

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2012

## 1. Principal Activities

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

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

## 2. Changes in Organisation During the Period

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

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

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

## 3. Basis of Presentation

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



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

for the six-month period ended 30 June 2012

### 3. Basis of Presentation *(continued)*

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

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

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

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



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

for the six-month period ended 30 June 2012

### 4. Basis of Preparation

These interim financial statements have been prepared in accordance with International Accounting Standard 34, (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements, which were authorised for issuance by the Board of Directors on 22 August 2012, reflect the unaudited financial position of the Group as at 30 June 2012 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2012.

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

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

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards.

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

The financial information relating to the financial year ended 31 December 2011 that is included in these interim financial statements as being previously reported information does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The Company’s international auditor has expressed an unqualified opinion on those financial statements in their report dated 20 March 2012.

### 5. Segmental Reporting

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker in order to allocate resources and assess performance of the segment. For the periods presented, management has determined that the Group has one operating segment as the Group is only engaged in an integrated telecommunications business. The location of the Group’s assets and operating revenues derived from activities outside mainland China are less than 10 percent of the Group’s assets and operating revenues, respectively. No geographical area information has been presented as such amounts are immaterial. No single external customer accounts for 10 percent or more of the Group’s operating revenues.



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

for the six-month period ended 30 June 2012

### 6. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

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

Note:

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

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

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

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



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

for the six-month period ended 30 June 2012

### 6. Accounts Receivable, Net *(continued)*

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

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

### 7. Cash and Cash Equivalents

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

### 8. Short-Term and Long-Term Debt

Short-term debt comprises:

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



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

for the six-month period ended 30 June 2012

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

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

Long-term debt comprises:

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

Note:

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

(ii) On 23 October 2008, the Company issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum.

On 16 November 2009, the Company issued three-year, 10 billion RMB denominated medium-term note with annual interest rate of 3.65% per annum.

On 28 December 2009, the Company issued two batches of five-year, 10 billion RMB denominated medium-term notes with annual interest rate of 4.61% per annum.

All of the above medium-term notes are unsecured.

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



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

for the six-month period ended 30 June 2012

### 9. Accounts Payable

Accounts payable are analysed as follows:

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

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

Ageing analysis of accounts payable is as follows:

	<b>30 June 2012</b>	31 December 2011
	<b>RMB</b>	RMB
	<b>millions</b>	millions (restated)
Due within 1 month or on demand	<b>10,921</b>	13,075
Due after 1 month but within 3 months	<b>12,790</b>	11,610
Due after 3 months but within 6 months	<b>12,972</b>	8,054
Due after 6 months	<b>13,401</b>	11,620
	<b>50,084</b>	44,359



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

for the six-month period ended 30 June 2012

### 10. Deferred Tax Assets and Liabilities

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

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

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





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

for the six-month period ended 30 June 2012

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

Note:

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

### 11. Operating Revenues

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

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

Note:

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnection fees and amortised amount of upfront installation fees charged to customers for the provision of wireline telephony services.
- (ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnection fees charged to customers for the provision of mobile telephony services.
- (iii) Represent amounts charged to customers for the provision of Internet access services.
- (iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services.
- (v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.



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

for the six-month period ended 30 June 2012

### 11. Operating Revenues (continued)

- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of managed data transmission services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, rental and repair and maintenance of equipment.
- (viii) Represent the amortised amount of the upfront fees received for initial activation of wireline services.

### 12. Personnel Expenses

Personnel expenses are attributable to the following functions:

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

### 13. Other Operating Expenses

Other operating expenses consist of:

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

Note:

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



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

for the six-month period ended 30 June 2012

### 14. Net Finance Costs

Net finance costs comprise:

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

### 15. Income Tax

Income tax in the profit or loss comprises:

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



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

for the six-month period ended 30 June 2012

### 15. Income Tax (continued)

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

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

Note:

- (i) Except for certain subsidiaries and branches which are taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 35%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts represent miscellaneous income which are not subject to income tax.
- (v) Amounts primarily represent tax deduction on prior year research and development expenses and losses on disposal of property, plant and equipment approved by tax authorities during the period.



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

for the six-month period ended 30 June 2012

### 16. Dividends

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

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

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

### 17. Basic Earnings Per Share

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

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

### 18. Capital Commitments

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

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



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

for the six-month period ended 30 June 2012

### 19. Related Party Transactions

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

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

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

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

Note:

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



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

for the six-month period ended 30 June 2012

### 19. Related Party Transactions (Continued)

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

- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 8).
- (x) Represent amounts paid and payable to China Telecom Group for lease of CDMA mobile telecommunications network ("CDMA network") capacity.
- (xi) Represent amounts shared between the Company and China Telecom Group for the capacity maintenance related costs in connection with the CDMA network capacity used by the Company.

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

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

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt payable to China Telecom Group are set out in Note 8.

As at 30 June 2012 and 31 December 2011, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

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

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

for the six-month period ended 30 June 2012

### 19. Related Party Transactions (Continued)

#### (b) Key management personnel compensation

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

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

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

The above remuneration is included in personnel expenses.

#### (c) Contributions to post-employment benefit plans

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

The Group's contributions for the six-month period ended 30 June 2012 were RMB1,870 million (six-month period ended 30 June 2011: RMB1,698 million).

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

#### (d) Transactions with other government-related entities

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





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

for the six-month period ended 30 June 2012

### 19. Related Party Transactions *(Continued)*

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

Apart from transactions with parent company and its affiliates (Note 19(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

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

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

### 20. Events After The Reporting Period

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

