

Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2008

1. PRINCIPAL ACTIVITIES

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, 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 Fourth Acquisition (see Note 2), the Group began to provide wireline telecommunications and related services in Beijing Municipality in July 2008. The Group offers a comprehensive range of wireline telecommunications services to residential and business customers, including local, domestic long distance ("DLD") and International, Hong Kong, Macau and Taiwan long distance telephone services, Internet and managed data, leased line, and other related services. The Group also provides leased line and other related services in the Asia Pacific region and certain countries of South and North America.

2. ACQUISITION

Pursuant to an acquisition agreement entered into by the Company and China Telecommunications Corporation ("China Telecom" and together with its subsidiaries other than the Company are referred to as "China Telecom Group") on 31 March 2008, the Company acquired the entire equity interest in China Telecom Group Beijing Corporation ("Beijing Telecom" or the "Fourth Acquired Company") from China Telecom for a total purchase price of RMB5,557 million (hereinafter, referred to as the "Fourth Acquisition"). The Fourth Acquisition was completed in June 2008.

3. BASIS OF PRESENTATION

Since the Group and the Fourth Acquired Company are under common control of China Telecom, the Fourth Acquisition has been accounted for as a "combination of entities under common control". Accordingly, the assets and liabilities of the Fourth Acquired Company have been accounted for at historical amounts and the consolidated financial statements of the Company prior to the Fourth Acquisition have been restated to include the results of operations and assets and liabilities of the Fourth Acquired Company on a combined basis. The accumulated profits of the Fourth Acquired Company prior to 30 June 2008 were distributed to China Telecom and have been reflected as a distribution to China Telecom in the consolidated statement of changes in equity for the six-month period ended 30 June 2008. The purchase price payable by the Company for the acquisition of the Fourth Acquired Company has been accounted for as an equity transaction in the consolidated statement of changes in equity.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

3. BASIS OF PRESENTATION (CONTINUED)

The results of operations for the six-month period ended 30 June 2007 and the financial condition as at 31 December 2007 previously reported by the Group have been restated to include the results and assets and liabilities of the Fourth Acquired Company as set out below:

	The Group (as previously reported)	The Fourth Acquired Company	The Group (as restated)
	RMB millions	RMB millions	RMB millions
Result of operations for the six-month period ended 30 June 2007:			
Operating revenues	88,624	1,133	89,757
Net profit	13,509	274	13,783
Financial condition as at 31 December 2007:			
Total assets	408,004	5,327	413,331
Total liabilities	185,632	1,727	187,359
Total equity	222,372	3,600	225,972

4. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" promulgated 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 28 August 2008, reflect the unaudited financial position of the Group as at 30 June 2008 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 2008.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

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 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 2007 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").

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

4. 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 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.

The financial information relating to the financial year ended 31 December 2007 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 2007 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 31 March 2008.

5. 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 business segment which is the provision of wireline telecommunications services. No analysis of the Group's operating revenues and profit before taxation by geographical segment has been presented as the majority of the Group's operating activities are carried out in the PRC and less than 10 percent of the Group's operating revenues and profit before taxation were derived from activities outside the PRC. A majority of the Group's assets are located in the PRC and less than 10 percent of the Group's total assets are located outside the PRC.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	30 June 2008 RMB millions	31 December 2007 RMB millions
Third parties	18,350	16,796
China Telecom Group	291	248
Other state-controlled telecommunications operators in the PRC	1,674	1,378
	20,315	18,422
Less: Allowance for impairment of doubtful debts	(1,957)	(1,443)
	18,358	16,979

Amounts due from the provision of wireline telecommunications services to residential and business customers are 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 2008

6. ACCOUNTS RECEIVABLE, NET (CONTINUED)

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

	30 June 2008 RMB millions	31 December 2007 RMB millions
Current, within 1 month	11,103	11,016
1 to 3 months	2,706	2,408
4 to 12 months	1,300	1,009
More than 12 months	568	304
	15,677	14,737
Less: Allowance for impairment of doubtful debts	(1,876)	(1,313)
	13,801	13,424

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

	30 June 2008 RMB millions	31 December 2007 RMB millions
Current, within 1 month	1,570	1,645
1 to 3 months	1,387	1,042
4 to 12 months	1,123	498
More than 12 months	558	500
	4,638	3,685
Less: Allowance for impairment of doubtful debts	(81)	(130)
	4,557	3,555

7. CASH AND CASH EQUIVALENTS

	30 June 2008 RMB millions	31 December 2007 RMB millions
Cash at bank and in hand	20,627	17,002
Time deposits with maturity within three months	8,577	4,425
	29,204	21,427

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

8. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	30 June 2008 RMB millions	31 December 2007 RMB millions
Loans from state-controlled banks – unsecured	16,996	29,326
Loans from China Telecom Group – unsecured	37,356	38,441
Total short-term debt	54,352	67,767

Weighted average interest rate of the Group's total short-term debt as at 30 June 2008 was 5.5% (31 December 2007: 4.4%). As at 30 June 2008, the loans from state-controlled banks bear interest at rates ranging from 3.0% to 8.0% (31 December 2007: 4.2% to 5.5%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at fixed rates ranging from 2.6% to 6.6% (31 December 2007: 2.6% to 5.3%) per annum and are repayable within one year.

Long-term debt comprises:

	Note	30 June 2008 RMB millions	31 December 2007 RMB millions
Loans from state-controlled banks – unsecured	(i)	5,378	7,803
Other loans		1	6
Medium-term note – unsecured	(ii)	9,918	–
Amount due to China Telecom in connection with the First Acquisition – unsecured	(iii)	15,000	15,000
Amount due to China Telecom in connection with the Second Acquisition – unsecured	(iv)	15,150	15,150
Total long-term debt		45,447	37,959
Less: current portion		(1,106)	(3,811)
Non-current portion		44,341	34,148

Notes:

- (i) The loans from state-controlled banks bear interest at rates ranging from 1.0% to 7.1% (31 December 2007: 1.0% to 9.2%) 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, less issuing costs of RMB88 million. The medium-term note is unsecured and is repayable on 21 April 2011.
- (iii) The amount bears interest on the outstanding balance at 5.184% per annum until 31 December 2008. Thereafter the interest rate is adjusted based on the prevailing market interest rate. This amount is repayable on 31 December 2013 and the Company may, from time to time, repay all or part of the amount at any time until 31 December 2013 without penalty.
- (iv) The amount bears interest on the outstanding balance at 5.184% per annum until 30 June 2009. Thereafter the interest rate is 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.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

9. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	30 June 2008 RMB millions	31 December 2007 RMB millions
Third parties	22,030	23,364
China Telecom Group	5,458	5,514
Other state-controlled telecommunications operators in the PRC	166	135
	27,654	29,013

Amounts due to China Telecom Group are repayable 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 2008 RMB millions	31 December 2007 RMB millions
Due within 1 month or on demand	5,692	5,329
Due after 1 month but within 3 months	6,656	8,185
Due after 3 months but within 6 months	6,884	6,381
Due after 6 months	8,422	9,118
	27,654	29,013

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

10. 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 2008 RMB millions	31 December 2007 RMB millions	30 June 2008 RMB millions	31 December 2007 RMB millions	30 June 2008 RMB millions	31 December 2007 RMB millions
<i>Current</i>						
Provisions and impairment losses, primarily for receivables	700	559	-	-	700	559
<i>Non-current</i>						
Property, plant and equipment	1,033	1,219	(2,104)	(2,222)	(1,071)	(1,003)
Deferred revenues and installation costs	1,586	1,631	(845)	(863)	741	768
Land use rights	5,807	5,872	-	-	5,807	5,872
Available-for-sale equity securities	-	-	(15)	(36)	(15)	(36)
Deferred tax assets/(liabilities)	9,126	9,281	(2,964)	(3,121)	6,162	6,160

Movements in temporary differences are as follows:

	Balance at 1 January 2008 RMB millions	Recognised in income statement RMB millions	Recognised in equity RMB millions	Balance at 30 June 2008 RMB millions
<i>Current</i>				
Provisions and impairment losses, primarily for receivables	559	141	-	700
<i>Non-current</i>				
Property, plant and equipment	(1,003)	(68)	-	(1,071)
Deferred revenues and installation costs	768	(27)	-	741
Land use rights	5,872	(65)	-	5,807
Available-for-sale equity securities	(36)	-	21	(15)
Net deferred tax assets	6,160	(19)	21	6,162

(Note 15)

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

11. OPERATING REVENUES

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

	Note	Six-month periods ended 30 June	
		2008 RMB millions	2007 RMB millions
Upfront connection fees	(i)	1,028	1,666
Upfront installation fees	(ii)	1,291	1,415
Monthly fees	(iii)	10,965	13,326
Local usage fees	(iv)	19,040	21,614
DLD	(iv)	11,331	12,440
International, Hong Kong, Macau and Taiwan long distance	(iv)	1,352	1,553
Internet	(v)	19,509	14,907
Managed data	(vi)	1,636	1,567
Interconnections	(vii)	6,531	6,894
Leased line	(viii)	3,389	2,804
Telephony value-added services	(ix)	6,104	5,564
Internet value-added services	(x)	1,108	830
Integrated information application services	(xi)	4,775	2,713
Others	(xii)	2,375	2,464
		90,434	89,757

In the prior year financial statements, the amounts of revenue from telephony value-added services, Internet value-added services and integrated information application services were not separately disclosed in notes to the financial statements but were disclosed in aggregate under value-added and integrated information application service revenue.

With effect from 1 January 2008, the Group has disclosed the respective amounts of revenue from telephony value-added services, Internet value-added services and integrated information application services. The related comparative figures have been reclassified to conform with the current period's disclosure.

Notes:

- (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 voice traffic connecting to the Group's wireline telecommunications networks.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

11. OPERATING REVENUES (CONTINUED)

(viii) Represent primarily lease income from other telecommunications operators and business customers for the usage of the Group's wireline telecommunications networks and the agreed upon rate per line leased.

(ix) Represent amounts charged to customers for the provision of telephony value-added services, which comprise primarily caller ID services, short messaging services and ring tone services.

(x) Represent amounts charged to customers for the provision of Internet value-added services, which comprise primarily Internet data centre and IP-Virtual Private Network services.

(xi) Represent amounts charged to customers for the provision of integrated information application services, which comprise primarily voice-based hotline services, IPTV services, video monitoring services and system integration and consulting services.

(xii) Represent primarily revenues from sale, rental and repairs and maintenance of customer-end equipment and construction of telecommunications network and infrastructure for customers.

12. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	Six-month periods ended 30 June	
	2008 RMB millions	2007 RMB millions
Network operations and support	9,125	8,800
Selling, general and administrative	4,732	4,867
	13,857	13,667

13. OTHER OPERATING EXPENSES

Other operating expenses comprise primarily interconnection charges of RMB3,209 million for the six-month period ended 30 June 2008 (six-month period ended 30 June 2007: RMB3,132 million).

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

14. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2008 RMB millions	2007 RMB millions
Interest expense incurred	2,716	2,629
Less: Interest expense capitalised*	(204)	(241)
Net interest expense	2,512	2,388
Interest income	(217)	(212)
Foreign exchange losses	54	2
Foreign exchange gains	(60)	(165)
	2,289	2,013
* Interest expense was capitalised in construction in progress at the following rates per annum	2.4%-5.7%	2.0%-5.9%

15. INCOME TAX

Income tax in the consolidated income statement comprises:

	Six-month periods ended 30 June	
	2008 RMB millions	2007 RMB millions
Provision for PRC income tax	3,779	4,846
Provision for income tax in other tax jurisdictions	18	8
Deferred taxation	19	44
	3,816	4,898

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

15. INCOME TAX (CONTINUED)

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

	Note	Six-month periods ended 30 June	
		2008 RMB millions	2007 RMB millions
Profit before taxation		16,493	18,681
Expected income tax expense			
at statutory tax rate of 25% (2007: 33%)	(i)	4,123	6,165
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(311)	(899)
Differential tax rate on other subsidiaries' income	(ii)	(9)	(8)
Non-deductible expenses	(iii)	538	654
Non-taxable income	(iv)	(519)	(930)
Effect of change of tax rate		-	76
Tax credit for domestic equipment purchases		(6)	(160)
Income tax		3,816	4,898

Notes:

- (i) The provision for PRC current income tax is based on a statutory rate of 25% of the assessable income of the Company and its PRC subsidiaries as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries which are taxed at preferential rates of 15% or 18%.
- (ii) Income tax provision of the Company's subsidiaries in the Hong Kong Special Administrative Region of China and other countries is based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions of 16.5% or 35%.
- (iii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.
- (iv) Amounts primarily represent connection fees received from customers which are not subject to income tax.

16. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 30 May 2008, a final dividend of RMB0.075747 (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 was paid on 16 June 2008.

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2007, a final dividend of RMB0.083302 (equivalent to HK\$0.085) per share totalling RMB6,741 million in respect of the year ended 31 December 2006 was declared, of which RMB6,273 million and RMB468 million was paid on 15 June 2007 and 23 January 2008 respectively.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2008.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

17. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month periods ended 30 June 2008 and 2007 is based on the profit attributable to equity holders of the Company of RMB12,634 million and RMB13,756 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.

18. CAPITAL COMMITMENTS

As at 30 June 2008 and 31 December 2007, the Group had capital commitments as follows:

	30 June 2008 RMB millions	31 December 2007 RMB millions
Authorised and contracted for		
Properties	528	730
Telecommunications network plant and equipment	3,180	2,945
	3,708	3,675
Authorised but not contracted for		
Properties	744	1,005
Telecommunications network plant and equipment	6,264	3,449
	7,008	4,454

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

19. 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 exercise 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 part of a large group of companies under China Telecom, a company owned by the PRC government, and has significant transactions and relationships with members of China Telecom. 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	
		2008 RMB millions	2007 RMB millions
Purchases of telecommunications equipment and materials	(i)	53	53
Construction, engineering and information technology services	(ii)	3,409	3,406
Provision of community services	(iii)	1,049	1,025
Provision of ancillary services	(iv)	1,897	1,629
Provision of comprehensive services	(v)	442	412
Operating lease expenses	(vi)	192	193
Centralised service expenses	(vii)	168	169
Interconnection revenues	(viii)	34	14
Interconnection charges	(viii)	329	181
Interest on amounts due to and loans from China Telecom Group	(ix)	1,612	1,164

Notes:

- (i) Represent commission paid and payable for procurement services provided by China Telecom Group.
- (ii) Represent provision of 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.
- (v) Represent amounts paid and payable to 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.
- (vi) Represent amounts paid and payable to China Telecom Group for leases of business premises and inter-provincial transmission optic fibres.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

19. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with China Telecom Group (continued)

(vii) Represent net amount charged by China Telecom for costs associated with common corporate services and international telecommunications facilities.

(viii) Represent amounts charged from/to China Telecom for interconnection of domestic long distance telephone calls.

(ix) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecom and loans from China Telecom Group (Note 8).

Amounts due from/to China Telecom Group included in the following balances are summarised as follows:

	30 June 2008 RMB millions	31 December 2007 RMB millions
Accounts receivable	291	248
Prepayments and other current assets	492	435
Total amounts due from China Telecom Group	783	683
Accounts payable	5,458	5,514
Accrued expenses and other payables	1,343	947
Amount due to China Telecom in connection with the Fourth Acquisition	5,557	–
Short-term debt	37,356	38,441
Long-term debt	30,150	30,150
Total amounts due to China Telecom Group	79,864	75,052

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 of short-term debt and long-term debt payable to China Telecom Group are set out in Note 8.

As at 30 June 2008 and 31 December 2007, no material impairment losses for doubtful debts were recorded 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 2008

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 periods ended 30 June	
	2008 RMB thousands	2007 RMB thousands
Short-term employee benefits	4,272	3,948
Post-employment benefits	317	301
	4,589	4,249

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 post-employment benefit 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 2008 were RMB1,251 million (six-month period ended 30 June 2007: RMB1,219 million).

The amount payable for contributions to defined contribution retirement plans as at 30 June 2008 was RMB622 million (31 December 2007: RMB561 million).

(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").

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

19. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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 those 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:

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

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

	Six-month periods ended 30 June	
	2008 RMB millions	2007 RMB millions
Interconnection revenues	5,815	6,176
Interconnection charges	2,146	1,985
Leased line revenues	402	450

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

19. 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 included in the following balances are summarised as follows:

	30 June 2008 RMB millions	31 December 2007 RMB millions
Accounts receivable	1,674	1,378
Prepayments and other current assets	248	261
Total amounts due from other state-controlled telecommunications operators in the PRC	1,922	1,639
Accounts payable	166	135
Accrued expenses and other payables	207	219
Total amounts due to other state-controlled telecommunications operators in the PRC	373	354

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 2008 and 31 December 2007, there were no material impairment losses for 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 the bank deposits and loans are regulated by the People's Bank of China. The Group's interest income earned from deposits with and interest expense incurred on loans from state-controlled banks in the PRC are as follows:

	Six-month periods ended 30 June	
	2008 RMB millions	2007 RMB millions
Interest income	215	185
Interest expense	1,104	1,465

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

19. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(ii) Transactions with state-controlled banks (continued)

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

	30 June 2008 RMB millions	31 December 2007 RMB millions
Cash at bank	20,350	16,893
Time deposits with maturity within three months	8,577	4,425
Time deposits with maturity over three months	203	172
Total deposits with state-controlled banks in the PRC	29,130	21,490
Short-term loans	16,996	29,326
Long-term loans	5,378	7,803
Total loans from state-controlled banks in the PRC	22,374	37,129

Further details of the interest rates and repayment terms of loans from state-controlled banks are set out in Note 8.

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

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2008

20. POST BALANCE SHEET EVENTS

On 27 July 2008, the Company entered into a business acquisition agreement with China Unicom Limited and China Unicom Corporation Limited (collectively "China Unicom"), pursuant to which, the Company shall acquire the CDMA mobile communication business and relevant assets and liabilities from China Unicom at the purchase price of RMB43.8 billion. The acquisition is expected to be substantially completed in late November 2008.

In connection with the acquisition of CDMA business from China Unicom and subject to independent shareholders' approval, the Company also entered into a lease agreement ("CDMA Network Lease") with China Telecom, pursuant to which, China Telecom will lease the capacity on the constructed CDMA mobile communication network ("CDMA Network") required by the Company to operate the CDMA business. The CDMA Network Lease is expected to have an initial term from 1 October 2008 (or such other date as agreed by the Company and China Telecom) to 31 December 2010. The lease fee for the CDMA Network is expected to be 28% of the CDMA business revenue (the service revenue generated from the Company's CDMA telecommunication business which shall be calculated by the total revenue from CDMA business minus any upfront non-refundable revenue arising out of CDMA business and any revenue from sale of telecommunication products in connection with CDMA business, as derived from the Company's financial statements) for each of the period from 1 October 2008 (or such other date as agreed by the Company and China Telecom) to 31 December 2008 and the years ending 31 December 2009 and 2010. The CDMA Network Lease is renewable at the option of the Company with the lease period, lease fee and the minimum annual lease fee to be re-negotiated between the Company and China Telecom.