

# Notes to the Unaudited Interim Financial Statements

For the six-month period ended 30 June 2009

## 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 and managed data, 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, Xinjiang Uygur Autonomous Region and Hong Kong Special Administrative Region of the People’s Republic of China (the “PRC”). Following the acquisition of Code Division Multiple Access (“CDMA”) mobile communication business in October 2008, the Group also provides nation-wide mobile telecommunications and related services in the mainland of the PRC and the Macau Special Administrative Region 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 PRC 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 27 August 2009, reflect the unaudited financial position of the Group as at 30 June 2009 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 2009.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy, financial statement presentation and disclosure changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policy, financial statement presentation and disclosures are set out in Note 3.

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 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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 auditors 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.

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 2. BASIS OF PREPARATION (CONTINUED)

The financial information relating to the financial year ended 31 December 2008 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 2008 are available from the Company's registered office. The Company's international auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2009.

## 3. CHANGES IN ACCOUNTING POLICY, FINANCIAL STATEMENT PRESENTATION AND DISCLOSURES

The IASB has issued a number of new and revised IFRS and Interpretations that are effective or available for early adoption for accounting periods beginning on or after 1 January 2009. The Group has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2009 on the basis of the IFRSs currently in issue, which the Group believes do not have a significant impact on the Group's prior year financial position and results of operations. However, the adoption of the following new and revised IFRS and Interpretations has resulted in accounting policy, financial statement presentation and disclosure changes:

### (i) IAS 1 (revised 2007), "Presentation of financial statements"

In prior years, the Group's consolidated financial statements comprised consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and other explanatory notes. Income and expenses recognised in profit or loss were presented in the consolidated income statement. All changes in equity during the year arising from transactions with equity shareholders in their capacity and other income and expenses that the Group recognised directly in equity in accordance with IFRSs were presented in the consolidated statement of changes in equity.

As a result of the adoption of IAS 1 (revised 2007), the Group's consolidated income statement is replaced by the consolidated statement of comprehensive income. All income and expenses recognised in profit or loss, together with other income and expenses that were previously recognised directly in equity in accordance with IFRSs are now presented in the consolidated statement of comprehensive income. Comparative amounts have been restated to conform with the new presentation. This change in presentation has no effect on reported profit or loss, total income and expenses or net assets for any period presented. In addition, the term "consolidated balance sheet" has been changed to "consolidated statement of financial position" in accordance with IAS 1 (revised 2007).

### (ii) IFRIC 13, "Customer loyalty programmes"

The Group launches a customer loyalty scheme to its telephony and Internet service subscribers that provides subscribers with bonus point credits. The bonus point credits can be redeemed for free telecommunication services or other gifts.

In prior years, the Group recognised bonus point credits associated with the customer loyalty scheme as a current liability based on the estimated fair value of the bonus point credits granted to subscribers, with a corresponding charge to selling, general and administrative expense. When the subscribers redeemed the awards or when the bonus point credits expired, the liability was reduced accordingly to reflect the change in outstanding obligations.

As a result of the adoption of IFRIC 13 which is effective for accounting period beginning on or after 1 July 2008, the Group accounts for bonus point credits associated with the customer loyalty scheme as a separately identifiable component of the sales transaction in which bonus point credits are granted. The fair value of the consideration received or receivable is allocated between bonus point credits and other components of the sale transaction based on their relative fair values. Consideration allocated to bonus point credits is initially recorded as a current liability which is subsequently recognised as revenue when the bonus point credits are redeemed by subscribers or the bonus point credits expire. The cost of gifts redeemed by subscribers is recognised as other operating expenses.

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 3. CHANGES IN ACCOUNTING POLICY, FINANCIAL STATEMENT PRESENTATION AND DISCLOSURES (CONTINUED)

The following table summarises the retrospective adjustments that have been made in accordance with IFRIC 13 to each of the line items in the consolidated statement of comprehensive income for the period ended 30 June 2008:

	Effect of adoption of IFRIC 13 ((decrease)/increase for the period) RMB millions
Operating revenues	(55)
Selling, general and administrative expenses	(108)
Other operating expenses	53

As a result of the adoption of IFRIC 13, the Group's operating revenues and selling, general and administrative expenses have been decreased by RMB198 million and RMB238 million respectively while other operating expenses has been increased by RMB40 million for the six-month period ended 30 June 2009. The adoption of IFRIC 13 does not have any effect on the Group's net profit and total comprehensive income for the periods presented.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2009 may be affected by the issuance of additional interpretations or other changes announced by the IASB subsequent to the date of issuance of these interim financial statements. Therefore the policies that will be applied in the Group's financial statements for the year ending 31 December 2009 cannot be determined with certainty at the date of issuance of these interim financial statements.

## 4. SEGMENTAL REPORTING

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's chief operating decision maker in order to allocate resource 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 telecommunication business. The Group's assets located and operating revenues derived from activities outside the PRC are less than 1% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such information is immaterial.

## Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

### 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	Note	30 June 2009 RMB millions	31 December 2008 RMB millions
Third parties		20,302	17,923
China Telecom Group	(i)	499	372
Other state-controlled telecommunications operators in the PRC		1,385	1,112
		22,186	19,407
Less: Allowance for impairment of doubtful debts		(2,965)	(2,118)
		19,221	17,289

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 2009 RMB millions	31 December 2008 RMB millions
Current, within 1 month	11,320	11,282
1 to 3 months	2,515	2,170
4 to 12 months	1,858	1,514
More than 12 months	1,061	495
	16,754	15,461
Less: Allowance for impairment of doubtful debts	(2,851)	(2,009)
	13,903	13,452

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 5. ACCOUNTS RECEIVABLE, NET (CONTINUED)

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

	30 June 2009 <i>RMB millions</i>	31 December 2008 <i>RMB millions</i>
Current, within 1 month	1,765	1,397
1 to 3 months	1,663	1,210
4 to 12 months	1,393	834
More than 12 months	611	505
	5,432	3,946
Less: Allowance for impairment of doubtful debts	(114)	(109)
	5,318	3,837

## 6. CASH AND CASH EQUIVALENTS

	30 June 2009 <i>RMB millions</i>	31 December 2008 <i>RMB millions</i>
Cash at bank and in hand	19,913	21,916
Time deposits with original maturity within three months	1,053	5,950
	20,966	27,866

## 7. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	30 June 2009 <i>RMB millions</i>	31 December 2008 <i>RMB millions</i>
Loans from state-controlled banks — unsecured	9,101	9,693
Short-term commercial paper—unsecured	9,997	9,979
Loans from China Telecommunications Corporation — unsecured	62,026	63,776
	81,124	83,448

The weighted average interest rate of the Group's total short-term debt as at 30 June 2009 was 4.6% (31 December 2008: 5.1%). As at 30 June 2009, the loans from state-controlled banks bear interest at rates ranging from 2.0% to 7.5% (31 December 2008: 2.5% to 7.5%) per annum and are repayable within one year; the commercial paper bears interest at a fixed rate of 4.72% per annum and is repayable in August 2009; the loans from China Telecommunications Corporation bear interest at fixed rates ranging from 3.9% to 7.2% (31 December 2008: 3.9% to 7.3%) per annum and are repayable within one year.

## Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

### 7. SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

Long-term debt comprises:

	Note	30 June 2009 RMB millions	31 December 2008 RMB millions
Loans from state-controlled banks — unsecured	(i)	5,324	4,829
Other loans		1	1
Medium-term note — unsecured	(ii)	19,836	19,811
Amount due to China Telecommunications Corporation in connection with the Second Acquisition — unsecured	(iii)	—	15,150
<b>Total long-term debt</b>		<b>25,161</b>	<b>39,791</b>
Less: current portion		(1,024)	(565)
<b>Non-current portion</b>		<b>24,137</b>	<b>39,226</b>

Note:

- (i) The loans from state-controlled banks bear interest at rates ranging from 1.0% to 8.0% (31 December 2008: 1.0% to 7.6%) per annum with maturity through 2060.
- (ii) On 22 April 2008, the Group issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 5.3% per annum, and incurred issuing costs of RMB88 million. The medium-term note is unsecured and is repayable on 21 April 2011. 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 and incurred issuing costs of RMB125 million. The medium-term note is unsecured and is repayable on 22 October 2013.
- (iii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the Second Acquisition. The amount bears interest on the outstanding balance at 5.184% per annum until 30 June 2009. Thereafter the interest rate would be adjusted based on the prevailing market interest rate. This amount is repayable on 30 June 2014 and the Company may, from time to time, repay all or part of the amount at any time until 30 June 2014 without penalty. In March 2009, the Company repaid the remaining balance of RMB15,150 million to China Telecommunications Corporation.

The Group's short-term and long-term debts do not contain any financial covenants. As at 30 June 2009, the Group's unutilised committed credit facilities amounted to RMB129,920 million (31 December 2008: RMB128,231 million).

### 8. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	30 June 2009 RMB millions	31 December 2008 RMB millions
Third parties	29,146	27,698
China Telecom Group	5,772	6,387
Other state-controlled telecommunications operators in the PRC	505	373
<b>Total</b>	<b>35,423</b>	<b>34,458</b>

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

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 8. ACCOUNTS PAYABLE (CONTINUED)

Ageing analysis of accounts payable is as follows:

	30 June 2009 RMB millions	31 December 2008 RMB millions
Due within 1 month or on demand	7,151	7,530
Due after 1 month but within 3 months	8,856	10,289
Due after 3 months but within 6 months	9,896	6,807
Due after 6 months	9,520	9,832
	<b>35,423</b>	<b>34,458</b>

## 9. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	Assets		Liabilities		Net Balance	
	30 June 2009 RMB millions	31 December 2008 RMB millions	30 June 2009 RMB millions	31 December 2008 RMB millions	30 June 2009 RMB millions	31 December 2008 RMB millions
<i>Current</i>						
Provisions and impairment losses, primarily for doubtful debts	974	726	—	—	974	726
<i>Non-current</i>						
Property, plant and equipment	5,750	6,738	(1,867)	(1,982)	3,883	4,756
Deferred revenues and installation costs	1,357	1,424	(790)	(821)	567	603
Land use rights	5,676	5,740	—	—	5,676	5,740
Available-for-sale equity securities	—	—	(28)	(13)	(28)	(13)
Deferred tax assets/(liabilities)	<b>13,757</b>	<b>14,628</b>	<b>(2,685)</b>	<b>(2,816)</b>	<b>11,072</b>	<b>11,812</b>

## Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

### 9. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movements in temporary differences are as follows:

	Note	Balance at 1 January 2009 RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 30 June 2009 RMB millions
<i>Current</i>				
Provisions and impairment losses, primarily for doubtful debts		726	248	974
<i>Non-current</i>				
Property, plant and equipment		4,756	(873)	3,883
Deferred revenues and installation costs		603	(36)	567
Land use rights		5,740	(64)	5,676
Available-for-sale equity securities	(i)	(13)	(15)	(28)
<b>Net deferred tax assets</b>		<b>11,812</b>	<b>(740)</b>	<b>11,072</b>

Note:

(i) The deferred tax on changes in fair value of available-for-sale equity securities is recognised in other comprehensive income.

### 10. 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 periods ended 30 June	
		2009 RMB millions	2008 RMB millions (restated)
Wireline voice	(i)	41,060	50,485
Mobile voice	(ii)	9,051	—
Internet	(iii)	24,528	19,481
Value-added services	(iv)	10,347	7,212
Integrated information application services	(v)	5,928	4,772
Managed data and leased line	(vi)	5,528	5,025
Others	(vii)	6,112	2,376
Upfront connection fees	(viii)	592	1,028
		<b>103,146</b>	<b>90,379</b>

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 10. OPERATING REVENUES (CONTINUED)

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, interconnections and 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 interconnections 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, back ring tone services (Colour Ring Tone), Internet data centre and IP-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 service.
- (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 wireline telecommunication networks and equipment.
- (vii) Represent primarily revenue from sale, rental and repairs and maintenance of customer-end terminal equipment.
- (viii) Represent the amortised amount of the upfront fees received for initial activation of wireline services.

## 11. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	Six-month periods ended 30 June	
	2009 RMB millions	2008 RMB millions
Network operations and support	10,362	9,125
Selling, general and administrative	5,989	4,732
	<b>16,351</b>	<b>13,857</b>

## Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

### 12. OTHER OPERATING EXPENSES

Other operating expenses consist of:

	Note	Six-month periods ended 30 June	
		2009 RMB millions	2008 RMB millions
Interconnection charges	(i)	4,602	3,481
Cost of goods sold		4,090	1,116
Donations		12	12
Others		15	15
		<b>8,719</b>	<b>4,624</b>

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 wireline and mobile telecommunications networks.

### 13. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2009 RMB millions	2008 RMB millions
Interest expense incurred	2,710	2,716
Less: Interest expense capitalised*	(185)	(204)
Net interest expense	2,525	2,512
Interest income	(134)	(217)
Foreign exchange losses	16	54
Foreign exchange gains	(139)	(60)
	<b>2,268</b>	<b>2,289</b>
* Interest expense was capitalised in construction in progress at the following rates per annum	1.3%–4.9%	2.4%–5.7%

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 14. INCOME TAX

Income tax in the consolidated statement of comprehensive income comprises:

	Six-month periods ended 30 June	
	2009 RMB millions	2008 RMB millions
Provision for PRC income tax	2,321	3,779
Provision for income tax in other tax jurisdictions	25	18
Deferred taxation	725	19
	<b>3,071</b>	<b>3,816</b>

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

	Note	Six-month periods ended 30 June	
		2009 RMB millions	2008 RMB millions
Profit before taxation		12,126	16,493
Expected income tax expense at statutory tax rate of 25%	(i)	3,032	4,123
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(286)	(311)
Differential tax rate on other subsidiaries' income	(ii)	(15)	(9)
Non-deductible expenses	(iii)	682	538
Non-taxable income	(iv)	(340)	(519)
Tax credit for domestic equipment purchases and other tax benefits		(2)	(6)
Income tax		<b>3,071</b>	<b>3,816</b>

Note:

- (i) The provision for PRC current income tax is based on a statutory rate of 25% of the assessable income of the Company, its 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 a preferential rate of 15% or 20%.
- (ii) Income tax provision of the Company's subsidiaries in the Hong Kong and Macau Special Administrative Regions of PRC, and in other countries is 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 purpose.
- (iv) Amounts represent connection fees received from customers and other income which are not subject to income tax.

## Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

### 15. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 26 May 2009, a final dividend of RMB0.074963 (equivalent to HK\$0.085) per share totalling approximately RMB6,067 million in respect of the year ended 31 December 2008 was declared and paid on 30 June 2009.

Pursuant to the shareholders' approval at the Annual General Meeting held on 30 May 2008, a final dividend of RMB 0.075747 (equivalent to HK\$0.085) per share totalling RMB6,125 million in respect of the year ended 31 December 2007 was declared, of which RMB5,699 million and RMB426 million was paid on 16 June 2008 and 25 February 2009 respectively.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2009.

### 16. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month periods ended 30 June 2009 and 2008 is based on the profit attributable to equity holders of the Company of RMB9,004 million and RMB12,634 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.

### 17. CAPITAL COMMITMENTS

As at 30 June 2009 and 31 December 2008, the Group had capital commitments as follows:

	30 June 2009 <i>RMB millions</i>	31 December 2008 <i>RMB millions</i>
Authorised and contracted for		
Property	815	629
Telecommunications network plant and equipment	3,569	3,283
	<b>4,384</b>	<b>3,912</b>
Authorised but not contracted for		
Property	739	764
Telecommunications network plant and equipment	6,216	3,857
	<b>6,955</b>	<b>4,621</b>

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 18. RELATED PARTY TRANSACTIONS

Companies are considered to be related if a 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.

### (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 relationships with members of China Telecom Group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

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	
		2009 RMB millions	2008 RMB millions
Purchases of telecommunications equipment and materials	(i)	760	53
Sales of telecommunications equipment and materials	(i)	384	—
Construction, engineering and information technology services	(ii)	2,673	3,409
Provision of community services	(iii)	1,067	1,049
Provision of ancillary services	(iv)	2,717	1,897
Provision of comprehensive services	(v)	—	442
Operating lease expenses	(vi)	176	192
Centralised service (revenue)/expenses	(vii)	(241)	168
Interconnection revenues	(viii)	34	34
Interconnection charges	(viii)	329	329
Interest on amounts due to and loans from China Telecom Group	(ix)	1,539	1,612
CDMA network capacity lease fee	(x)	3,583	—
Capacity maintenance related costs of CDMA network	(xi)	273	—

Note:

- (i) The amount for the period ended 30 June 2008 represents commission paid and payable for procurement services provided by China Telecom Group. On 15 December 2008, the Company and China Telecommunications Corporation entered into a supplemental agreement, which is effective from 1 January 2009, to expand the scope of procurement services to include the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group.
- (ii) Represent network construction, engineering and information technology services provided by China Telecom Group.
- (iii) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, hygiene and other community services.
- (iv) 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.

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 18. RELATED PARTY TRANSACTIONS (CONTINUED)

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

- (v) The amount for the period ended 30 June 2008 represents amounts paid and payable to entities of China Telecom Group which were not within the scope of other related party service agreements in respect of services for procurement of telecommunications equipment, network design, software upgrade, system integration and manufacturing of calling cards. The comprehensive service agreement signed between the Company and China Telecommunications Corporation expired on 31 December 2008 and has not been renewed. The various types of cross-provincial transactions set out under the Comprehensive Services Framework Agreement have been classified into other existing related party transactions based on the nature of such transactions. Therefore, no transaction amount is reported in this category for the period ended 30 June 2009.
- (vi) Represent amounts paid and payable to China Telecom Group for leases of business premises and inter-provincial transmission optic fibres.
- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with common corporate services and international telecommunications facilities.
- (viii) Represent amounts charged from/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 amounts due to China Telecom Group and loans from China Telecommunications Corporation (Note 7).
- (x) Represent amounts paid and payable to China Telecom Group for lease of CDMA mobile communication network capacity ("CDMA network").
- (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 included in the following balances are summarised as follows:

	30 June 2009 RMB millions	31 December 2008 RMB millions
Accounts receivable	499	372
Prepayments and other current assets	520	700
<b>Total amounts due from China Telecom Group</b>	<b>1,019</b>	<b>1,072</b>
Accounts payable	5,772	6,387
Accrued expenses and other payables	1,504	1,448
Short-term debt	62,026	63,776
Long-term debt	—	15,150
<b>Total amounts due to China Telecom Group</b>	<b>69,302</b>	<b>86,761</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 7.

As at 30 June 2009 and 31 December 2008, no material allowance for impairment of doubtful debts was recognised in respect of amounts due from China Telecom Group.

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 18. 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	
	2009 RMB thousands	2008 RMB thousands
Short-term employee benefits	4,177	4,272
Post-employment benefits	344	317
	4,521	4,589

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 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 contributions described above.

The Group's contributions for the six-month period ended 30 June 2009 were RMB1,466 million (six-month period ended 30 June 2008: RMB1,251 million).

The amount payable for contributions to defined contribution retirement plans as at 30 June 2009 was RMB296 million (31 December 2008: RMB257 million).

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 18. RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled public utilities enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the State through government authorities, agencies, affiliations and other organisations (collectively referred to as “state-controlled entities”).

Apart from transactions with parent company and its affiliates, the Group has transactions with other state-controlled entities which include but are not limited to the following:

- sales and purchases of goods, properties and other assets
- rendering and receiving services
- 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 state-controlled. The Group prices its telecommunication 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 state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity’s pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationships on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details:

# Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

## 18. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with other state-controlled entities in the PRC (continued)

(i) Transactions with other state-controlled telecommunications operators in the PRC

The Group's telecommunications networks interconnect with the networks of other state-controlled telecommunications operators. The Group also leases telecommunications networks to these operators in the normal course of business. The interconnection and leased line charges are regulated by the MIIT. The extent of the Group's interconnection and leased line transactions with other state-controlled telecommunications operators in the PRC is summarised as follows:

	Six-month periods ended 30 June	
	2009 RMB millions	2008 RMB millions
Interconnection revenues	5,587	5,815
Interconnection charges	3,388	2,146
Leased line revenues	288	402

Amounts due from/to other state-controlled telecommunications operators in the PRC included in the following balances are summarised as follows:

	30 June 2009 RMB millions	31 December 2008 RMB millions
Accounts receivable	1,385	1,112
Prepayments and other current assets	531	4,523
<b>Total amounts due from other state-controlled telecommunications operators in the PRC</b>	<b>1,916</b>	<b>5,635</b>
Accounts payable	505	373
Accrued expenses and other payables	5,548	13,242
<b>Total amounts due to other state-controlled telecommunications operators in the PRC</b>	<b>6,053</b>	<b>13,615</b>

## Notes to the Unaudited Interim Financial Statements (Continued)

For the six-month period ended 30 June 2009

### 18. RELATED PARTY TRANSACTIONS (CONTINUED)

#### (d) Transactions with other state-controlled entities in the PRC (continued)

- (i) Transactions with other state-controlled telecommunications operators in the PRC (continued)  
Amounts due from/to other state-controlled telecommunications operators in the PRC bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

As at 30 June 2009 and 31 December 2008, there were no material allowance for impairment of doubtful debts in respect of amounts due from other state-controlled telecommunications operators in the PRC.

- (ii) Transactions with state-controlled banks

The Group deposits its cash balances primarily with several state-controlled banks in the PRC and obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of these bank deposits and loans are regulated by the People's Bank of China. The Group's interest income earned from deposits with and interest expenses incurred on loans from state-controlled banks in the PRC are as follows:

	Six-month periods ended 30 June	
	2009 RMB millions	2008 RMB millions
Interest income	134	215
Interest expense	468	1,104

The amounts of cash deposited with and loans from state-controlled banks in the PRC are summarised as follows:

	30 June 2009 RMB millions	31 December 2008 RMB millions
Cash at bank	19,854	21,674
Time deposits with original maturity within three months	1,053	5,950
Time deposits with original maturity over three months	1,635	397
<b>Total deposits with state-controlled banks in the PRC</b>	<b>22,542</b>	<b>28,021</b>
Short-term loans	9,101	9,693
Long-term loans	5,324	4,829
<b>Total loans from state-controlled banks in the PRC</b>	<b>14,425</b>	<b>14,522</b>

Further details of the interest rates and repayment terms of loans from state-controlled banks are set out in Note 7.

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