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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 2012

#### HIGHLIGHTS

- Operating revenues reached RMB138,021 million, up by 14.8%. Excluding the mobile terminals sales, operating revenues reached RMB126,580 million, up by 11.2%
- EBITDA was RMB48,760 million, up by 0.3%, EBITDA margin was 38.5%
- Profit attributable to equity holders of the Company was RMB8,814 million, basic earnings per share was RMB0.11
- Total number of mobile subscribers reached 144 million, representing a net addition of 17.71 million from the end of last year, up by 14.0%, of which 3G mobile subscribers was 50.96 million, representing a net increase of 14.67 million from the end of last year, up by 40.4%
- Total number of wireline broadband subscribers reached 83.70 million, representing a net addition of 6.89 million from the end of last year, up by 9.0%
- Total number of access lines in service was 167 million, representing a net decrease of 2.10 million from the end of last year, down by 1.2%

## CHAIRMAN'S STATEMENT

In the first half of 2012, we firmly seized the accelerating trend of social informatisation and leveraged on the valuable opportunities of proliferating mobile Internet to unwaveringly implement our development strategy of dual leadership in innovation and services. We comprehensively promoted the scale development of our three core services, mobile, broadband and informatisation applications, took thorough steps to enhance our management and focused to optimise corporate operation mechanisms. While strengthening the centralised efficient operation capabilities, the Company persistently accelerated its steps in strategic transformation and scale development to steadily enhance corporate long term competitiveness and corporate value.

### Operating results

In the first half of 2012, the Company achieved record revenue growth. The operating revenues amounted to RMB138,021 million, representing an increase of 14.8% over the same period last year. Excluding the mobile terminals sales, the operating revenues were RMB126,580 million, representing an increase of 11.2% over the same period last year. The growth rate in operating revenues surpassed the industry average. With the continued optimisation of the business structure, the proportion of revenues from the growth businesses increased to 83.9%. The risk of traditional business was further alleviated with wireline voice revenue as a proportion to total revenues decreased to 16.1%. EBITDA<sup>1</sup> was RMB48,760 million, representing an increase of 0.3% over the same period last year while EBITDA margin<sup>2</sup> was 38.5%. The profit attributable to equity holders of the Company was RMB8,814 million, decreasing by 8.3% from the same period last year. The Company believes that the launch of the iPhone to expand the high-end market would require an appropriate increase in marketing initiatives which would create short-term pressure on profitability, however, it would enhance long-term sustainable growth and value creation for the Company. Basic earnings per share of the Company was RMB0.11. Capital expenditure was RMB25,647 million, accounted for 18.6% of the total revenues, while free cash flow<sup>3</sup> reached RMB8,548 million.

Taking into consideration the cash flow of the Company and the capital required for the forthcoming acquisition of mobile network assets from its parent company, the Board of Directors has decided not to pay any interim dividend this year 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.

<sup>1</sup> For convenience of investors' comparative analysis, EBITDA was calculated before CDMA network capacity lease fee.

<sup>2</sup> EBITDA margin was calculated based on EBITDA divided by the operating revenues excluding mobile terminals sales.

<sup>3</sup> Free cash flow was calculated from EBITDA minus CDMA network capacity lease fee, capital expenditure and income tax.

## **Accelerated development achieving scale breakthrough**

### ***3G traction driving rapid mobile expansion***

With the increasing proliferation of mobile Internet applications and 3G smart terminals, users' habit on 3G services has progressively been cultivated. The accelerated migration trend from 2G to 3G in China's mobile communications market is becoming more noticeable. In view of such a momentous development opportunity, we proactively allocated resources and adopted effective measures to achieve scale breakthrough in mobile services. In the first half of the year, mobile service revenue showed a strong and industry leading growth momentum with an increase of 36.7% over the same period last year, reaching RMB42,556 million. The net addition of mobile subscribers was 17.71 million, reaching a total number of 144 million. The mobile subscriber market share increased to 13.8%, of which the net addition of 3G subscribers was 14.67 million, reaching a total number of 50.96 million. Significantly driven by our product center applications, our Best Tone service and Best Pay service, 3G handset data traffic increased rapidly with average monthly data usage per user reaching 111MB. The competitive advantages of Company's mobile services become more noticeable and sustainable growth momentum of mobile services is irresistible.

In the first half of the year, by adhering to our development philosophy of "terminal driven, brand focused and channel oriented", we adopted an innovative development model to effectively promote the scale expansion of mobile service, in particular selling 3G as a single product. We persisted in a 3G smartphone-driven strategy and strengthened the cooperation with vendors to enrich offerings of large-screen smartphones priced around RMB1,000. At the same time, we timely launched iPhone to cater the demand for the mid-to-high end markets and further promoted the breakthrough into the high-end market. We continued to carry out the transformation of sales outlets into specialty stores to strengthen the experience marketing of Internet handsets. Through service demonstrations and customer assistance on applications, users' habit on 3G services was cultivated and hence data traffic was stimulated, which had effectively increased data traffic per 3G handset user. We continued to reinforce the brand promotion of "e-Surfing 3G Internet handset" which focused on key customer groups, such as office staff and trendy youngster. We emphasised on enriching contents, highlighted and promoted the differentiation of high-end brand image. Led by our brand "Young", we proactively expanded in the campus market. We further strengthened our open sales channels for wider coverage in the core business districts. By introducing the private enterprise operating mechanism in our self-operated sales outlets, we effectively improved the outlet sales capability. We perfected our electronic sales channel and implemented centralised efficient operation while driving the transformation of online sales outlets from service-oriented websites to sales-oriented e-commerce websites.

### ***Broadband upgrade boosting scale development***

In the first half of the year, we seized the opportunities arising from broadband development as a national strategy. We accelerated the penetration of "fibre broadband" to build a superior network with good customer perception. We proactively enriched the content applications, further extracted broadband development potential and strengthened our broadband's leading position in the market. In the first half of

the year, wireline broadband revenue was RMB33,369 million, representing an increase of 12.1% over the same period last year. The net addition of broadband subscribers was 6.89 million and the total number of broadband subscribers reached 83.70 million, maintaining our leading position in subscriber market share.

We continuously adhered to the overall development strategy of “bandwidth upgrade, content enrichment and brand building”. With proactive promotion in “Broadband China • Fibre Cities” project, we accelerated the fibre roll-out in key areas. FTTH covered approximately 40 million households, which manifested the superior quality of China Telecom’s fibre broadband network. We further strengthened the marketing promotion of “Lightening Fibre Residential Areas” to speed up the bandwidth upgrade of the mainstream customers and transform the network strengths into competitive edges. Broadband customers with 4Mbps bandwidth and above accounted for more than 60% of the total. Concurrent with bandwidth upgrade, we proactively developed high-bandwidth Internet applications, such as online media, video chatting and interactive games, to boost high-bandwidth demand and inject new impetus for the high growth broadband market.

### ***Focusing on key industries to expedite informatisation applications***

Facing the rich gold mine of informatisation applications market, we fully leveraged our integrated strengths to satisfy the core demand of customers. Driven by the promotion of “Smart Cities” development, we focused on three key field areas, namely smart government, smart living and smart industry. We emphasised to develop key industries applications, such as e-Surfing RFID, e-administration, transport and logistics, digital campus and busy-shop assistant, and accelerated the scale replication and promotion of matured products. Meanwhile, we organically integrated our fundamental services, such as mobile, broadband etc., into industry applications, to effectively drive the scale development of our core services. We proactively expanded the cloud service market and established a cloud computing company to operate the full network cloud service in a centralised efficient manner. The launch of basic products, such as cloud central processing, cloud storage etc., were completed. We vigorously promoted and developed cloud computing in industry applications to continuously enhance our capabilities in providing industry informatisation solutions. In the first half of the year, revenue from wireline value-added services and integrated information services reached RMB16,343 million, an increase of 7.4% over the same period of last year.

### ***Alleviating operational risk of wireless voice***

We adopted effective measures to consolidate wireline usage and strived to mitigate the decline of wireline voice service. The operating risk was gradually alleviated. As at the end of June, the total number of access lines in service was 167 million, a net loss of 2.1 million in the first half of the year. Wireline voice revenue in the first half of the year amounted to RMB22,241 million.

## **Innovative development mode promoting management enhancement**

### ***“Three New Roles” transformation achieving substantive progress***

In the first half of the year, we pragmatically promoted the development of our Three New Roles — “a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development” to lay a solid foundation for the sustainable growth of the Company. We speeded up the commercialization of an intelligent pipeline by implementing self-served bandwidth upgrades for wireline broadband services in certain provinces and cities and accelerating the promotion of intelligent network trials and upgrades for mobile network based on service identification and traffic management. We proactively promoted the construction of an integrated platform to promptly realize the resource integration and open operation in order to enhance the rapid product deployment capability. We continued to expand the creativity in developing content and application-type products with fast growing subscriber scale of our product centre services and increasing activity level. e-Surfing open platform has gathered nearly 400 co-operative application developers. The scale of content applications development emerged.

### ***Invigoration through mechanism innovation***

Following the development pattern of Internet businesses, we proactively promoted innovation in mechanisms and systems and devoted to establish a new system appropriate for emerging businesses. We introduced private capital into the e-Surfing Media Company to deepen its market operation, invigorate its development potential and build a specialised enterprise with market competitiveness. We set up a product incubator centre, cooperated with venture capital firms, activated the system, stimulated the passion of entrepreneurship of our employees and cultivated new growth drivers. By fully utilizing social resources, we focused on the open co-operation with Internet application dominant enterprises and system developers of key industry applications and proactively explored new modes of co-operation to develop the informatisation application market together. We consolidated overseas operation units and established China Telecom Global Limited, which would unify customer interface and operate in a centralized efficient manner with global resource allocation and coordinate the development of overseas market.

### ***Leveraging data traffic operation to enhance quality of development***

While expanding our subscriber scale, we expedited our transformation from traditional voice operation to data traffic operation to enhance quality of development. We endeavoured to develop a new system of mobile Internet products and grasped the first customer contact point with “e-Surfing Cloud Desktop”. We continued to expand the subscriber scale of product centre services to invigorate data traffic demand. We promoted the coordinated development of various channels, implemented precision sales of data traffic and increased customer activity level to drive data usage per subscriber. We also speed up the development of services such as Best Tone and Best Pay service to promote data traffic aggregation. In the first half of the year, mobile data revenue was RMB19,267 million, representing an increase of 46.7% over the same period last year. Mobile data revenue accounted for 45.3% of the mobile service revenue, which is at an industry-leading level.

### ***Enhancing centralised efficient capability and deepening precision management***

To adapt to the development pattern of mobile Internet, we strengthened the coordination and centralised efficient operation of our sales and marketing systems, IT support and supplies procurement. We strived to achieve the goal of “one-point access and entire-network operation” to maximize the operating efficiency of the entire network. We reinforced the coordination and planning together with centralized efficient management in five areas, namely brand promotion, product optimisation, tariff standardisation, terminal management and services enhancement, to expand the market. In addition, through refining IT system and structure, we offered greater support to our centralised efficient operation. We strengthened the degree of centralised procurement, effectively enhancing investment cost savings per unit. Focusing on key areas, like sales and marketing and network construction, we continued to deepen implementation of the sub-division performance evaluation units to increase the efficiency of sales and marketing cost as well as network investment.

### **Acquisition of Mobile network for corporate value enhancement**

This year, we would complete the acquisition of the CDMA network assets from our parent company pursuant to statutory procedures and integrate mobile assets and business altogether. The acquisition of CDMA network assets will be beneficial to strengthening the overall operation efficiency of the Company’s mobile service and improving profitability in the future. It will also enhance the Company’s ability to coordinate the mobile network investment and construction with its operation management and upgrade planning, appropriately grasping the opportunity of advancement to new technologies with a view to fostering the development of the mobile service.

### **Corporate Governance and Social 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 were accredited with a number of awards and appreciation in the first half of the year, including the “Overall Best Managed Company in Asia” by *FinanceAsia* for two consecutive years, “No. 1 Best Managed Company in Asia” by *Euromoney*, being the first company receiving such honour for three consecutive years, and also “The Best of Asia” by *Corporate Governance Asia* for three consecutive years.

We persist in operating with integrity and strive to maintain fair and well disciplined market competition. We promote collaboration with value chain partners with the aim to achieve a win-win scenario among all parties to foster the healthy development of the whole industry. We proactively participated in relief activities for the natural disasters such as the earthquake in Xinjiang and mudslides in Sichuan. We also provided telecommunications assurance services for the launching of Shenzhou-9 spacecraft and Shanghai Cooperation Organisation Summit, receiving high regards and appreciation from the society.

## **Outlook**

At present, in respect of the changes of China's mobile telecommunications market, the trend of migration from 2G to 3G services has emerged. Approximately 900 million 2G service users nationwide are potential 3G service users of the Company. The development of broadband service still has great prospects while the demand for social informatisation is ever increasing. However, we are also facing new challenges brought by intensifying market competition and cannibalisation of traditional businesses by advanced technologies.

Aiming to achieve a breakthrough of its full services development, we will grasp the opportunities and cope with the challenges. In the second half of the year, the Company will adhere to its strategy of advancing its dual leadership in innovation and service quality. The Company will exert efforts in accelerating the scale development of its three core services, including 3G service, broadband service and informatisation applications, to increase revenue market shares of its full services. Furthermore, we will endeavour to enhance our management to strengthen four major capabilities, including innovation, services, efficient centralisation and operation. The Company will also consolidate its differentiated competitive edges of its products, services, networks and terminals to enhance both customer value and corporate value.

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. Zhang Chenshuang, Mr. Li Jinming, Mr. Miao Jianhua, Mr. Xu Cailiao and Madam Han Fang for their valuable contribution during their tenure of office as Directors and Supervisors of the Company. Also, I would like to welcome Mr. Ke Ruiwen to join our Board of Directors.

**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Beijing, China

22 August 2012

## 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 2012 extracted from the unaudited interim financial statements of the Group as set out in its 2012 Interim Report.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the six-month period ended 30 June 2012

(Amounts in millions, except per share data)

		Six-month period ended	
		30 June	
	Note	2012	2011
		RMB	RMB
			(restated)
<b>Operating revenues</b>	4	<b>138,021</b>	120,222
<b>Operating expenses</b>			
Depreciation and amortisation		(24,540)	(25,668)
Network operations and support		(31,258)	(25,501)
Selling, general and administrative		(29,309)	(22,207)
Personnel expenses		(21,453)	(19,237)
Other operating expenses		(19,009)	(13,374)
<b>Total operating expenses</b>		<b>(125,569)</b>	(105,987)
<b>Operating profit</b>		<b>12,452</b>	14,235
Net finance costs	5	(873)	(1,309)
Investment income		79	4
Share of profits from associates		11	43
<b>Profit before taxation</b>		<b>11,669</b>	12,973
Income tax	6	(2,797)	(3,316)
<b>Profit for the period</b>		<b>8,872</b>	9,657



		<b>Six-month period ended</b>	
		<b>30 June</b>	
		<b>2012</b>	2011
	<i>Note</i>	<b>RMB</b>	<i>RMB</i>
			<i>(restated)</i>
<b>Other comprehensive income for the period:</b>			
Change in fair value of available-for-sale equity securities		(109)	(130)
Deferred tax on change in fair value of available-for-sale equity securities		27	32
Exchange difference on translation of financial statements of subsidiaries outside mainland China		(10)	(35)
Share of other comprehensive income from associates		—	(1)
		<u>          </u>	<u>          </u>
<b>Other comprehensive income for the period, net of tax</b>		<b>(92)</b>	<b>(134)</b>
		<u>          </u>	<u>          </u>
<b>Total comprehensive income for the period</b>		<b>8,780</b>	<b>9,523</b>
		<u>          </u>	<u>          </u>
<b>Profit attributable to:</b>			
Equity holders of the Company		8,814	9,616
Non-controlling interests		58	41
		<u>          </u>	<u>          </u>
<b>Profit for the period</b>		<b>8,872</b>	<b>9,657</b>
		<u>          </u>	<u>          </u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		8,722	9,482
Non-controlling interests		58	41
		<u>          </u>	<u>          </u>
<b>Total comprehensive income for the period</b>		<b>8,780</b>	<b>9,523</b>
		<u>          </u>	<u>          </u>
<b>Basic earnings per share</b>	7	<b>0.11</b>	0.12
		<u>          </u>	<u>          </u>
<b>Number of shares (in millions)</b>		<b>80,932</b>	80,932
		<u>          </u>	<u>          </u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)***at 30 June 2012**(Amounts in millions)*

		<b>30 June</b>	31 December
		<b>2012</b>	2011
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
			<i>(restated)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net		<b>261,738</b>	268,904
Construction in progress		<b>28,309</b>	18,448
Lease prepayments		<b>25,926</b>	26,280
Goodwill		<b>29,919</b>	29,918
Intangible assets		<b>6,358</b>	7,715
Interests in associates		<b>963</b>	985
Investments		<b>735</b>	648
Deferred tax assets	9	<b>3,015</b>	3,070
Other assets		<b>3,224</b>	3,602
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>360,187</b>	359,570
<b>Current assets</b>			
Inventories		<b>4,599</b>	4,843
Income tax recoverable		<b>2,538</b>	2,425
Accounts receivable, net	10	<b>22,713</b>	18,471
Prepayments and other current assets		<b>5,576</b>	4,666
Time deposits with original maturity over three months		<b>5,199</b>	1,804
Cash and cash equivalents		<b>33,073</b>	27,372
		<hr/>	<hr/>
<b>Total current assets</b>		<b>73,698</b>	59,581
		<hr/>	<hr/>
<b>Total assets</b>		<b>433,885</b>	419,151
		<hr/> <hr/>	<hr/> <hr/>

		<b>30 June</b>	31 December
		<b>2012</b>	2011
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
			<i>(restated)</i>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term debt		5,873	9,187
Current portion of long-term debt		10,071	11,766
Accounts payable	11	50,084	44,359
Accrued expenses and other payables		71,232	59,375
Income tax payable		533	482
Current portion of deferred revenues		1,754	2,093
		<u>139,547</u>	<u>127,262</u>
<b>Total current liabilities</b>		<b>139,547</b>	<b>127,262</b>
<b>Net current liabilities</b>		<b>(65,849)</b>	<b>(67,681)</b>
		<u>294,338</u>	<u>291,889</u>
<b>Total assets less current liabilities</b>		<b>294,338</b>	<b>291,889</b>
<b>Non-current liabilities</b>			
Long-term debt		31,125	31,150
Deferred revenues		2,312	2,712
Deferred tax liabilities	9	891	1,117
		<u>34,328</u>	<u>34,979</u>
<b>Total non-current liabilities</b>		<b>34,328</b>	<b>34,979</b>
<b>Total liabilities</b>		<b>173,875</b>	<b>162,241</b>
<b>Equity</b>			
Share capital		80,932	80,932
Reserves		178,239	175,190
		<u>259,171</u>	<u>256,122</u>
<b>Total equity attributable to equity holders of the Company</b>		<b>259,171</b>	<b>256,122</b>
<b>Non-controlling interests</b>		<b>839</b>	<b>788</b>
		<u>260,010</u>	<u>256,910</u>
<b>Total equity</b>		<b>260,010</b>	<b>256,910</b>
		<u>433,885</u>	<u>419,151</u>
<b>Total liabilities and equity</b>		<b>433,885</b>	<b>419,151</b>

Notes:

## 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 22 August 2012, reflect the unaudited financial position of the Group as at 30 June 2012 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2012.

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

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. CHANGES IN ORGANISATION DURING THE PERIOD AND BASIS OF PRESENTATION

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

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

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

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

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

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

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

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

### 3. SEGMENTAL REPORTING

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

#### 4. OPERATING REVENUES

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

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

*Note:*

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnection fees and amortised amount of upfront installation fees charged to customers for the provision of wireline telephony services.
- (ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnection fees charged to customers for the provision of mobile telephony services.
- (iii) Represent amounts charged to customers for the provision of Internet access services.
- (iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services.
- (v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.
- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of managed data transmission services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, rental and repair and maintenance of equipment.
- (viii) Represent the amortised amount of the upfront fees received for initial activation of wireline services.

## 5. NET FINANCE COSTS

Net finance costs comprise:

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

## 6. INCOME TAX

Income tax in the profit or loss comprises:

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

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

	<i>Note</i>	<b>Six-month period ended 30 June</b>	
		<b>2012</b>	2011
		<b><i>RMB millions</i></b>	<i>RMB millions</i> (restated)
Profit before taxation		<b>11,669</b>	12,973
Expected income tax expense at statutory tax rate of 25%	(i)	<b>2,917</b>	3,243
Differential tax rate on PRC subsidiaries' and branches' income	(i)	<b>(81)</b>	(26)
Differential tax rate on other subsidiaries' income	(ii)	<b>(11)</b>	(7)
Non-deductible expenses	(iii)	<b>157</b>	248
Non-taxable income	(iv)	<b>(45)</b>	(112)
Effect of change in tax rate	9 (i)	<b>138</b>	—
Others	(v)	<b>(278)</b>	(30)
Actual income tax expense		<b>2,797</b>	3,316

*Note:*

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

## **7. BASIC EARNINGS PER SHARE**

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

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



## 8. DIVIDENDS

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

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

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

## 9. DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

*Note:*

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

## 10. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

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

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

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

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

## 11. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

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

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

Ageing analysis of accounts payable is as follows:

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

## 12. EVENTS AFTER THE REPORTING PERIOD

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

## **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 2011 Annual Report.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six-month period ended 30 June 2012, 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 2012, 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 2012, 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 March 2012, Mr. Zhang Chenshuang resigned from his positions as an Executive Director and Executive Vice President of the Company due to his age. On 30 May 2012, the appointment of Mr. Ke Ruiwen, an Executive Vice President of the Company, as an Executive Director of the Company was approved at the 2011 Annual General Meeting. On 22 August 2012, Mr. Li Jinming resigned from his position as a Non-executive Director of the Company due to his age. Mr. Miao Jianhua resigned from his position as a Supervisor of the Company due to his age. Mr. Xu Cailiao and Ms. Han Fang resigned from their positions as Supervisors of the Company due to the changes in job responsibility. Mr. Chen Liangxian was proposed to be appointed as the Non-executive Director of the Company. Mr. Shao Chunbao and Mr. Hu Jing were proposed to be appointed as the Supervisors of the Company. The abovesaid proposed appointment will become effective upon the requisite resolution having been approved at the extraordinary general meeting.

The change in Directors’ or Supervisors’ biographical details, since the despatch date of the Annual Report 2011 is set out below:

Dr. Qin Xiao, an Independent Non-executive Director of the Company, was appointed as the Non-executive Chairman of the Board of Directors of Amex Resources Limited. Madam Cha May Lung, Laura, an Independent Non-executive Director of the Company, was appointed as the Chairman of the Task Force on the Financial Service Development Council of Hong Kong SAR and ceased to act as a member of the 2011 Banking & Capital Markets Industry Agenda Council of the World Economic Forum and an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited and Tata Consultancy Services Limited.

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](http://www.chinatelecom-h.com)).

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

As at 30 June 2012, 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:

<b>Name of Shareholder</b>	<b>Number of shares held</b>	<b>Type of Shares</b>	<b>Percentage of the respective type of shares in issue (%)</b>	<b>Percentage of the total number of shares in issue (%)</b>	<b>Capacity</b>
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
JPMorgan Chase & Co.	1,627,739,289 (Long position)	H shares	11.73%	2.01%	97,454,207 shares as beneficial owner; 382,958,000 shares as investment manager; and 1,147,327,082 shares as security interest holder/ approved lending agent
	12,741,386 (Short position)	H shares	0.09%	0.02%	Beneficial owner
	1,147,327,082 (Shares available for lending)	H shares	8.27%	1.42%	Security interest holder/ approved lending agent

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
Commonwealth Bank of Australia	1,253,898,681 (Long position)	H shares	9.04%	1.55%	Interest of controlled corporation
Blackrock, Inc	1,109,471,194 (Long position)	H shares	7.99%	1.37%	Interest of controlled corporation
	80,992,925 (Short position)	H shares	0.58%	0.10%	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

Save as stated above, as at 30 June 2012, 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 2012.

## 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 2012. 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 under the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2012.

## **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 2012 to 30 June 2012.

## **INTERIM REPORT**

The Interim Report for the six months ended 30 June 2012 will be despatched to shareholders and made available on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.chinatelecom-h.com](http://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 at the date of this announcement, the board of directors of the Company consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Mr. Yang Jie as the president and chief operating officer, Madam Wu Andi as the executive vice president and chief financial officer, Mr. Zhang Jiping, Mr. Yang Xiaowei, Mr. Sun Kangmin and Mr. Ke Ruiwen as the executive vice presidents 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.*