianhua, Mr. Xu Cailiao and Madam Han Fang for their valuable contribution during their tenure of office as Directors and Supervisors of the Company. Also, I would like to welcome Mr. Ke Ruiwen to join our Board of Directors.

Wang Xiaochu
Chairman and Chief Executive Officer
Beijing, China

22 August 2012

Independent Review Report of the International Auditor

To the Board of Directors of
China Telecom Corporation Limited

Introduction

We have reviewed the interim financial statements set out on pages 8 to 30 which comprise the consolidated statement of financial position of China Telecom Corporation Limited as at 30 June 2012, 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 2012 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 2012 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

22 August 2012

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2012 (Amounts in millions)

	Note	30 June 2012 RMB	31 December 2011 RMB (restated)
ASSETS			
Non-current assets			
Property, plant and equipment, net		**261,738**	268,904
Construction in progress		**28,309**	18,448
Lease prepayments		**25,926**	26,280
Goodwill		**29,919**	29,918
Intangible assets		**6,358**	7,715
Interests in associates		**963**	985
Investments		**735**	648
Deferred tax assets	*10*	**3,015**	3,070
Other assets		**3,224**	3,602
Total non-current assets		**360,187**	359,570
Current assets			
Inventories		**4,599**	4,843
Income tax recoverable		**2,538**	2,425
Accounts receivable, net	*6*	**22,713**	18,471
Prepayments and other current assets		**5,576**	4,666
Time deposits with original maturity over three months		**5,199**	1,804
Cash and cash equivalents	*7*	**33,073**	27,372
Total current assets		**73,698**	59,581
Total assets		**433,885**	419,151

The notes on pages 14 to 30 form part of these interim financial statements.

Consolidated Statement of Financial Position (Unaudited) (Continued)

at 30 June 2012 (Amounts in millions)

	Note	30 June 2012 RMB	31 December 2011 RMB (restated)
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	*8*	**5,873**	9,187
Current portion of long-term debt	*8*	**10,071**	11,766
Accounts payable	*9*	**50,084**	44,359
Accrued expenses and other payables		**71,232**	59,375
Income tax payable		**533**	482
Current portion of deferred revenues		**1,754**	2,093
Total current liabilities		**139,547**	127,262
Net current liabilities		**(65,849)**	(67,681)
Total assets less current liabilities		**294,338**	291,889
Non-current liabilities			
Long-term debt	*8*	**31,125**	31,150
Deferred revenues		**2,312**	2,712
Deferred tax liabilities	*10*	**891**	1,117
Total non-current liabilities		**34,328**	34,979
Total liabilities		**173,875**	162,241
Equity			
Share capital		**80,932**	80,932
Reserves		**178,239**	175,190
Total equity attributable to equity holders of the Company		**259,171**	256,122
Non-controlling interests		**839**	788
Total equity		**260,010**	256,910
Total liabilities and equity		**433,885**	419,151

The notes on pages 14 to 30 form part of these interim financial statements.

Consolidated Statement of Comprehensive Income (Unaudited)

for the six-month period ended 30 June 2012 (Amounts in millions, except per share data)

	Note	Six-month period ended 30 June 2012 RMB	2011 RMB (restated)
Operating revenues	11	**138,021**	120,222
Operating expenses			
Depreciation and amortisation		**(24,540)**	(25,668)
Network operations and support		**(31,258)**	(25,501)
Selling, general and administrative		**(29,309)**	(22,207)
Personnel expenses	12	**(21,453)**	(19,237)
Other operating expenses	13	**(19,009)**	(13,374)
Total operating expenses		**(125,569)**	(105,987)
Operating profit		**12,452**	14,235
Net finance costs	14	**(873)**	(1,309)
Investment income		**79**	4
Share of profits from associates		**11**	43
Profit before taxation		**11,669**	12,973
Income tax	15	**(2,797)**	(3,316)
Profit for the period		**8,872**	9,657
Other comprehensive income for the period:			
Change in fair value of available-for-sale equity securities		**(109)**	(130)
Deferred tax on change in fair value of available-for-sale equity securities		**27**	32
Exchange difference on translation of financial statements of subsidiaries outside mainland China		**(10)**	(35)
Share of other comprehensive income from associates		**—**	(1)
Other comprehensive income for the period, net of tax		**(92)**	(134)
Total comprehensive income for the period		**8,780**	9,523
Profit attributable to:			
Equity holders of the Company		**8,814**	9,616
Non-controlling interests		**58**	41
Profit for the period		**8,872**	9,657
Total comprehensive income attributable to:			
Equity holders of the Company		**8,722**	9,482
Non-controlling interests		**58**	41
Total comprehensive income for the period		**8,780**	9,523
Basic earnings per share	17	**0.11**	0.12
Number of shares (in millions)	17	**80,932**	80,932

The notes on pages 14 to 30 form part of these interim financial statements.

Consolidated Statement of Changes in Equity (Unaudited)

for the six-month period ended 30 June 2012 (Amounts in millions)

		Attributable to equity holders of the Company										
	Note	Share capital RMB	Capital reserve RMB	Share premium RMB	Re-valuation reserve RMB	Statutory reserves RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance as at 1 January 2011, as previously reported		80,932	(2,804)	10,746	10,339	62,634	2,913	(715)	67,423	231,468	496	231,964
Change in accounting policy		–	19,571	–	(10,339)	–	(2,475)	–	7,403	14,160	–	14,160
Adjusted for the Sixth Acquisition	2	–	–	–	–	–	–	–	37	37	–	37
Balance as at 1 January 2011, as restated		80,932	16,767	10,746	–	62,634	438	(715)	74,863	245,665	496	246,161
Profit for the period, as restated		–	–	–	–	–	–	–	9,616	9,616	41	9,657
Other comprehensive income		–	–	–	–	–	(99)	(35)	–	(134)	–	(134)
Total comprehensive income, as restated		–	–	–	–	–	(99)	(35)	9,616	9,482	41	9,523
Distributions to non-controlling interests		–	–	–	–	–	–	–	–	–	(26)	(26)
Disposal of a subsidiary		–	–	–	–	–	–	–	–	–	(7)	(7)
Dividends	16	–	–	–	–	–	–	–	(5,763)	(5,763)	–	(5,763)
Balance as at 30 June 2011, as restated		80,932	16,767	10,746	–	62,634	339	(750)	78,716	249,384	504	249,888
Balance as at 1 January 2012, as previously reported		**80,932**	**16,767**	**10,746**	**–**	**64,316**	**283**	**(818)**	**83,864**	**256,090**	**788**	**256,878**
Adjusted for the Sixth Acquisition	3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32**	**32**	**–**	**32**
Balance as at 1 January 2012, as restated		**80,932**	**16,767**	**10,746**	**–**	**64,316**	**283**	**(818)**	**83,896**	**256,122**	**788**	**256,910**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,814**	**8,814**	**58**	**8,872**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(82)**	**(10)**	**–**	**(92)**	**–**	**(92)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(82)**	**(10)**	**8,814**	**8,722**	**58**	**8,780**
Distributions to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Dividends	16	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,625)**	**(5,625)**	**–**	**(5,625)**
Acquisition of the Sixth Acquired Business	2	**–**	**(48)**	**–**	**–**	**–**	**–**	**–**	**–**	**(48)**	**–**	**(48)**
Balance as at 30 June 2012		**80,932**	**16,719**	**10,746**	**–**	**64,316**	**201**	**(828)**	**87,085**	**259,171**	**839**	**260,010**

The notes on pages 14 to 30 form part of these interim financial statements.

Consolidated Statement of Cash Flows (Unaudited)

for the six-month period ended 30 June 2012 (Amounts in millions)

	Note	Six-month period ended 30 June 2012 RMB	2011 RMB (restated)
Net cash from operating activities	*(a)*	**36,540**	41,816
Cash flows from investing activities			
Capital expenditure		**(22,984)**	(20,433)
Purchase of investments		**—**	(5)
Lease prepayments		**(23)**	(10)
Proceeds from disposal of property, plant and equipment		**759**	1,090
Proceeds from return of investments		**—**	10
Proceeds from disposal of lease prepayments		**18**	50
Net cash outflow from disposal of a subsidiary		**(116)**	—
Purchase of time deposits with original maturity over three months		**(5,199)**	(3,321)
Maturity of time deposits with original maturity over three months		**1,804**	1,968
Net cash used in investing activities		**(25,741)**	(20,651)
Cash flows from financing activities			
Proceeds from bank and other loans		**5,760**	14,464
Repayments of bank and other loans		**(10,796)**	(29,309)
Payment of dividends		**—**	(6,174)
Payment for the acquisition price of the Sixth Acquisition	*2*	**(48)**	—
Net cash distributions to non-controlling interests		**(3)**	(23)
Net cash used in financing activities		**(5,087)**	(21,042)
Net increase in cash and cash equivalents		**5,712**	123
Cash and cash equivalents at 1 January		**27,372**	25,824
Effect of changes in foreign exchange rate		**(11)**	(34)
Cash and cash equivalents at 30 June		**33,073**	25,913

The notes on pages 14 to 30 form part of these interim financial statements.

Consolidated Statement of Cash Flows (Unaudited) (Continued)

for the six-month period ended 30 June 2012 (Amounts in millions)

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

	Six-month period ended 30 June	
	2012	2011
	RMB	RMB
		(restated)
Profit before taxation	**11,669**	12,973
Adjustments for:		
Depreciation and amortisation	**24,540**	25,668
Impairment losses for doubtful debts	**922**	808
Impairment losses for intangible assets	**—**	8
Write down of inventories	**247**	56
Investment income	**(79)**	(4)
Share of profits from associates	**(11)**	(43)
Interest income	**(216)**	(179)
Interest expense	**1,111**	1,469
Unrealised foreign exchange (gain)/loss	**(22)**	19
Gain on disposal of property, plant and equipment	**(570)**	(161)
Operating profit before changes in working capital	**37,591**	40,614
Increase in accounts receivable	**(5,364)**	(3,894)
Increase in inventories	**(3)**	(608)
Increase in prepayments and other current assets	**(783)**	(172)
Decrease in other assets	**377**	429
Increase in accounts payable	**3,134**	3,986
Increase in accrued expenses and other payables	**5,386**	5,879
Decrease in deferred revenues	**(739)**	(770)
Cash generated from operations	**39,599**	45,464
Interest received	**227**	182
Interest paid	**(297)**	(1,000)
Investment income received	**7**	11
Income tax paid	**(2,996)**	(2,841)
Net cash from operating activities	**36,540**	41,816

The notes on pages 14 to 30 form part of these interim financial statements.

Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2012

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 international telecommunications services, including leased line, International Internet access and transit, and Internet data centre service 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. Changes in Organisation During the Period

Pursuant to an acquisition agreement entered into by the Company and China Satcom Guomai Communications Co., Ltd. ("Satcom Guomai"), which is controlled by China Telecommunications Corporation, on 28 April 2011 and with the relevant government approval obtained in March 2012, the Company disposed of 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services, to Satcom Guomai. Satcom Guomai paid the consideration by issuing 21,814,894 shares to the Company, representing around 4.1% of its enlarged share capital. The disposal of Besttone E-Commerce Co., Ltd. was completed on 30 April 2012.

The Company acquired the digital trunking business (the "Sixth Acquired Business") from Satcom Guomai at a purchase price of RMB48 million (hereinafter, referred to as the "Sixth Acquisition") during the period. The Sixth Acquisition was completed on 30 April 2012.

On 15 June 2012, China Telecom (Hong Kong) International Limited, a subsidiary of the Company primarily engaged in the provision of international value-added network services, changed its name to China Telecom Global Limited.

3. Basis of Presentation

Since the Group and the Sixth Acquired Business are under common control of China Telecommunications Corporation, the Sixth Acquisition has been accounted for as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities related to the Sixth Acquired Business have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the Sixth Acquisition have been restated to include the results of operations and assets and liabilities related to the Sixth Acquired Business on a combined basis. The purchase price paid by the Group for the acquisition of the Sixth Acquired Business is accounted for as an equity transaction in the consolidated statement of changes in equity.

3. Basis of Presentation *(continued)*

The Group adopted the amendment to International Financial Reporting Standard 1 ("IFRS 1") in the second half year of 2011, and retrospectively adjusted the comparative figures of its 2011 annual financial statements. Details of the change in accounting policy related to the adoption of the amendment to IFRS 1 have been included in the 2011 annual financial statements of the Group. As the amendment to IFRS 1 had not yet been adopted in the 2011 interim financial statements, certain comparative figures of the statement of comprehensive income were restated to reflect this change in accounting policy.

The consolidated results of operations for the six-month period ended 30 June 2011 and the consolidated financial condition as at 31 December 2011 as previously reported by the Group, and the combined amounts presented in the consolidated financial statements of the Group to reflect the acquisition of the Sixth Acquired Business and the retrospective adjustments that have been made in accordance with the amendment to IFRS 1 are set out below:

	The Group (as previously reported) RMB millions	The Sixth Acquired Business RMB millions	Change in accounting policy RMB millions	The Group (as restated) RMB millions
Consolidated statement of comprehensive income for the six-month period ended 30 June 2011:				
Operating revenues	120,208	14	—	120,222
Depreciation and amortisation	25,412	4	252	25,668
Network operations and support	25,490	9	2	25,501
Selling, general and administrative	22,205	2	—	22,207
Other operating expenses	13,373	1	—	13,374
Income tax	3,380	—	(64)	3,316
Profit attributable to equity holders of the Company	9,808	(2)	(190)	9,616
Total comprehensive income	9,715	(2)	(190)	9,523
Basic earnings per share for profit attributable to equity holders of the Company	0.12	—	—	0.12
Consolidated statement of financial position as at 31 December 2011 *(Note)*:				
Total assets	419,115	36	—	419,151
Total liabilities	162,237	4	—	162,241
Total equity	256,878	32	—	256,910

Note: The effects of the adoption of the amendment to IFRS 1 on the consolidated statement of financial position have been reflected in the 2011 annual financial statements of the Group.

4. 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 22 August 2012, reflect the unaudited financial position of the Group as at 30 June 2012 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 2012.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

The preparation of interim financial statements in conformity with IAS 34, "Interim Financial Reporting" requires management to make judgments, 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 2011 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.

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 2011 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 2011 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 20 March 2012.

5. 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 one operating segment 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 10 percent of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amounts are immaterial. No single external customer accounts for 10 percent or more of the Group's operating revenues.

6. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Note	30 June 2012 RMB millions	31 December 2011 RMB millions (restated)
Third parties		**22,987**	18,040
China Telecom Group	(i)	**1,791**	1,803
Other telecommunications operators in the PRC		**668**	570
		25,446	20,413
Less: Allowance for doubtful debts		**(2,733)**	(1,942)
		22,713	18,471

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.

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

	30 June 2012 RMB millions	31 December 2011 RMB millions
Current, within 1 month	**12,276**	10,872
1 to 3 months	**2,846**	2,120
4 to 12 months	**1,701**	1,444
More than 12 months	**960**	432
	17,783	14,868
Less: Allowance for doubtful debts	**(2,605)**	(1,797)
	15,178	13,071

6. Accounts Receivable, Net *(continued)*

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

	30 June 2012 RMB millions	31 December 2011 RMB millions (restated)
Current, within 1 month	2,593	2,763
1 to 3 months	2,072	899
4 to 12 months	2,300	1,287
More than 12 months	698	596
	7,663	5,545
Less: Allowance for doubtful debts	(128)	(145)
	7,535	5,400

7. Cash and Cash Equivalents

	30 June 2012 RMB millions	31 December 2011 RMB millions
Cash at bank and in hand	26,236	24,470
Time deposits with original maturity within three months	6,837	2,902
	33,073	27,372

8. Short-Term and Long-Term Debt

Short-term debt comprises:

	30 June 2012 RMB millions	31 December 2011 RMB millions
Loans from banks — unsecured	5,050	8,123
Other loans — unsecured	103	244
Loans from China Telecom Group — unsecured	720	820
Total short-term debt	5,873	9,187

8. Short-Term and Long-Term Debt *(continued)*

The weighted average interest rate of the Group's total short-term debt as at 30 June 2012 is 5.9% (31 December 2011: 5.9%). As at 30 June 2012, the loans from banks and other loans bear interest at rates ranging from 4.6% to 6.6% (31 December 2011: 3.9% to 7.2%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at rates ranging from 3.3% to 4.9% (31 December 2011: 3.9% to 4.9%) per annum and are repayable within one year.

Long-term debt comprises:

	Note	**30 June 2012 RMB millions**	31 December 2011 RMB millions
Loans from banks — unsecured	*(i)*	**1,267**	3,012
Other loans — unsecured	*(i)*	**1**	1
Medium-term notes — unsecured	*(ii)*	**39,928**	39,903
Total long-term debt		**41,196**	42,916
Less: current portion		**(10,071)**	(11,766)
Non-current portion		**31,125**	31,150

Note:

(i) The loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2011: 1.00% to 8.30%) per annum with maturity through 2060.

(ii) 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.

The Group's short-term and long-term debts do not contain any financial covenants. As at 30 June 2012, the Group has unutilised committed credit facilities amounting to RMB121,804 million (31 December 2011: RMB118,970 million).

9. Accounts Payable

Accounts payable are analysed as follows:

	30 June 2012 RMB millions	31 December 2011 RMB millions (restated)
Third parties	38,370	34,749
China Telecom Group	10,974	8,911
Other telecommunications operators in the PRC	740	699
	50,084	44,359

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 2012 RMB millions	31 December 2011 RMB millions (restated)
Due within 1 month or on demand	10,921	13,075
Due after 1 month but within 3 months	12,790	11,610
Due after 3 months but within 6 months	12,972	8,054
Due after 6 months	13,401	11,620
	50,084	44,359

10. 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 2012 RMB millions	31 December 2011 RMB millions (restated)	**30 June 2012 RMB millions**	31 December 2011 RMB millions	**30 June 2012 RMB millions**	31 December 2011 RMB millions (restated)
Current						
Provisions and impairment losses, primarily for doubtful debts	**1,169**	1,011	**—**	—	**1,169**	1,011
Non-current						
Property, plant and equipment	**1,101**	1,145	**(334)**	(425)	**767**	720
Deferred revenues and installation costs	**745**	914	**(454)**	(562)	**291**	352
Available-for-sale equity securities	**—**	—	**(103)**	(130)	**(103)**	(130)
Deferred tax assets/ (liabilities)	**3,015**	3,070	**(891)**	(1,117)	**2,124**	1,953

	Balance at 1 January 2012 RMB millions (restated)	Recognised in statement of comprehensive income RMB millions	Disposal of a subsidiary RMB millions	**Balance at 30 June 2012 RMB millions**
Current				
Provisions and impairment losses, primarily for doubtful debts	1,011	160	(2)	**1,169**
Non-current				
Property, plant and equipment	720	47	—	**767**
Deferred revenues and installation costs	352	(61)	—	**291**
Available-for-sale equity securities	(130)	27	—	**(103)**
Net deferred tax assets	1,953	173	(2)	**2,124**

10. Deferred Tax Assets and Liabilities *(continued)*

Note:

(i) During the sixth-month period ended 30 June 2012, certain branches with operations in the western region of the PRC obtained approvals from tax authorities to adopt the preferential income tax rate of 15%. Accordingly, deferred tax assets that are expected to be recovered and deferred tax liabilities that are expected to be settled after 30 June 2012 were adjusted to reflect the change in tax rate. The overall effect of change in tax rate amounting to RMB138 million was charged to the consolidated statement of comprehensive income.

11. Operating Revenues

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

	Note	Six-month period ended 30 June 2012 RMB millions	2011 RMB millions (restated)
Wireline voice	*(i)*	**22,241**	26,462
Mobile voice	*(ii)*	**23,289**	18,002
Internet	*(iii)*	**42,825**	36,150
Value-added services	*(iv)*	**14,902**	12,554
Integrated information application services	*(v)*	**11,791**	9,818
Managed data and leased line	*(vi)*	**7,682**	6,998
Others	*(vii)*	**15,291**	10,140
Upfront connection fees	*(viii)*	**—**	98
		138,021	120,222

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 Best Tone information services and IT services and applications.

11. Operating Revenues *(continued)*

(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 repair and maintenance of equipment.*

(viii) *Represent the amortised amount of the upfront fees received for initial activation of wireline services.*

12. Personnel Expenses

Personnel expenses are attributable to the following functions:

	Six-month period ended 30 June	
	2012	2011
	RMB	RMB
	millions	millions
Network operations and support	**14,348**	12,640
Selling, general and administrative	**7,105**	6,597
	21,453	19,237

13. Other Operating Expenses

Other operating expenses consist of:

		Six-month period ended 30 June	
		2012	2011
		RMB	RMB
	Note	**millions**	millions
			(restated)
Interconnection charges	*(i)*	**6,733**	6,181
Cost of goods sold	*(ii)*	**12,252**	7,173
Donations		**4**	3
Others		**20**	17
		19,009	13,374

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.*

14. Net Finance Costs

Net finance costs comprise:

	Six-month period ended 30 June	
	2012	2011
	RMB	RMB
	millions	millions
Interest expense incurred	**1,286**	1,610
Less: Interest expense capitalised*	**(175)**	(141)
Net interest expense	**1,111**	1,469
Interest income	**(216)**	(179)
Foreign exchange losses	**22**	59
Foreign exchange gains	**(44)**	(40)
	873	1,309
*Interest expense was capitalised in construction in progress at the following rates per annum	**1.4%–6.4%**	1.0%–5.2%

15. Income Tax

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2012	2011
	RMB	RMB
	millions	millions
		(restated)
Provision for PRC income tax	**2,919**	2,606
Provision for income tax in other tax jurisdictions	**24**	17
Deferred taxation	**(146)**	693
	2,797	3,316

15. Income Tax *(continued)*

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

	Note	Six-month period ended 30 June 2012 RMB millions	 2011 RMB millions (restated)
Profit before taxation		**11,669**	12,973
Expected income tax expense at statutory tax rate of 25%	*(i)*	**2,917**	3,243
Differential tax rate on PRC subsidiaries' and branches' income	*(i)*	**(81)**	(26)
Differential tax rate on other subsidiaries' income	*(ii)*	**(11)**	(7)
Non-deductible expenses	*(iii)*	**157**	248
Non-taxable income	*(iv)*	**(45)**	(112)
Effect of change in tax rate	*10(i)*	**138**	—
Others	*(v)*	**(278)**	(30)
Actual income tax expense		**2,797**	3,316

Note:

(i) *Except for certain subsidiaries and branches which are taxed at preferential rate of 15%, 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.*

(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 represent miscellaneous income which are not subject to income tax.*

(v) *Amounts primarily represent tax deduction on prior year research and development expenses and losses on disposal of property, plant and equipment approved by tax authorities during the period.*

16. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 30 May 2012, a final dividend of RMB0.069506 (equivalent to HK$0.085) per share totaling approximately RMB5,625 million in respect of the year ended 31 December 2011 was declared and of which RMB5,235 million was paid on 20 July 2012.

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 totaling approximately RMB5,763 million in respect of the year ended 31 December 2010 was declared and paid on 30 June 2011.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2012.

17. Basic Earnings Per Share

The calculation of basic earnings per share for the six-month period ended 30 June 2012 and 2011 is based on the profit attributable to equity holders of the Company of RMB8,814 million and RMB9,616 million, respectively, divided by 80,932,368,321 shares.

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

18. Capital Commitments

As at 30 June 2012 and 31 December 2011, the Group had capital commitments as follows:

	30 June 2012 RMB millions	31 December 2011 RMB millions
Authorised and contracted for		
Property	**703**	674
Telecommunications network plant and equipment	**4,493**	5,695
	5,196	6,369
Authorised but not contracted for		
Property	**838**	801
Telecommunications network plant and equipment	**7,753**	5,927
	8,591	6,728

19. Related Party Transactions

(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:

		Six-month period ended 30 June	
		2012	2011
		RMB	RMB
	Note	**millions**	millions
Purchases of telecommunications equipment and materials	*(i)*	**1,521**	1,277
Sales of telecommunications equipment and materials	*(i)*	**1,241**	737
Construction and engineering services	*(ii)*	**4,833**	3,576
Provision of IT services	*(iii)*	**132**	138
Receiving IT services	*(iii)*	**250**	226
Receiving community services	*(iv)*	**1,144**	1,077
Receiving ancillary services	*(v)*	**4,665**	3,713
Operating lease expenses	*(vi)*	**193**	208
Net transaction amount of centralised services	*(vii)*	**275**	269
Interconnection revenues	*(viii)*	**21**	24
Interconnection charges	*(viii)*	**217**	240
Interest on loans from China Telecom Group	*(ix)*	**18**	145
CDMA network capacity lease fee	*(x)*	**11,768**	8,696
Reimbursement of capacity maintenance related costs of CDMA network	*(xi)*	**897**	633

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 repair 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.

19. 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 8).

(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 2012 RMB millions	31 December 2011 RMB millions
Accounts receivable	**1,791**	1,803
Prepayments and other current assets	**922**	1,091
Total amounts due from China Telecom Group	**2,713**	2,894
Accounts payable	**10,974**	8,911
Accrued expenses and other payables	**4,566**	312
Short-term debt	**720**	820
Total amounts due to China Telecom Group	**16,260**	10,043

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 8.

As at 30 June 2012 and 31 December 2011, 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.

19. 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 period ended 30 June	
	2012	2011
	RMB thousands	RMB thousands
Short-term employee benefits	**4,547**	4,492
Post-employment benefits	**342**	410
	4,889	4,902

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 2012 were RMB1,870 million (six-month period ended 30 June 2011: RMB1,698 million).

The amount payable for contributions to defined contribution retirement plans as at 30 June 2012 was RMB288 million (31 December 2011: RMB210 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").

19. Related Party Transactions *(Continued)*

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

Apart from transactions with parent company and its affiliates (Note 19(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.

20. Events After The Reporting Period

On 22 August 2012, the Company entered into an acquisition agreement with China Telecommunications Corporation. The acquisition agreement will become effective when certain conditions are fulfilled. Pursuant to the acquisition agreement, the Company shall acquire certain CDMA network assets and associated liabilities, which are held by China Telecommunications Corporation through the network branches located in 30 provinces, municipalities and autonomous regions in the PRC (which do not include Xizang Autonomous Region). The initial consideration is RMB84,595.41 million, and is subject to price adjustment, which reflects changes in the value of the CDMA network assets and associated liabilities during the period between the date following the base date for the asset appraisal (being 31 March 2012) up to (and including) the completion date of the acquisition, to arrive at the final consideration. The acquisition is expected to be completed by the end of 2012.

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 2011 Annual Report.

Purchase, Sale or Redemption of Securities

During the six-month period ended 30 June 2012, 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 2012, 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 2012, 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 March 2012, Mr. Zhang Chenshuang resigned from his positions as an Executive Director and Executive Vice President of the Company due to his age. On 30 May 2012, the appointment of Mr. Ke Ruiwen, an Executive Vice President of the Company, as an Executive Director of the Company was approved at the 2011 Annual General Meeting. On 22 August 2012, Mr. Li Jinming resigned from his position as a Non-executive Director of the Company due to his age. Mr. Miao Jianhua resigned from his position as a Supervisor of the Company due to his age. Mr. Xu Cailiao and Ms. Han Fang resigned from their positions as Supervisors of the Company due to the changes in job responsibility. Mr. Chen Liangxian was proposed to be appointed as the Non-executive Director of the Company. Mr. Shao Chunbao and Mr. Hu Jing were proposed to be appointed as the Supervisors of the Company. The abovesaid proposed appointment will become effective upon the requisite resolution having been approved at the extraordinary general meeting.

The change in Directors' or Supervisors' biographical details, since the despatch date of the Annual Report 2011 is set out below:

Dr. Qin Xiao, an Independent Non-executive Director of the Company, was appointed as the Non-executive Chairman of the Board of Directors of Amex Resources Limited. Madam Cha May Lung, Laura, an Independent Non-executive Director of the Company, was appointed as the Chairman of the Task Force on the Financial Service Development Council of Hong Kong SAR and ceased to act as a member of the 2011 Banking & Capital Markets Industry Agenda Council of the World Economic Forum and an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited and Tata Consultancy Services Limited.

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)*.

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

As at 30 June 2012, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the 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 (Long position)	Domestic shares	85.57%	70.89%	Beneficial owner
Guangdong Rising Assets Management Co., Ltd	5,614,082,653 (Long position)	Domestic shares	8.37%	6.94%	Beneficial owner
JPMorgan Chase & Co.	1,627,739,289 (Long position)	H shares	11.73%	2.01%	97,454,207 shares as beneficial owner; 382,958,000 shares as investment manager; and 1,147,327,082 shares as security interest holder/ approved lending agent
	12,741,386 (Short position)	H shares	0.09%	0.02%	Beneficial owner
	1,147,327,082 (Shares available for lending)	H shares	8.27%	1.42%	Security interest holder/ approved lending agent
Commonwealth Bank of Australia	1,253,898,681 (Long position)	H shares	9.04%	1.55%	Interest of controlled corporation
Blackrock, Inc	1,109,471,194 (Long position)	H shares	7.99%	1.37%	Interest of controlled corporation
	80,992,925 (Short position)	H shares	0.58%	0.10%	Interest of controlled corporation
RFS Holdings B.V.	907,191,530 (Long position)	H shares	6.54%	1.12%	Interest of controlled corporation
	1,180,327,134 (Short position)	H shares	8.51%	1.46%	Interest of controlled corporation

Save as stated above, as at 30 June 2012, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

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 2012.

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 2012. 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 under the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2012.

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 2012 to 30 June 2012.

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.

China Telecom Corporation Limited

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