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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: 728)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

HIGHLIGHTS

| IFRS-based | Excluding the amortisation of upfront connection fees |
|--|---|
| — Operating revenues reached RMB120,208 million | — Operating revenues reached RMB120,110 million, up by 11.7% |
| — Profit attributable to equity holders of the Company was RMB9,808 million, basic earnings per share were RMB0.12 | — EBITDA was RMB48,501 million, up by 6.0%, EBITDA margin was 40.4% |
| | — Profit attributable to equity holders of the Company was RMB9,710 million, up by 10.2%, basic earnings per share were RMB0.12 |
| | — Free cash flow was RMB15,458 million |
| ● Total number of mobile subscribers reached 108 million, representing a net addition of 17.85 million from the end of last year, up by 19.7%, of which 3G mobile subscribers was 21.54 million, representing a net increase of 9.25 million from the end of last year, up by 75.3%. | |
| ● Total number of broadband subscribers reached 70.09 million, representing a net addition of 6.61 million from the end of last year, up by 10.4%. | |
| ● Total number of access lines in service was 172 million, representing a net decrease of 2.83 million from the end of last year, down by 1.6%. | |

CHAIRMAN'S STATEMENT

In the first half of 2011, we captured the valuable opportunities arising from the accelerated development of social and economic informatisation to deepen strategic transformation, amidst the rapid technological advancement in mobile Internet. We proactively implement our strategic positioning as “a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development”, adhering to integrated differentiated operation. Riding on mobile, broadband and industry applications as a breakthrough to promote scale development of full services operation, the business structure was further optimised and new development mode of innovation, centralised efficient operation, precision management and value enhancement was accomplished. The full services operation of the Company embarked on a healthy trajectory for sustainable growth.

Operating Results

In the first half of 2011, the Company's operation has progressed as planned. The operating revenues amounted to RMB120,208 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB120,110 million, an increase of 11.7% from the same period of last year. EBITDA^{1,2} was RMB48,501 million, an increase of 6.0% from the same period of last year while the EBITDA margin was 40.4%. The profit attributable to equity holders of the Company was RMB9,710 million, a growth of 10.2% from the same period of last year, demonstrating concurrent achievements in scale development of subscribers and remarkable enhancement in profitability. Basic earnings per share were RMB0.12. Capital expenditure for the period was RMB20,967 million while free cash flow³ reached RMB15,458 million.

Taking into consideration the Company's business development needs and its capital requirement for the planned acquisition of mobile network assets from the parent company in 2012, the Board of Directors has decided not to pay any interim dividends in order to maintain adequate funding flexibility. The Board of Directors will proactively consider the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

Deepening transformation to facilitate scale development of full services operation

In the first half of this year, the Company thoroughly explored the pattern and development path of full services operation. The Company deepened integrated offering and innovative development modes. New products and capabilities were nurtured, facilitating growth businesses in promoting full services operation and remarkable breakthrough in scale development.

¹ For the convenience of investors' analysis, EBITDA was calculated before CDMA network capacity lease fee.

² Including the amortisation of upfront connection fees, EBITDA was RMB48,599 million, profit attributable to equity holders of the Company was RMB9,808 million, and basic earnings per share were RMB0.12.

³ Free cash flow was calculated from EBITDA (excluding amortisation of the upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.

3G driving rapid growth of mobile services

In the first half of 2011, mobile Internet applications became increasingly proliferating and gradually formed an integral part of mobile information consumption in society, with increasing tendency to use 3G services by the subscribers. Benefitting from the successful execution of terminal strategy, the consumption threshold of 3G terminals has significantly decreased, yielding rapid scale development of the mobile services of the Company. The number of mobile subscribers increased by 17.85 million in the first half of the year, reaching a total number of 108 million and successfully exceeding 100 million subscribers. The Company becomes the world's largest CDMA mobile network operator where 19.9% of the mobile subscribers were 3G subscribers, which is above the industry average level. Mobile service revenue increased by 36.8% over the same period of last year, reaching RMB31,139 million, and further rising to 25.9% as a percentage of operating revenue.

In the first half of the year, we have achieved a critical breakthrough in 3G smartphones. There are over 100 3G smartphone models available for sale, and the sales of 3G smartphones priced around RMB1,000 outperformed our peers with remarkable enhancement in price-performance factors. We closely followed the market momentum of mobile Internet services, leveraging the convergence of wireline and mobile services and riding on smartphone handset terminals. Through implementing the strategy of “selling handset first, matching by service package”, we reinforced the sales and marketing to enhance customers' experience and vigorously promoted the transformation of self-operated sales outlets to handset specialty stores like electronic appliances stores. With the optimisation in commission and incentive policies for open channels, we effectively activated open channels and significantly increased their share of terminal sales and subscriber acquisition, which became an important channel in developing public customers. We persisted in high value data traffic operation strategy and actively promoted popular applications. In the first half of the year the monthly compound growth rate of 3G handset Internet traffic exceeded 12%. Through expansion in the depth and comprehensiveness of Wi-Fi coverage in hotspots areas and offloading mobile data traffic through Wi-Fi, we effectively enhanced the customers' mobile broadband experience.

Upgrading broadband bandwidth to promote scale development

As a key high-speed carrier for information services, the data access speed and penetration rate of broadband services become vital benchmarks of national informatisation. The Company duly launched the “Broadband China, Fibre Cities” project and further optimised the measures in sales and marketing as well as services. In the first half of the year, the net addition of wireline broadband subscribers was 6.61 million, reaching a total number of 70.09 million. Revenue from wireline broadband services increased by 13.1% from the same period last year, reaching a total of RMB29,755 million, further rising to 24.8% as a percentage of the operating revenue.

In the first half of this year, we deepened unified customer account operation, primarily accomplishing unified authentication for broadband account, mobile account and self-operated content and application account to further improve customers' experience. We adopted initiatives to upgrade the broadband service and handle customers complaints via multi-channels. Back-end workflow was optimised to shorten the response time to customer enquiries. Self-determined integrated service packages were

offered to enrich customers' choice and to enhance customers' satisfaction. With acceleration in bandwidth upgrade, all cities in service areas basically had 8Mbps broadband access capability and the bandwidth capability with 20Mbps reached coverage of 65%. The bandwidth of our IP-based backbone core network has upgraded to 26 Tbps. Our competitive edges were further reinforced, which not only facilitated the growth of subscribers but also laid down a solid foundation for future competitiveness.

Riding on competitive edges of government and enterprise customers to boost industry informatisation applications

Following the further deepening of scientific development mindset and implementation by the nation, the market of industry informatisation application becomes a rich gold mine. Leveraging our integrated strengths in ICT and mobile network and as a result of our accelerated expansion, in the first half of the year, revenue from value-added and integrated information service reached RMB22,359 million, an increase of 24.2% over the same period of last year.

In the first half of this year, we continued to expedite the scale replication and promotion of mature industry informatisation applications servicing Government supervision and enforcement, the finance industry, corporate clients and clustered small to medium-sized enterprises. For the government and enterprise market, we focused on addressing customers' key requirements on a segmental basis and offered targeted customised solutions, with synergic integration of fundamental services such as mobile and broadband services into industry applications to promote scale development of fundamental services. For the clustered small to medium-sized enterprises market, we vigorously boosted popular products such as "busy-shop assistant" and "e-Surfing RFID", and transformed the development approach leveraging open channel. Meanwhile, we proactively explored and developed the "Cloud Service" market and centrally built a nationwide "cloud" resources management platform to promote "Cloud Computing" for industry applications and to continuously enhance the capability of providing industry informatisation solutions.

Alleviating operational risk of wireline voice

In the first half of this year, the total number of wireline access lines in service was 172 million, a net decline of 2.83 million. Revenue from wireline voice amounted to RMB26,462 million, accounting for 22.0% of the total revenue. The decline was further mitigated. The number of PAS subscribers continued to decline noticeably and the revenue contribution of PAS to total operating revenue decreased to below 1%. The business risk has primarily been alleviated.

Planning ahead and fully preparing for the future

From the overall perspective of the development in global communications industry, the multi-dimensional, multi-crossing, comprehensive restructuring and convergence of key industry players has become an inevitable trend, whereas the player with competitive edges in mobile Internet will be the future leader. As a telecom operator, we leverage our competitive strengths in network and customer base to tackle the dynamic challenges, emphasizing on adaptation to achieve excellence. We proactively execute our strategic positioning as "a leader of the intelligent pipeline, a provider of an

integrated platform and a participant in content and application development”. To meet the dynamic needs of the market, we target to execute a progressive plan in the next three to five years to fully utilise the network strengths of full services operator in developing an intelligent pipeline enabled with customer identification and business awareness, a highly integrated, fully functional, open and fair integrated capability platform and self-operated core applications products. Through extensive collaboration with value chain participants, we also endeavour to support the deployment and operation of content and applications of the collaborative participants, persistently providing enriched communication information experience to our customers and promoting a healthy and vigorous value chain.

“Leader of the Intelligent Pipeline”

Our intelligent pipeline will feature high-speed bandwidth, convergent wireline and mobile network, users’ freedom to participate in network deployment and management, and multi-level quality of service levels for different subscribers and services. This year, we strengthened our access network construction that utilised the passive optical network (PON) technology and achieved comprehensive bandwidth upgrade for our core network and access network. We continued to optimise our 3G network coverage and continued to enhance our network quality to maintain our leading position amongst the peers. We consolidated our carrier-class Wi-Fi network and, strengthened its coordinated traffic offloading from the 3G network. Technologies such as Deep Packet Inspection (DPI) have been deployed to reinforce the identification capability of the mobile network on customers and services, and to implement the precise mobile traffic management.

“Provider of Integrated Platform”

Our integrated platform will be a highly-integrated service carrying platform of open capability to serve various businesses & customers with comprehensive and multifunctional capabilities. Through advancement and opening up of the basic operational capabilities of the platform, we will be able to gather more developers to attract more high-value traffic. From the beginning of the first half of this year, we started to consolidate our existing application platforms and progressively implemented centralised efficient operation, aiming at sharing of subscribers’ information and resources capability across the Group. We progressively built and provided to our partners various enabling capabilities such as unified authentication, electronic payment and mobile positioning. We vigorously leveraged “Cloud Computing” technology, set up “cloud” resources pools and meanwhile commenced to establish a nationwide centralised management and service platform for “cloud” resources. Leveraging the resources and capabilities of the existing platforms, we have already introduced various outstanding third-party content and applications such as “QQ”, “weibo” and the “UC Browser” to enhance the value of data traffic. In June this year, we took initiatives to form the “Open Mobile Internet Alliance” with Internet companies and manufacturers of mobile terminals to jointly strengthen cooperation and build up a win-win industry value chain.

“Participant in content and application development”

In developing content and applications, we adhere to the principles of competitiveness and quality. Leveraging our own resources, we selectively develop self-operated converging content, applications and enabling features including payment and positioning. Through innovative mechanism and system as well as market-oriented operation and development models, we aim to pave the way to future revenue growth. In the first half of the year, the Company has set up the Business Innovation Department to strengthen the centralised efficient operation of innovative products, especially to realise the consolidated sales and marketing of self-operated products of our eight product centres and accelerate the scale promotion of content and applications. We continuously enhanced the penetration and popularity of the products of the product centres to accomplish the preliminary scale development. As a result, products such as “189 mailbox”, “e-Surfing LIVE”, and “eStore” have achieved initial scale development and the number of subscribers reached 36.78 million, 28.35 million and 27.30 million respectively. Meanwhile, the Company has also accelerated the expansion of mobile payment service and the total value of transactions conducted through BestPay has reached RMB8,600 million in the first half of this year.

Social Responsibility and Corporate Governance

As a sizeable integrated telecom operator, China Telecom fully understands its vital role in social responsibility. In recent years, we have been investing to enhance the “information superhighway” and to maintain the healthiness of the information on the Internet, promoting technological innovation and fostering the prosperity of industry value chain. Through continuous improvement in operation and services, we offered excellent integrated information services for individuals, households and enterprises customers, endeavouring to enhance customers’ value. We actively took initiatives to fulfill environmental responsibility through promoting lower emissions and green operation with a view to building a “green integrated information service provider”. As a responsible corporate citizen, we actively participated in charitable activities aiming at alleviation of poverty and other welfare and donation projects to fulfill our community responsibility.

We continue to strive to maintain a high level of corporate governance and corporate transparency to ensure the healthy development of the Company and enhance corporate value. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We have been accredited with a number of awards and appreciation in the first half of this year, including the “Overall Best Managed Company in Asia” and “Best Telecom Company in Asia” by *FinanceAsia*, “No. 1 Best Managed Company in Asia” by *Euromoney*, being the first company receiving such an honour for two consecutive years; and “Asia’s Best Companies in Corporate Governance” and “The Best Corporate Social Responsibility in China” by *Corporate Governance Asia*.

Outlook

At present, the scale development of the Company is now facing valuable opportunities. 3G service is expanding rapidly and broadband service is undergoing fast growth development amidst strong demand for informatisation services from government and enterprises. The intensified market competition and the industry convergence in the mobile Internet era are bringing new challenges. In the second half of the year, we will persist in deepening strategic transformation, insisting on differentiated strategy and accelerating the scale development. As for the fundamental services, we will expand the government and enterprise markets through promotion of industry applications, develop the public customers leveraging integrated service offering, and expand mobile market riding on 3G services. We shall also attend to the cluster market and strengthen rural market development. As for the innovative services, we will persist in data traffic operation with overall collaboration and centralised efficient operation to drive expansion in mobile Internet services. As for government and enterprises customers, we will endeavour to expand the “Cloud service” market. We shall further optimise our distribution channel strategies to promote both self-operated outlets and open channels, while also further developing new mobile Internet sales channels. We shall insist on diversified development of mobile terminals and facilitate the continual prosperity of the industry value chain.

Looking forward, we are fully confident and will advocate innovation and transformation, win-win cooperation, pragmatism and strong execution with a view to achieve a new breakthrough in scale development and create more value for shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express my sincere thanks to Mr Shang Bing for his valuable contribution during his tenure of office as an Executive Director of the Company.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, China

23 August 2011

GROUP RESULT

China Telecom Corporation Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 extracted from the unaudited interim financial statements of the Group as set out in its 2011 Interim Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the six-month period ended 30 June 2011
(Amounts in millions, except per share data)

| | | Six-month periods ended 30 June | |
|---|------|------------------------------------|-------------|
| | Note | 2011 RMB | 2010 RMB |
| Operating revenues | 3 | 120,208 | 107,817 |
| Operating expenses | | | |
| Depreciation and amortisation | | (25,412) | (25,839) |
| Network operations and support | | (25,490) | (22,812) |
| Selling, general and administrative | | (22,205) | (19,752) |
| Personnel expenses | | (19,237) | (17,196) |
| Other operating expenses | | (13,373) | (8,398) |
| Total operating expenses | | (105,717) | (93,997) |
| Operating profit | | 14,491 | 13,820 |
| Net finance costs | 4 | (1,309) | (1,855) |
| Investment income | | 4 | 9 |
| Share of profits from associates | | 43 | 28 |
| Profit before taxation | | 13,229 | 12,002 |
| Income tax | 5 | (3,380) | (2,885) |
| Profit for the period | | 9,849 | 9,117 |
| Other comprehensive income for the period: | | | |
| Change in fair value of available-for-sale equity securities | | (130) | (115) |
| Deferred tax on change in fair value of available-for-sale equity securities | | 32 | 27 |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China | | (35) | 13 |
| Share of other comprehensive income from associates | | (1) | 5 |
| Other comprehensive income for the period, net of tax | | (134) | (70) |
| Total comprehensive income for the period | | 9,715 | 9,047 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 9,808 | 9,076 |
| Non-controlling interests | | 41 | 41 |
| Profit for the period | | 9,849 | 9,117 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 9,674 | 9,015 |
| Non-controlling interests | | 41 | 32 |
| Total comprehensive income for the period | | 9,715 | 9,047 |
| Basic earnings per share | 6 | 0.12 | 0.11 |
| Weighted average number of shares (in millions) | | 80,932 | 80,932 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

at 30 June 2011

(Amounts in millions)

| | | 30 June | 31 December |
|--|-------------|----------------|-------------|
| | | 2011 | 2010 |
| | <i>Note</i> | RMB | RMB |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment, net | | 262,563 | 275,248 |
| Construction in progress | | 23,374 | 14,445 |
| Lease prepayments | | 5,305 | 5,377 |
| Goodwill | | 29,919 | 29,920 |
| Intangible assets | | 8,460 | 9,968 |
| Interests in associates | | 1,178 | 1,123 |
| Investments | | 723 | 854 |
| Deferred tax assets | 8 | 9,845 | 10,779 |
| Other assets | | 3,967 | 4,396 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 345,334 | 352,110 |
| Current assets | | | |
| Inventories | | 3,723 | 3,170 |
| Income tax recoverable | | 2,461 | 1,882 |
| Accounts receivable, net | 9 | 20,383 | 17,328 |
| Prepayments and other current assets | | 5,222 | 5,073 |
| Time deposits with original maturity over three months | | 3,321 | 1,968 |
| Cash and cash equivalents | | 25,911 | 25,824 |
| | | <hr/> | <hr/> |
| Total current assets | | 61,021 | 55,245 |
| | | <hr/> | <hr/> |
| Total assets | | 406,355 | 407,355 |
| | | <hr/> <hr/> | <hr/> <hr/> |

| | | 30 June | 31 December |
|---|-------------|-----------------|-----------------|
| | | 2011 | 2010 |
| | <i>Note</i> | RMB | RMB |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term debt | | 16,098 | 20,675 |
| Current portion of long-term debt | | 1,361 | 10,352 |
| Accounts payable | <i>10</i> | 44,444 | 40,039 |
| Accrued expenses and other payables | | 58,992 | 52,885 |
| Income tax payable | | 688 | 327 |
| Current portion of deferred revenues | | 2,181 | 2,645 |
| | | <u>123,764</u> | <u>126,923</u> |
| Total current liabilities | | 123,764 | 126,923 |
| | | <u>(62,743)</u> | <u>(71,678)</u> |
| Net current liabilities | | (62,743) | (71,678) |
| | | 282,591 | 280,432 |
| Total assets less current liabilities | | 282,591 | 280,432 |
| Non-current liabilities | | | |
| Long-term debt | | 41,304 | 42,549 |
| Deferred revenues | | 3,252 | 3,558 |
| Deferred tax liabilities | <i>8</i> | 2,152 | 2,361 |
| | | <u>46,708</u> | <u>48,468</u> |
| Total non-current liabilities | | 46,708 | 48,468 |
| | | <u>170,472</u> | <u>175,391</u> |
| Total liabilities | | 170,472 | 175,391 |
| Equity | | | |
| Share capital | | 80,932 | 80,932 |
| Reserves | | 154,447 | 150,536 |
| | | <u>235,379</u> | <u>231,468</u> |
| Total equity attributable to equity holders of the Company | | 235,379 | 231,468 |
| Non-controlling interests | | 504 | 496 |
| | | <u>235,883</u> | <u>231,964</u> |
| Total equity | | 235,883 | 231,964 |
| | | <u>406,355</u> | <u>407,355</u> |
| Total liabilities and equity | | 406,355 | 407,355 |

1. BASIS OF PREPARATION

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

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

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.

2. SEGMENTAL REPORTING

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

3. OPERATING REVENUES

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

| | | Six-month periods ended 30 June | |
|---|-------------|------------------------------------|---------------------|
| | | 2011 | 2010 |
| | <i>Note</i> | <i>RMB millions</i> | <i>RMB millions</i> |
| Wireline voice | (i) | 26,462 | 32,915 |
| Mobile voice | (ii) | 18,002 | 14,102 |
| Internet | (iii) | 36,150 | 31,114 |
| Value-added services | (iv) | 12,541 | 10,849 |
| Integrated information application services | (v) | 9,818 | 7,153 |
| Managed data and leased line | (vi) | 6,998 | 6,066 |
| Others | (vii) | 10,139 | 5,353 |
| Upfront connection fees | (viii) | 98 | 265 |
| | | <u>120,208</u> | <u>107,817</u> |

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 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 IP-Virtual Private Network services.
- (v) Represent primarily the aggregate amount of fees charged to customers for system integration and consulting services and Best Tone information services, which comprise hotline enquiry and booking services.
- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of managed data transmission services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's wireline telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, rental and repairs and maintenance of equipment.
- (viii) Represent the amortised amount of the upfront fees received for initial activation of wireline services.

4. NET FINANCE COSTS

Net finance costs comprise:

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

5. INCOME TAX

Income tax in the profit or loss comprises:

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

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

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

Note:

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

6. BASIC EARNINGS PER SHARE

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

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

7. DIVIDENDS

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

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

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

8. DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

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

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

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

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

10. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

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

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

Ageing analysis of accounts payable is as follows:

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

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 2010 Annual Report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six-month period ended 30 June 2011, 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 2011, 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 Issuers (the “Model Code”).

As at 30 June 2011, 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.

CHANGE IN DIRECTORS AND SUPERVISORS

On 20 May 2011, the term of office of the third session of the Board of Directors and the Supervisory Committee expired. All directors of the third session of the Board of Directors were re-elected as the Board of Directors of the fourth session at the annual general meeting held on that date. All four supervisors representing shareholders of the third session of the Supervisory Committee were also re-elected as the supervisors of the fourth session of the Supervisory Committee. On the same date, Mr. Du Zuguo has been elected at the annual general meeting as a supervisor of the fourth session of the Supervisory Committee. Mr. Ma Yuzhu, the employee elected supervisor of the third session of the Supervisory Committee retired as supervisor of the Company on 20 May 2011 and was succeeded by Mr. Mao Shejun. Due to change in work arrangement, Mr. Shang Bing has resigned as the president, chief operating officer and executive director of the Company on 13 July 2011, and has been appointed as deputy minister of Ministry of Industry and Information Technology of the People's Republic of China.

Save as those disclosed above, there is no other information for the Directors or Supervisors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors and Supervisors are available on the website of the Company (www.chinatelecom-h.com).

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

As at 30 June 2011, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

| Name of shareholder | Number of shares held | Type of shares | Percentage of the respective type of shares in issue (%) | Percentage of the total number of shares in issue (%) | Capacity |
|---|-----------------------------------|-----------------|--|---|------------------------------------|
| China Telecommunications Corporation | 57,377,053,317 (Long position) | Domestic shares | 85.57% | 70.89% | Beneficial owner |
| Guangdong Rising Assets Management Co., Ltd | 5,614,082,653 (Long position) | Domestic shares | 8.37% | 6.94% | Beneficial owner |
| Commonwealth Bank of Australia | 1,524,752,000 (Long position) | H shares | 10.99% | 1.88% | Interest of controlled corporation |

| Name of shareholder | Number of shares held | Type of shares | Percentage of the respective type of shares in issue (%) | Percentage of the total number of shares in issue (%) | Capacity |
|-----------------------------------|---|-----------------------|---|--|---|
| JPMorgan Chase & Co. | 1,398,823,090 (Long position) | H shares | 10.08% | 1.73% | 85,896,265 shares as beneficial owner; 167,008,000 shares as investment manager; and 1,145,918,825 shares as security interest holder/ approved lending agent |
| | 49,264,024 (Short position) | H shares | 0.35% | 0.06% | 47,264,024 shares as beneficial owner; 2,000,000 shares as investment manager |
| | 1,145,918,825 (Shares available for lending) | H shares | 8.26% | 1.42% | Security interest holder/ approved lending agent |
| Blackrock, Inc | 1,031,731,831 (Long position) | H shares | 7.43% | 1.27% | Interest of controlled corporation |
| | 80,466,883 (Short position) | H shares | 0.58% | 0.099% | Interest of controlled corporation |
| RFS Holdings B.V. | 907,191,530 (Long position) | H shares | 6.54% | 1.12% | Interest of controlled corporation |
| | 1,180,327,134 (Short position) | H shares | 8.51% | 1.46% | Interest of controlled corporation |
| Templeton Investment Counsel, LLC | 693,347,861 (Long position) | H shares | 5.00% | 0.86% | Investment manager |

Save as stated above, as at 30 June 2011, in the register required to be maintained 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 auditor, 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 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has attached great importance to corporate governance. We continued to make efforts in improving the Company's internal control mechanisms, strengthening information disclosure and enhancing the Company's transparency, developing corporate governance practices and protecting shareholders' interests to the maximum degree.

The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, for the six months period ended 30 June 2011. In the Company's opinion, through supervision of the Board and Independent Non-executive Directors, and effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and execution, and effectively capture business opportunities. Many international leading corporations also have a similar arrangement.

Save as stated above, the Company has been in compliance with all the code provisions as set out in Appendix 14 "Code on Corporate Governance Practices" of the Listing Rules throughout the six months period ended 30 June 2011.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code throughout the period from 1 January 2011 to 30 June 2011.

INTERIM REPORT

The Interim Report for the six months ended 30 June 2011 will be despatched to shareholders and made available on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinatelecom-h.com) in due course.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this announcement may be viewed as "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance,

financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.

As of the date of this announcement, the Board of directors of the Company consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Madam Wu Andi as the executive vice president and chief financial officer, Mr. Zhang Jiping, Mr. Zhang Chenshuang, Mr. Yang Xiaowei, Mr. Yang Jie, and Mr. Sun Kangmin as the executive vice presidents, Mr. Li Jinming as the non-executive director, and Mr. Wu Jichuan, Mr. Qin Xiao, Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura, Mr. Xu Erming as the independent non-executive directors.