



1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

China Telecom Corporation Limited (“the Company”) and its subsidiaries (hereinafter, collectively referred to as “the Group”) are engaged in the provision of wireline telecommunications and related services in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province of the People’s Republic of China (“the PRC”). The Group offers a comprehensive range of wireline telecommunications services to residential and business customers, including local, domestic long distance (“DLD”) and international long distance (“ILD”) telephone services, Internet and managed data, leased line, and other related services.

The Company was incorporated in the PRC on 10 September 2002 as part of the reorganisation (the “Restructuring”) of China Telecommunications Corporation (“China Telecom” and together with its subsidiaries other than the Company referred to as “China Telecom Group”), a state-owned enterprise which is under the supervision and regulation of the Ministry of Information Industry. The financial information relating to the six-month period ended 30 June 2002 included in these interim financial statements presents the results of the Group as if the Group had been in existence throughout that period and as if the operations that were transferred to the Company in connection with the Restructuring were conducted on 1 January 2002.

These interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements reflect the unaudited financial position of the Group as at 30 June 2003 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 2003.

The interim financial statements set out on pages 7 to 20 have been authorised for issue by the Board of Directors on 10 September 2003. These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and by the Company’s international auditors, KPMG, in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants. KPMG’s independent review report to the Board of Directors is included on page 6.

The financial information relating to the financial year ended 31 December 2002 included in these interim financial statements 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 2002 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 April 2003.

The accounting policies adopted in the 2002 annual financial statements have been consistently applied by the Group in preparing these interim financial statements.



2. SEGMENTAL REPORTING

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, the Group has one operating segment which is the provision of wireline telecommunications services. All the Group's operating activities are carried out in the PRC.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, is analysed as follows:

	30 June 2003	31 December 2002
	RMB millions	RMB millions (Audited)
Accounts receivable	8,110	6,440
Less: Allowance for doubtful accounts	(679)	(479)
	7,431	5,961

Amounts due from the provision of wireline telecommunications services to residential and business customers are due within 30 days from the date of billing. Customers who have accounts overdue by more than 90 days will have their services disconnected.

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

	30 June 2003	31 December 2002
	RMB millions	RMB millions (Audited)
Current, within 1 month	5,967	5,036
1 to 3 months	401	352
4 to 12 months	408	309
More than 12 months	244	130
	7,020	5,827
Less: Allowance for doubtful accounts	(652)	(439)
	6,368	5,388



3. ACCOUNTS RECEIVABLE, NET (Continued)

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

	30 June 2003 RMB millions	31 December 2002 RMB millions (Audited)
Current, within 1 month	758	363
1 to 3 months	130	109
4 to 12 months	142	85
More than 12 months	60	56
	1,090	613
Less: Allowance for doubtful accounts	(27)	(40)
	1,063	573

4. CASH AND CASH EQUIVALENTS

	30 June 2003 RMB millions	31 December 2002 RMB millions (Audited)
Cash at bank and in hand	12,912	11,574
Time deposits with maturity within three months	4,923	4,849
	17,835	16,423

5. ACCOUNTS PAYABLE

Accounts payable is analysed as follows:

	30 June 2003 RMB millions	31 December 2002 RMB millions (Audited)
Third parties	9,203	11,505
China Telecom Group	2,647	2,894
	11,850	14,399



5. ACCOUNTS PAYABLE (Continued)

Amounts due to China Telecom Group are repayable in accordance with normal commercial terms.

Ageing analysis of accounts payable is as follows:

	30 June 2003	31 December 2002
	RMB millions	RMB millions (Audited)
Due within 1 month or on demand	1,639	1,715
Due after 1 month but within 3 months	3,356	2,701
Due after 3 months but within 6 months	4,625	3,329
Due after 6 months	2,230	6,654
	11,850	14,399

6. OPERATING REVENUES

Operating revenues represent revenues from the provision of wireline telecommunications services, net of PRC business tax and government levies. The components of the Group's operating revenues are as follows:

		Six-month periods ended 30 June 2003	2002
	<i>Note</i>	RMB millions	RMB millions (Audited)
Upfront connection fees	<i>(i)</i>	2,768	3,058
Upfront installation fees	<i>(ii)</i>	573	467
Monthly fees	<i>(iii)</i>	6,676	6,083
Local usage fees	<i>(iv)</i>	11,239	10,967
DLD	<i>(iv)</i>	6,985	7,148
ILD	<i>(iv)</i>	1,668	1,601
Internet	<i>(v)</i>	2,669	1,665
Managed data	<i>(vi)</i>	974	846
Interconnections	<i>(vii)</i>	2,253	2,272
Leased line	<i>(viii)</i>	1,409	1,555
Others	<i>(ix)</i>	2,322	1,206
		39,536	36,868



6. OPERATING REVENUES (Continued)

Note:

- (i) Represent the amortised amount of the upfront fees received for the initial activation of wireline services.
- (ii) Represent the amortised amount of the upfront fees received for installation of wireline services.
- (iii) Represent amounts charged to customers each month for their use of the Group's telephone services.
- (iv) Represent usage fees charged to customers for the provision of telephone services.
- (v) Represent amounts charged to customers for the provision of Internet access services.
- (vi) Represent amounts charged to customers for the provision of managed data transmission services.
- (vii) Represent amounts charged to domestic and foreign telecommunications operators for delivery of calls connecting to the Group's wireline telecommunications networks.
- (viii) Represent lease income from other domestic telecommunications operators and business customers for the usage of the Group's wireline telecommunications networks and is measured by the number of lines leased and the agreed upon rate per line leased. The lease arrangements are primarily on a year to year basis.
- (ix) Represent primarily revenues from provision of value-added telecommunications services to customers, sale and repairs and maintenance of customer-end equipment.

7. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2003	2002
	RMB millions	RMB millions (Audited)
Interest expense incurred	616	656
Less: Interest expense capitalised*	(298)	(386)
Net interest expense	318	270
Interest income	(119)	(67)
Foreign exchange losses	—	218
Foreign exchange gains	(23)	—
	176	421
* Interest expense was capitalised in construction in progress at the following rates per annum	4.2% to 5.4%	4.4% to 5.6%



8. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is arrived at after charging:

	Six-month periods ended 30 June	
	2003 RMB millions	2002 RMB millions (Audited)
Personnel expenses	5,091	3,393
Interconnection charges	1,289	1,391

9. TAXATION

Taxation in the consolidated statement of income comprises:

	Six-month periods ended 30 June	
	2003 RMB millions	2002 RMB millions (Audited)
Provision for PRC income tax	2,714	2,169
Deferred taxation	29	(204)
	2,743	1,965

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries and branches of the Group which are taxed at a preferential rate of 15%.

10. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 20 June 2003, a final dividend of RMB0.008897 per share totalling RMB673 million in respect of the year ended 31 December 2002 was declared and was paid on 10 July 2003.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2003.



11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2003 is based on the net profit of RMB9,260 million and the weighted average number of shares in issue during the period of 75,614,186,503 shares. The calculation of basic earnings per share for the six-month period ended 30 June 2002 is based on the net profit of RMB8,483 million divided by 68,317,270,803 shares as if the 68,317,270,803 shares issued and outstanding upon the legal formation of the Company on 10 September 2002 had been outstanding for the six-month period ended 30 June 2002.

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

12. CAPITAL COMMITMENTS

As at 30 June 2003, the Group had capital commitments as follows:

	30 June 2003	31 December 2002
	RMB millions	RMB millions (Audited)
Authorised and contracted for		
Properties	963	800
Telecommunications network plant and equipment	2,634	3,439
	3,597	4,239
Authorised but not contracted for		
Properties	1,126	1,359
Telecommunications network plant and equipment	4,652	3,640
	5,778	4,999



13. RELATED PARTY TRANSACTIONS

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

		Six-month periods ended 30 June	
	Note	2003 RMB millions	2002 RMB millions (Audited)
Purchases of telecommunications equipment and materials	(i)	45	87
Construction, engineering and information technology services	(ii)	985	1,112
Provision of community services	(iii)	571	622
Provision of ancillary services	(iv)	409	419
Operating lease expenses	(v)	181	184
Centralised service expenses	(vi)	144	339
Interconnection revenues	(vii)	99	151
Interconnection charges	(vii)	280	392

Note:

- (i) Represent purchases of telecommunications equipment and materials from China Telecom Group.
- (ii) Represent provision of network construction, engineering and information technology services to the Group by China Telecom Group.
- (iii) Represent amounts paid and payable by the Group to China Telecom Group in respect of cultural, educational, hygiene and other community services.
- (iv) Represent amounts paid and payable by the Group to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (v) Represent amounts paid and payable to China Telecom Group for operating leases in respect of business premises and inter-provincial transmission optic fibres.
- (vi) Represent net amount charged by China Telecom to the Group for costs associated with common corporate services and international telecommunications facilities.
- (vii) Represent amounts charged from/to China Telecom for interconnection of domestic long distance telephone calls.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.