



Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2011

1. Principal activities

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

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

2. Basis of preparation

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

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

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

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

2. Basis of preparation *(continued)*

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

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

3. Segmental reporting

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

4. Accounts receivable, net

Accounts receivable, net, are analysed as follows:

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

Note:

(i) China Telecommunications Corporation together with its subsidiaries other than the Group are referred to as "China Telecom Group".

Amounts due from the provision of telecommunications services to customers are generally due within 30 days from the date of billing.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

4. Accounts receivable, net (continued)

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

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

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

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

5. Cash and cash equivalents

	30 June 2011	31 December 2010
	RMB millions	RMB millions
Cash at bank and in hand	24,344	24,071
Time deposits with original maturity within three months	1,567	1,753
	25,911	25,824

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

6. Short-term and long-term debt

Short-term debt comprises:

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

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

Long-term debt comprises:

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

Note:

(i) The loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2010: 1.00% to 8.30%) per annum with maturity through 2060.

(ii) On 22 April 2008, the Company issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 5.30% per annum. The medium-term note was repaid by the Company on 23 April 2011.

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.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

6. Short-term and long-term debt *(continued)*

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

7. Accounts payable

Accounts payable are analysed as follows:

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

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

Ageing analysis of accounts payable is as follows:

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

8. Deferred tax assets and liabilities

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

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

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

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

Note:

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

10. Personnel expenses

Personnel expenses are attributable to the following functions:

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

11. Other operating expenses

Other operating expenses consist of:

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

Note:

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

12. Net finance costs

Net finance costs comprise:

	Six-month periods ended 30 June	
	2011 RMB millions	2010 RMB millions
Interest expense incurred	1,610	2,172
Less: Interest expense capitalised*	(141)	(137)
Net interest expense	1,469	2,035
Interest income	(179)	(139)
Foreign exchange losses	59	69
Foreign exchange gains	(40)	(110)
	1,309	1,855
*Interest expense was capitalised in construction in progress at the following rates per annum	1.0%–5.2%	1.3%–4.6%

13. Income tax

Income tax in the profit or loss comprises:

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

13. Income tax (continued)

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

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

Note:

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

14. Dividends

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

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

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

15. Basic earnings per share

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

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

16. Capital commitments

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

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

17. Related party transactions

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

17. Related party transactions *(continued)*

(a) Transactions with China Telecom Group

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

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

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

Note:

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

17. Related party transactions *(continued)*(a) Transactions with China Telecom Group *(continued)*

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

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

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

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt payable to China Telecom Group are set out in Note 6.

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

On 25 August 2010, the Company and China Telecommunications Corporation entered into supplemental agreements to renew the CDMA network capacity lease agreement ("the 2010 CDMA Network Lease"), which it first entered into with China Telecommunications Corporation and which were approved by the Company's independent shareholders at an Extraordinary General Meeting held on 16 September 2008, for a further term of two years expiring on 31 December 2012. Pursuant to the 2010 CDMA Network Lease, the lease fee for the capacity on the constructed CDMA network shall be 28% of the CDMA service revenue. For the year ending 31 December 2011 and 2012, the minimum annual lease fee shall be 90% of the total amount of the lease fee paid by the Company to China Telecommunications Corporation in the previous year.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

17. Related party transactions *(continued)***(b) Key management personnel compensation**

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

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

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

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

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

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

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

(d) Transactions with other government-related entities

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



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2011

17. Related party transactions *(continued)*

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

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

- rendering and receiving services, including but not limited to telecommunications services
- sales and purchases of goods, properties and other assets
- lease of assets
- depositing and borrowing money
- use of public utilities

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

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