



China Telecom Corporation Limited

中国电信股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0728)

Announcement of Interim Results for the Six Months Ended 30 June 2005

HIGHLIGHTS	
<ul style="list-style-type: none"> Including the amortisation of upfront connection fees <ul style="list-style-type: none"> Operating revenue reached RMB84,023 million EBITDA reached RMB45,921 million, EBITDA margin was 54.7% Profit attributable to equity holders of the Company was RMB14,696 million 	<ul style="list-style-type: none"> Excluding the amortisation of upfront connection fees <ul style="list-style-type: none"> Operating revenue reached RMB80,620 million, up by 6.1% EBITDA reached RMB42,518 million, up by 7.0%, EBITDA margin was 52.7%, continued to maintain at a relatively high level Profit attributable to equity holders of the Company was RMB11,293 million, up by 7.8%
<ul style="list-style-type: none"> Total number of access lines in service reached 202 million, net addition of 15.75 million Broadband subscribers reached 17.37 million, net addition of 3.53 million 	

CHAIRMAN'S STATEMENT

Transforming into a "modern integrated information services provider" is the long-term development strategy unwaveringly pursued by the Company. By capitalising on the development trend of the global telecommunications industry and the Company's circumstances, we have formulated strategic transformation plans which are being implemented progressively. We firmly believe that the successful implementation of strategic transformation will establish a solid base for the sustainable development of the Company and create greater value for its shareholders.

Dear Shareholders,

In the first half of this year, aiming at creating value for shareholders, we actively pursued the strategic transformation of the Company into a "modern integrated information services provider". We implemented precision management and fully attained our budgeted goals. While maintaining stable revenue growth of our wireline telecommunications services, we stepped up development efforts in our broadband Internet services and value-added services, resulting in an increase in the percentage of non-voice services revenue to our operating revenue. We also actively enforced budget management to strictly control operating costs and capital expenditure. These have enabled us to achieve a solid financial structure, healthy cash flow and improved operating efficiency. Our strategic transformation has brought favourable initial results, forging for us a solid foundation for sustainable development.

Financial Performance

In the first half of this year, our operating revenue reached RMB84,023 million, of which RMB3,403 million was generated from the amortisation of upfront connection fees. Excluding upfront connection fees, our operating revenue was RMB80,620 million, representing an increase of 6.1% compared to the same period last year. Broadband Internet services and value-added services became the key drivers of revenue growth of the Company, and revenue generated from non-voice services, such as Internet access and value-added services, accounted for 23.6% of our operating revenue, representing an increase of 3.3 percentage points compared to the same period last year. Our EBITDA* was RMB42,518 million. EBITDA margin* was 52.7%, which remained at a relatively high level. We further tightened cost control measures. Operating costs for the first half of the year was RMB62,280 million, representing an increase of 4.7% over the same period last year. The rate of increase in operating costs was lower than the rate of increase in our operating revenue, ensuring a gradual increase in profitability. Profit attributable to equity holders of the Company* reached RMB11,293 million for the first half of the year, representing an increase of 7.8% compared to the same period last year. Our free cash flow⁽¹⁾ amounted to RMB15,101 million. (* Including the amortisation of upfront connection fees, EBITDA was RMB45,921 million, EBITDA margin was 54.7% and profit attributable to equity holders of the Company was RMB14,696 million.)

Taking into consideration the Company's needs to sustain business development, its cash flow position, and to retain sufficient flexibility in funding, the Board of Directors resolved not to pay interim dividends for this year. The Board of Directors will review the final dividend distribution plan at the time of reviewing the full year results and submit a proposal to the shareholders' meeting.

Business Development

Local telephone services are the important foundation for our business development and currently our major source of cash flow. In the first half of this year, revenue from local telephone services reached RMB40,810 million. As at 30 June 2005, the total number of local telephone subscribers reached 202 million, which represented a net addition of 15.75 million subscribers for the first half of 2005 and a growth rate of 8.4% from the end of last year, indicating that the local telephone subscriber base still has ample room for growth. Facing the challenges of mobile voice usage substitution, we launched targeted service packages and proactively promoted the convergence of terminals on our wireless local access service and wireline service, which effectively alleviated usage diversion. Local voice usage in the first half of 2005 increased by 3.9% over the same period last year.

Wireless local access service is an important tool for stabilising the local telephone usage. Within our current network coverage, we endeavoured to optimise our network, enhance call connection rate and network utilisation, and reduce churn rate. At the same time, we intensively developed wireless local access value-added services to boost revenue growth. We also effectively controlled marketing cost so as to continuously increase return on investment.

Intensive development of value-added services is an important measure in our strategic transformation. In the first half of this year, value-added services generated RMB4,601 million in revenue, representing an increase of 56.0% over the same period last year. While maintaining the rapid growth of the traditional value-added services such as caller ID display and telephone information services, we vigorously promoted new value-added services such as SMS over PAS and Color Ring Tones. In the first half of this year, the usage volume of SMS over PAS continuously increased and reached 7,347 million messages. Although the Color Ring Tones service has been introduced for around six months only, it showed promising prospects with over 10 million users. We will continue to strengthen the development of value-added services, strive to continuously improve and upgrade their functions, increase customer penetration, persist in stepping up the bundling of value-added services with products such as wireline services, wireless local access services and broadband access services to enhance customer loyalty and create greater value to us from customers using our network.

By grasping the tremendous business opportunities arising from the accelerating national informatization process, we will effectively develop our market and endeavour to create new product lines of ten billion's revenue base, including Internet applications, system integration and international communications, and ultimately realise the transformation of our revenue growth model. We continued to speed up the penetration of our broadband services into homes and enterprises and to expand the subscriber base of our broadband access. In the first half of the year, the net addition of broadband subscribers was 3.53 million and the revenue from Internet access services totalled RMB8,538 million, representing an increase of 29.3% from the same period last year. The percentage of revenue from Internet access services to our operating revenue continued its upward trend. By capitalising on the ChinaVnet platform and working closely with our partners, we developed personalised Internet application services catering for customers' needs for entertainment, video, investment and financial information. We also actively developed our system integration business and promoted informatization solutions to small and medium-sized enterprises through our "Business Navigation" brand services, with a view to extending services further to our customers. At the same time, we will actively develop the international market by expanding our network and services to offer cross-border end-to-end one-stop services to our customers, thereby effectively increasing our revenue.

Corporate Governance

The Company is committed to the continuous improvement of its corporate governance. We held the Annual General Meeting in Hong Kong during the first half of this year and reported directly to our shareholders and exchanged views with them. In addition, we will increase the number of independent non-executive directors to comprise one-third of our Board of Directors, appoint an internationally renowned financial expert as our independent non-executive director, and also establish a nomination committee to further enhance the functioning of the independent non-executive directors. To improve our transparency, we commenced quarterly disclosure of key operating data and operating revenue in the first quarter of this year, and will increase the contents of the quarterly disclosure progressively. In strict accordance with the requirements of the Sarbanes-Oxley Act of 2002 and international best practices, we will continuously perfect our internal control system to ensure the truthfulness and accuracy of all information disclosed, minimise operational risks and increase operational efficiency.

Prospects

We will continue to actively effect our strategic transformation into a "modern integrated information services provider", creating value for our shareholders. We will pursue with the convergence and innovation of multi-services, multi-networks and multi-terminals, providing customers with "Triple-play" services of voice, data and video, and realising the extension of our service value chain. We will endeavour to optimise the structures of our revenue, investment, operating costs and human resources by accelerating the transformation of our products and services, network and technology, organisation and human resources. Through our long-term persistent efforts, we will progressively become an integrated telecommunications services provider, an aggregator of Internet applications, a leader in system integration and a dominant player in the integrated information services value chain, with a view to driving our sustainable development, realising the transformation to a value enhancement model based on economies of scale, and also maintaining our leading position in the industry.

Looking ahead, we are fully confident of our future prospects. As we continue to progress with our strategic transformation efforts, our core competitiveness will be further enhanced and our profitability will be further improved, allowing us to deliver better returns to our shareholders.

Finally, on behalf of the Board of Directors, I would like to express my gratitude to our shareholders for the care and support they have shown to the Company over the years. I would also like to take this opportunity to express my sincere appreciation of the hard work of our employees.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

31 August 2005

GROUP RESULTS

China Telecom Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 extracted from the unaudited financial statements of the Group as set out in its 2005 interim report.

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

for the six-month period ended 30 June 2005

(Amounts in millions, except per share data)

	Note	Six-month periods ended 30 June	
		2005 RMB	2004 RMB (Note 3)
Operating revenues	5	84,023	80,217
Operating expenses			
Depreciation and amortisation		(24,178)	(23,255)
Network operations and support		(22,224)	(20,325)
Selling, general and administrative		(13,354)	(14,105)
Other operating expenses		(2,524)	(1,796)
Total operating expenses		(62,280)	(59,481)
Operating profit		21,743	20,736
Net finance costs	6	(2,468)	(2,341)
Investment loss		(9)	—
Share of profit from associates		3	6
Profit before taxation		19,269	18,401
Income tax	7	(4,556)	(3,681)
Profit for the period		14,713	14,720
Attributable to:			
Equity holders of the Company		14,696	14,708
Minority interests		17	12
Profit for the period		14,713	14,720
Basic earnings per share	9	0.18	0.19
Weighted average number of shares	9	80,932	76,725

CONSOLIDATED BALANCE SHEET (UNAUDITED)

at 30 June 2005

(Amounts in millions)

	Note	30 June 2005 RMB	31 December 2004 RMB (Note 3)
ASSETS			
Non-current assets			
Property, plant and equipment, net		315,566	320,179
Construction in progress		32,553	29,450
Lease prepayments		4,975	4,830
Interests in associates		536	511
Investments		175	200
Deferred tax assets		10,990	10,805
Other assets		12,401	13,063
Total non-current assets		377,196	379,038
Current assets			
Inventories		2,886	2,767
Accounts receivable, net	10	16,103	13,921
Prepayments and other current assets		2,927	3,064
Time deposits with maturity over three months		256	315
Cash and cash equivalents		16,209	13,465
Total current assets		38,381	33,532
Total assets		415,577	412,570
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt		62,249	65,976
Current portion of long-term debt		10,368	11,842
Accounts payable	11	34,549	33,658
Accrued expenses and other payables		30,735	27,531
Income tax payable		2,796	1,192
Current portion of finance lease obligations		131	156
Current portion of deferred revenues		10,318	11,589
Total current liabilities		151,146	151,944
Net current liabilities		(112,765)	(118,412)
Total assets less current liabilities		264,431	260,626
Non-current liabilities			
Long-term debt		70,033	72,366
Finance lease obligations		104	157
Deferred revenues		22,050	25,182
Deferred tax liabilities		2,500	2,302
Total non-current liabilities		94,687	100,007
Total liabilities		245,833	251,951
Equity			
Equity attributable to equity holders of the Company			
Share capital		80,932	80,932
Reserves		87,374	78,274
		168,306	159,206
Minority interests		1,438	1,413
Total equity		169,744	160,619
Total liabilities and equity		415,577	412,570

Notes:

1. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board ("IASB") 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 31 August 2005, reflect the unaudited financial position of the Group as at 30 June 2005 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 2005.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the financial statement presentation and disclosure changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in financial statement presentation and disclosures are set out in Note 3.

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, KPMG, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

2. BASIS OF PRESENTATION

As the First Acquired Group⁽²⁾ and the Second Acquired Group⁽³⁾ ("the Acquired Groups") were under the common control of China Telecommunications Corporation ("China Telecom"), the First Acquisition and the Second Acquisition ("the Acquisitions") have been reflected in the accompanying consolidated interim financial statements as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the Acquired Groups have been accounted for at historical amounts and the consolidated financial statements of the Company prior to the Acquisitions have been restated to include the results of operations and assets and liabilities of the Acquired Groups on a combined basis. The considerations paid by the Company for the acquisition of the Acquired Groups have been accounted for as equity transactions in the consolidated statement of equity included in the Interim Report.

3. CHANGES IN FINANCIAL STATEMENT PRESENTATION AND DISCLOSURES

The IASB has issued a number of new and revised IFRSs and Interpretations that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Group has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005 on the basis of the IFRSs currently in issue, which the Group believes do not have a significant impact on the Group's prior year financial position and results of operations except for certain financial statement presentation and disclosure changes as discussed below.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of these interim financial statements. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of these interim financial statements.

The following sets out further information on the changes in financial statement presentation and disclosures for the annual accounting period beginning on 1 January 2005 which have been reflected in these interim financial statements.

(i) Minority interests (IAS 1 "Presentation of financial statements" and IAS 27 "Consolidated and separate financial statements")

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated statement of income as deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated statement of income as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated statement of income and consolidated statement of equity for the comparative period has been restated accordingly.

(ii) Related party disclosures (IAS 24 "Related party disclosures")

The Group is a state-controlled enterprise and operates in an economic regime currently predominated by state-controlled enterprises. Apart from transactions with parent company and its affiliates, the Group conducts certain business activities with enterprises directly or indirectly owned or controlled by the PRC government and government authorities and affiliates (collectively "state-controlled entities") in the ordinary course of business. In prior years, transactions with state-controlled entities other than China Telecom and its affiliates were not required to be disclosed as related party transactions.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation, contributions to post-retirement benefit plans and transactions with state-controlled entities in the PRC. The disclosure of such related party transactions in Note 12 for the comparative period has been made accordingly.

4. 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.

5. 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	
	2005 RMB millions	2004 RMB millions
Upfront connection fees	(i) 3,403	4,236
Upfront installation fees	(ii) 1,479	1,432
Monthly fees	(iii) 15,326	15,023
Local usage fees	(iv) 24,005	24,072
DLN	(iv) 12,918	13,145
ILD	(iv) 1,705	1,906
Internet	(v) 8,538	6,602
Managed data	(vi) 1,481	1,524
Interconnections	(vii) 6,141	5,013
Leased line	(viii) 2,265	2,112
Value-added telecommunications services	(ix) 4,601	2,949
Others	(x) 2,161	2,203
	<u>84,023</u>	<u>80,217</u>

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 voice and data traffic 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.
- (ix) Represent amounts charged to customers for the provision of value-added telecommunications services, which comprise primarily caller ID services, short messaging services, telephone information services and ring tone services.
- (x) Represent primarily revenues from sale and repairs and maintenance of customer-end equipment and provision of consulting services.

6. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Interest expense incurred	3,446	3,260
Less: Interest expense capitalised*	(630)	(738)
Net interest expense	2,816	2,522
Interest income	(112)	(109)
Foreign exchange losses	12	4
Foreign exchange gains	(248)	(76)
	<u>2,468</u>	<u>2,341</u>
	<u>3.5%–5.2%</u>	<u>4.1%–5.2%</u>

* Interest expense was capitalised in construction in progress at the following rates per annum

7. INCOME TAX

Income tax in the consolidated statement of income comprises:

	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Provision for PRC income tax	4,543	3,736
Deferred taxation	13	(55)
	<u>4,556</u>	<u>3,681</u>

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

Note	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Profit before taxation	19,269	18,401
Expected PRC income tax expense at statutory tax rate of 33%	(i) 6,359	6,072
Differential tax rate on subsidiaries income	(i) (900)	(954)
Non-deductible expenses	(ii) 449	435
Non-taxable income	(iii) (1,352)	(1,872)
Income tax	<u>4,556</u>	<u>3,681</u>

- (i) 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 of the Company which are taxed at a preferential rate of 15%.
- (ii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.
- (iii) Amounts primarily represent connection fees received from customers which are not subject to income tax.

8. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 25 May 2005, a final dividend of RMB0.069139 (equivalent to HK\$0.065) per share totalling RMB5,596 million in respect of the year ended 31 December 2004 was declared and was paid on 23 June 2005.

Pursuant to the shareholders' approval at the Annual General Meeting held on 3 May 2004, a final dividend of RMB0.069083 (equivalent to HK\$0.065) per share totalling RMB5,224 million in respect of the year ended 31 December 2003 was declared and was paid on 20 May 2004.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2005.

9. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2005 is based on the profit attributable to equity holders of the Company of RMB14,696 million divided by 80,932,368,321 shares. The calculation of basic earnings per share for the six-month period ended 30 June 2004 is based on the profit attributable to equity holders of the Company of RMB14,708 million and the weighted average number of shares in issue during the period of 76,724,576,113 shares. The weighted average number of shares in issue during the six-month period ended 30 June 2004 reflects the issuance of 5,318,181,818 new H shares in May 2004.

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

10. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	30 June 2005 RMB millions	31 December 2004 RMB millions
Accounts receivable		
Third parties	16,093	13,733
China Telecom Group	289	235
Other state-controlled telecommunications operators in the PRC	2,031	1,635
	<u>18,413</u>	<u>15,603</u>
Less: Allowance for doubtful accounts	(2,310)	(1,682)
	<u>16,103</u>	<u>13,921</u>

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 2005 RMB millions	31 December 2004 RMB millions
Current, within 1 month	11,488	10,258
1 to 3 months	1,614	1,270
4 to 12 months	1,341	1,083
More than 12 months	888	526
	<u>15,331</u>	<u>13,137</u>
Less: Allowance for doubtful accounts	(2,229)	(1,609)
	<u>13,102</u>	<u>11,528</u>

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

	30 June 2005 RMB millions	31 December 2004 RMB millions
Current, within 1 month	1,401	1,358
1 to 3 months	901	550
4 to 12 months	507	275
More than 12 months	273	283
	<u>3,082</u>	<u>2,466</u>
Less: Allowance for doubtful accounts	(81)	(73)
	<u>3,001</u>	<u>2,393</u>

11. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	30 June 2005 RMB millions	31 December 2004 RMB millions
Due within 1 month or on demand	5,155	5,599
Due after 1 month but within 3 months	8,065	6,451
Due after 3 months but within 6 months	8,927	7,856
Due after 6 months	12,402	13,752
	<u>34,549</u>	<u>33,658</u>

12. 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, which is 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 wholly unrelated parties. China Telecom Group comprises China Telecom and enterprises over which China Telecom is able to exercise control or significant influence, other than the Group.

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

	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Purchases of telecommunications equipment and materials	103	152
Construction, engineering and information technology services	2,592	2,597
Provision of community services	1,166	1,101
Provision of ancillary services	1,195	796
Provision of comprehensive services	107	120
Operating lease expenses	238	203
Centralised service expenses	98	108
Interconnection revenues	68	98
Interconnection charges	296	201
Interest on amounts due to and loans from China Telecom Group	1,422	993

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

	30 June 2005 RMB millions	31 December 2004 RMB millions
Accounts receivable	289	235
Prepayments and other current assets	672	640
Total amounts due from China Telecom Group	<u>961</u>	<u>875</u>
Accounts payable	7,790	7,067
Accrued expenses and other payables	4,382	4,889
Short-term debt	10,294	10,089
Long-term debt	50,150	50,150
Total amounts due to China Telecom Group	<u>72,616</u>	<u>72,195</u>

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 normal commercial terms. The term and conditions associated with short-term debt and long-term debt payable to China Telecom Group are set out in Note 7 to the interim financial statements included in the Interim Report.

As at 30 June 2005 and 31 December 2004, no material allowance for doubtful accounts was recorded in respect of amounts due from China Telecom Group.

(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.

The following table summarises the key management personnel compensation of the Group:

	Six-month periods ended 30 June	
	2005 RMB thousands	2004 RMB thousands
Short-term employee benefits	2,678	3,757
Post-employment benefits	242	249
Equity-based compensation benefits	—	1,002
	<u>2,920</u>	<u>5,008</u>

(c) Contributions to post-employment benefit plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution post-employment benefit 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 to post-employment benefit plans for the six-month period ended 30 June 2005 were RMB1,094 million (six-month period ended 30 June 2004: RMB1,065 million).

The amount of contributions to post-employment benefit plans outstanding as at 30 June 2005 was RMB648 million (31 December 2004: RMB599 million).

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

The Group is a state-controlled enterprise and operates in an economic regime currently predominated by state-controlled enterprises. Apart from transactions with parent company and its affiliates, the Group conducts certain business activities with enterprises directly or indirectly owned or controlled by the PRC government and government authorities and agencies (collectively referred to as "state-controlled entities") in the ordinary course of business. These transactions include sales and purchase of goods, rendering and receiving services, lease of assets and obtaining finance, are carried out at terms similar to those that would be entered into with non-state-controlled entities and have been reflected in the financial statements.

As part of the transactions with state-controlled entities as mentioned above, the Group has material transactions with other state-controlled telecommunications operators in the PRC in the normal course of providing telecommunications services. These transactions are conducted and settled in accordance with rules and regulations stipulated by the Ministry of Information Industry of the PRC Government.

The Group's principal transactions with other state-controlled telecommunications operators in the PRC are as follows:

	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Interconnection revenues	5,044	4,162
Interconnection charges	1,221	906
Leased line revenues	1,114	1,415

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

	30 June 2005 RMB millions		31 December 2004 RMB millions
	Accounts receivable	2,031	
Prepayments and other current assets	402	334	
Total amounts due from other state-controlled telecommunications operators in the PRC	<u>2,433</u>	<u>1,969</u>	
Accounts payable	95	78	
Accrued expenses and other payables	501	474	
Total amounts due to other state-controlled telecommunications operators in the PRC	<u>596</u>	<u>552</u>	

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 2005 and 31 December 2004, there was no material allowance for doubtful accounts in respect of amounts due from other state-controlled telecommunications operators in the PRC.

Although certain of the Group's activities are conducted with PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2004 Annual Report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, none of the Directors or Supervisors had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 30 June 2005, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2005, the following persons (excluding the Directors and Supervisors) held an interest or short position in any class of shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

(1) Interests in domestic shares and H shares of the Company

Name of Shareholder	Number of shares held	Type of shares	% of the respective type of shares	% of the total issued share capital	Capacity
China Telecommunications Corporation	58,346,370,499	Domestic shares	87.01%	72.09%	Principal
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	Domestic shares	8.37%	6.94%	Principal
J.P. Morgan Chase & Co.	1,393,686,269	H shares	10.04%	1.72%	Beneficial owner, investment manager, custodian

(2) Short positions in shares and underlying shares of the Company

As at 30 June 2005, China Telecommunications Corporation held short positions in 969,317,182 domestic shares which amounted to 1.45% of the total issued domestic shares. This short position was created pursuant to the plan for the adjustment to the rural telecommunications management mechanism approved by the State Council in 2002, for the purposes of paying the consideration to People's Government of Fujian Province for acquiring the rural telecommunications assets in Fujian, China. China Telecommunications Corporation entered into a share transfer agreement with Fujian State-Owned Assets Investment Holdings Co., Ltd., an entity duly authorised by the People's Government of Fujian Province to hold the relevant shares, and agreed to transfer its 969,317,182 ordinary shares in the Company to Fujian State-Owned Assets Investment Holdings Co., Ltd. subject to the satisfaction of certain conditions precedent.

Save as stated above, as at 30 June 2005, in the register required to be kept under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditors, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has always attached great importance to corporate governance. In accordance with the requirements of regulatory authorities on corporate governance and international best practice, the Company has always been dedicated to establishing a multi-tier internal control mechanism and strengthening its corporate governance system in order to bring it in line with the international practice of a modern company, improving its corporate governance and increasing transparency of the Company. By doing so, the Company is able to enhance its efficiency and effectiveness and maximise its shareholders' interests as a whole.

The charters for Audit Committee and Remuneration Committee of the Company have been amended in March 2005 to reflect certain code provisions, under the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules which became effective from 1 January 2005. The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual. The Board considers that this could enhance the Company's decision-making and operational efficiency, and enable the Company to grasp business opportunities effectively. Further, such arrangement is being adopted by many international leading enterprises. At the same time, the Company will increase the number of independent non-executive directors to five, which will then account for one-third of the total number of Directors, at the time of electing the second session of the Board during the Company's extraordinary general meeting to be held on 9 September 2005. The Company believes that this may further strengthen the independence and objectivity of the decisions made by the Board and may provide full and impartial supervision over the Company's management, with a view to ensuring shareholders' best interests.

Save as stated above, the Company is in compliance with all the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2005.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Having made specific enquiry to all Directors of the Company, they have confirmed their compliance with the Model Code for Securities Transactions by Directors of Listed Issuers throughout the period from 1 January 2005 to 30 June 2005.

INTERIM REPORT

The Interim Report for the six months ended 30 June 2005 will be despatched to shareholders as well as made available on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the website of the Company (www.chinatelecom-h.com) in due course.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks and uncertainties, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies.

As of the date of this announcement, the Board consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Mr. Leng Rongquan as the president and chief operating officer, Ms. Wu Andi as the executive vice president and chief financial officer, Mr. Zhang Jiping as the executive vice president, Ms. Huang Wenlin as the executive vice president, Mr. Li Ping as the executive vice president and joint company secretary, Mr. Wei Leping as the executive vice president, Mr. Yang Jie as the executive vice president, Mr. Sun Kangmin as the executive vice president, Mr. Cheng Xiyuan and Mr. Feng Xiong as the executive directors, Mr. Li Jiming as the non-executive director, and Mr. Zhang Youcai, Mr. Vincent Lo Hong Sui and Mr. Shi Wenpeng as the independent non-executive directors.

- (1) Free cash flow is calculated from EBITDA (excluding the amortisation of upfront connection fees) minus capital expenditure and income tax.
- (2) The First Acquired Group means pursuant to the resolution passed by the Company's independent shareholders at an Extraordinary General Meeting held on 15 December 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited.
- (3) The Second Acquired Group means pursuant to the resolution passed by the Company's independent shareholders at an Extraordinary General Meeting held on 9 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited.