# 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 2010

## HIGHLIGHTS

| Including the amortisation of upfront connection fees | Excluding the amortisation of upfront connection fees |
|---|---|
| – Operating revenues reached RMB107,817 million | – Operating revenues reached RMB107,552 million, up by 4.9% |
| – EBITDA was RMB46,024 million, EBITDA margin was 42.7% | – EBITDA was RMB45,759 million, up by 5.6%, EBITDA margin was 42.5% |
| – Profit attributable to equity holders of the Company was RMB9,076 million, basic earnings per share was RMB0.112 | – Profit attributable to equity holders of the Company was RMB8,811 million, up by 4.7%, basic earnings per share was RMB0.109 |

- Total number of access lines in service was 181 million, representing a net decrease of 7.49 million from the end of last year, down by 4.0%.
- Total number of broadband subscribers reached 58.33 million, representing a net addition of 4.87 million from the end of last year, up by 9.1%.
- Total number of mobile subscribers reached 74.52 million, representing a net addition of 18.43 million from the end of last year, up by 32.9%.
- Total number of 3G subscribers reached 7.18 million, representing a net addition of 3.11 million from the end of last year, up by 76.4%.

## CHAIRMAN'S STATEMENT

In the first half of 2010, we deepened the promotion of our "Customer-focused Innovative Informatisation" Strategy, leveraging our full services integrated operation to expand the market and riding on the differentiated operations to create competitive edges. The Company achieved invigorated results: Our mobile service continued to maintain robust development with expanding scale, while mobile terminal supply also showed significant improvement. We strengthened our market leading position in wireline broadband and integrated information services. Our overall business structure was further optimised with remarkable earnings recovery. The sustainable development of the Company's full services operation is gaining momentum.

### Business Performance

In the first half of 2010, the Company's operation was on track as planned. The operating revenues reached RMB107,817 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB107,552 million, representing a growth of 4.9% over the same period of last year, of which mobile service revenue amounted to RMB22,770 million, up 77.7% from the same period last year. Revenue from non-voice services as a percentage of the operating revenues further increased to 56.3%, amongst which wireline broadband access revenue attributed to 24.5% of the operating revenues. This further optimised our overall business structure as well as our ability to mitigate risks. EBITDA[1,2] was RMB45,759 million, a 5.6% increase from the same period of last year, while the EBITDA margin was 42.5%. Profit attributable to equity holders of the Company[2] was RMB8,811 million, representing an increase of 4.7% from the same period of last year and growth of 81.3% over the second half of last year. Robust earnings trajectory marked a good start of our result improvement. Basic earnings per share[2] was RMB0.109. Capital expenditure was RMB17,918 million, an increase of 5.2% over the same period of last year. Free cash flow[3] reached RMB18,591 million.

Taking into consideration the Company's business development needs, the Board of Directors has decided not to pay any interim dividend for the period 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.

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

2 Including the amortisation of upfront connection fees, EBITDA was RMB46,024 million, profit attributable to equity holders of the Company was RMB9,076 million and basic earnings per share was RMB0.112.

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

**Expanding Integrated Operation and Optimising Business Structure**

In order to innovate business development model and achieve scientific development in the new landscape, we pooled our resources to actively promote the development model of full services integrated operation. We are committed to building a system for multi-services integrated packages of products and services as well as marketing and sales, accelerating product development, initiating cooperation on developing applications, and continuously enriching the content of our integrated operation by leveraging our comprehensive range of products. We also established a network structure and IT support capabilities to support our full services operation, while at the same time further deepened precision management and optimised resource allocation. With unwavering efforts, our integrated operation model has effectively driven the rapid growth of our mobile and broadband services. There was a significant increase in revenue proportion from our mobile, broadband and integrated information services, while the risk to our wireline voice service was further alleviated.

We have fully leveraged our advantages in the integrated bundling operations and our mobile services gained traction. The number of mobile subscribers increased by 18.43 million in the first half of the year to a total number of 74.52 million, of which 7.18 million were 3G subscribers. The mobile subscriber packaging penetration rate was over 50%. Our market share of mobile subscribers was close to 10%, an increase of 5 percentage points from the end of 2008. Our mobile voice usage showed a trend of continual improvement on a monthly basis, doubling the level of the same period of previous year, while the ARPU of subscribers remained relatively stable compared to last year.

With the wireline broadband services as the foundation for deepening the integrated operation and expanding the mobile Internet service, we established the brand of "eSurfing Broadband" in the first half of the year and integrated our wireline and wireless broadband services. We proactively expanded our subscriber base by investing more than 60% of our capital expenditure on broadband network infrastructure to accelerate bandwidth upgrade, enhancing the quality of our broadband services and promoting our differentiated applications. In the first half of the year, the net addition of wireline broadband subscribers was 4.87 million, reaching a total of 58.33 million. Revenue from wireline broadband access services reached RMB26,302 million, an increase of 15.6% compared to the same period of last year.

We always focus on the development of integrated information services as the highlight of our strategic transformation, and endeavour to provide comprehensive industry applications and public applications to customers and meet the ever growing demand of the market. In the first half of the year, revenue from wireline value-added and integrated information services reached RMB13,713 million.

With mobile, broadband and information application services marking the rapid development of the modern telecommunications, traditional wireline voice services face more challenges. Therefore, we strived to mitigate the decline in revenue from our wireline voice services by providing targeted packages to customers. Through the proactive and orderly migration of the PAS services to effectively alleviate operating risk, we endeavoured to maintain the Company's overall operational profitability with stringent control on related investment and other measures. In the first half of the year, there was a net loss of 7.61 million PAS subscribers. The total number of access lines in service was 181 million as at the end of June this year.

**Creating New Competitive Edges through Differentiated Operations**

We persist in differentiated operation, targeting government and enterprise and public customers to take differentiated marketing initiatives, and proactively expand subscriber base to facilitate revenue growth.

For the government and enterprise customer market, we fully utilised the edge we have accumulated over the years to expand into the mid-to-high end market with differentiated service offerings and form extensive strategic partnership with government entities and large corporations. We focused on areas such as government affairs, transportation and logistics, "All-in-one eSurfing handset" and digital hospitals, while strengthening the development of new industry applications and showcasing by creating pilot customers so as to accelerate the scale replication and promotion of ICT services. By the end of June this year, the number of "BizNavigator" subscribers reached 4.85 million, representing an increase of 11.2% from the end of last year.

For the public customer market, our primary strategy is to strengthen the collaboration with partners in content and applications. Leveraging the core product values of our partners, we provide a more comprehensive range of mobile Internet applications. In the first half of the year, we progressively launched new products such as mobile payment, "eSurfing reader" and mobile positioning services. The numbers of subscribers to services such as "189 mailbox", "eSurfing LIVE", and "eSurfing Video" have more than doubled. We will take further steps to highlight the concept of mobile Internet handset while focusing on traffic-centric operation, opening up intelligent channels and platforms, and deepening our collaboration with various reputable Internet content providers and integrators of core industry applications. We will endeavour to provide enriched content and applications for our customers, as well as to promote the transition of the Company towards a higher-value mobile Internet application services provider.

**Strengthening Infrastructure to Promote Full Services Development**

We are committed to building a superior network. We have further accelerated the broadband transmission speed upgrade. In city areas, the network basically featured 4M or above broadband access capability with 44% coverage of 20M or above. In order to seize the market opportunities, our next step will be to further invest in fibre broadband network, particularly "Fibre-to-the-Home" (FTTH). This will facilitate broadband subscriber development and help us to consolidate and strengthen our core competitiveness continuously. We continued to optimise our EVDO network which covers all cities above county-level and over 20,000 towns, while accelerating Wi-Fi hotspots construction and optimisation. This will sustain our leading position in network coverage and quality transmission support for mobile Internet traffic-centric operation.

We also further strengthened collaborations. We strengthened the cooperation with handset manufacturers in order to improve the handset supply to meet market demand and efficiently alleviate the bottlenecks. We also enhanced the development of distribution channels and promoted the scale development of open channel. Mobile subscribers developed and handset sales by open channel accounted for more than 50%.

We continued to promote precision management and further optimise resource allocation. We expanded our investment in broadband and fibre access, persisted in resource allocation tilting towards high-growth and high-value services, enhanced capital utilisation by actively redeploying inactive assets and deepened centralised capital management to save finance costs and thus enhance profitability.

## Corporate Governance and Social Responsibility

We strived to maintain our high standards of corporate governance by continuously improving corporate transparency, ensuring the healthy development of the Company, and enhancing corporate values. Our continuous efforts in corporate governance are widely recognised by the capital market and we were accredited with a number of awards in the first half of the year, including recognition as "Asia's Best Companies in Corporate Governance" by *Corporate Governance Asia*, and "Asia's Best Managed Companies – China" and "Asia's Best Managed Telecommunications – Asia" by *Finance Asia* in the Asia's Best Companies Poll. The Company's stock was also selected as constituent of Hang Seng Corporate Sustainability Index.

As one of the leading telecommunications operators in China, we serve as a role model for fulfilling social responsibilities. We actively contributed to the rescue efforts during the Yushu earthquake in Qinghai Province and the flooding in the southern provinces. Our emergency rescue teams hustled off the disaster areas and quickly restored wireline and mobile communications services, ensuring undisrupted communications during the rescue operations. As an integrated information service partner, we also fully supported the Shanghai World Expo. Our capability in providing quality communications was highly appreciated by participants at the Shanghai World Expo.

## Future Outlook

With the advent of mobile Internet and the three-network convergence era, the Company is embracing another major period of strategic opportunities and huge development potential. At the same time, the Company is also facing the challenges of intensifying competition in the telecommunications sector. We will continue to deepen our integrated operation by focusing on the development and retention. On one hand, we will focus on fulfilling our customers' needs and accelerating the promotion of broadband access and mobile services, particularly in the 3G development. On the other hand, we will also work to retain our existing subscribers and maintain our traditional services and coordinate the sustainable development of the four pillars of our business – mobile, broadband, wireline voice and valued-added and integrated information services.

On this foundation, we will fully utilise our leading edges in the largest Internet broadband subscriber base, the most reputable 3G brand and the widest 3G network coverage. While improving the superiority of our network infrastructure, we will also focus on mobile Internet traffic-centric operation and open our service platforms to strengthen the cooperation in the application and handset terminals. By establishing new differentiated competitive edges, we will strive to break new ground for our full services integrated operation and continue to create more value for our shareholders.

**Wang Xiaochu**
*Chairman and Chief Executive Officer*

Beijing, PRC
25 August 2010

## GROUP RESULTS

China Telecom Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 extracted from the unaudited interim financial statements of the Group as set out in its 2010 Interim Report.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

*for the six-month period ended 30 June 2010*
*(Amounts in millions, except per share data)*

| | Note | Six-month periods ended 30 June 2010 RMB | 2009 RMB |
|---|---|---|---|
| **Operating revenues** | 3 | **107,817** | 103,146 |
| **Operating expenses** | | | |
| Depreciation and amortisation | | **(25,839)** | (26,029) |
| Network operations and support | | **(22,812)** | (20,133) |
| Selling, general and administrative | | **(19,752)** | (17,595) |
| Personnel expenses | | **(17,196)** | (16,351) |
| Other operating expenses | | **(8,398)** | (8,719) |
| **Total operating expenses** | | **(93,997)** | (88,827) |
| **Operating profit** | | **13,820** | 14,319 |
| Net finance costs | 4 | **(1,855)** | (2,268) |
| Investment income | | **9** | 50 |
| Share of profits from associates | | **28** | 25 |
| **Profit before taxation** | | **12,002** | 12,126 |
| Income tax | 5 | **(2,885)** | (3,071) |
| **Profit for the period** | | **9,117** | 9,055 |
| **Other comprehensive income for the period:** | | | |
| Change in fair value of available-for-sale equity securities | | **(115)** | 60 |
| Deferred tax on change in fair value of available-for-sale equity securities | | **27** | (15) |
| Exchange difference on translation of financial statements of subsidiaries outside mainland PRC | | **13** | (1) |
| Share of other comprehensive income of associates | | **5** | – |
| **Other comprehensive income for the period, net of tax** | | **(70)** | 44 |
| **Total comprehensive income for the period** | | **9,047** | 9,099 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **9,076** | 9,004 |
| Non-controlling interests | | **41** | 51 |
| **Profit for the period** | | **9,117** | 9,055 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **9,015** | 9,048 |
| Non-controlling interests | | **32** | 51 |
| **Total comprehensive income for the period** | | **9,047** | 9,099 |
| **Basic earnings per share** | 6 | **0.11** | 0.11 |
| **Weighted average number of shares** | | **80,932** | 80,932 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**
*at 30 June 2010*
*(Amounts in millions)*

| | Note | **30 June 2010** *RMB* | 31 December 2009 *RMB* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment, net | | **271,384** | 286,328 |
| Construction in progress | | **19,032** | 11,567 |
| Lease prepayments | | **5,405** | 5,517 |
| Goodwill | | **29,921** | 29,922 |
| Intangible assets | | **10,876** | 12,311 |
| Interests in associates | | **1,023** | 997 |
| Investments | | **607** | 722 |
| Deferred tax assets | *8* | **12,233** | 12,898 |
| Other assets | | **4,790** | 5,322 |
| **Total non-current assets** | | **355,271** | 365,584 |
| **Current assets** | | | |
| Inventories | | **2,571** | 2,628 |
| Income tax recoverable | | **2,140** | 1,714 |
| Accounts receivable, net | *9* | **19,722** | 17,438 |
| Prepayments and other current assets | | **4,308** | 3,910 |
| Time deposits with original maturity over three months | | **1,259** | 442 |
| Cash and cash equivalents | | **26,325** | 34,804 |
| **Total current assets** | | **56,325** | 60,936 |
| **Total assets** | | **411,596** | 426,520 |

| | Note | 30 June 2010 RMB | 31 December 2009 RMB |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Short-term debt | | **34,667** | 51,650 |
| Current portion of long-term debt | | **10,768** | 1,487 |
| Accounts payable | *10* | **36,351** | 34,321 |
| Accrued expenses and other payables | | **51,360** | 52,193 |
| Income tax payable | | **657** | 395 |
| Current portion of finance lease obligations | | **18** | 18 |
| Current portion of deferred revenues | | **2,795** | 3,417 |
| **Total current liabilities** | | **136,616** | 143,481 |
| **Net current liabilities** | | **(80,291)** | (82,545) |
| **Total assets less current liabilities** | | **274,980** | 283,039 |
| **Non-current liabilities** | | | |
| Long-term debt | | **42,524** | 52,768 |
| Deferred revenues | | **4,466** | 5,045 |
| Deferred tax liabilities | *8* | **2,426** | 2,613 |
| **Total non-current liabilities** | | **49,416** | 60,426 |
| **Total liabilities** | | **186,032** | 203,907 |
| **Equity** | | | |
| Share capital | | **80,932** | 80,932 |
| Reserves | | **143,784** | 140,800 |
| **Total equity attributable to equity holders of the Company** | | **224,716** | 221,732 |
| **Non-controlling interests** | | **848** | 881 |
| **Total equity** | | **225,564** | 222,613 |
| **Total liabilities and equity** | | **411,596** | 426,520 |

*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 25 August 2010, reflect the unaudited financial position of the Group as at 30 June 2010 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 2010.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the adoption of Amendments to IAS 27, "Consolidated and separate financial statements" which has resulted in a change in the presentation of the financial statements. The term "minority interest" has been changed to "non-controlling interest" in these interim 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. SEGMENTAL REPORTING

An operating segment is a component of an entity 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 provided to and regularly reviewed by the chief operating decision maker in order to allocate resource 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 telecommunication business. The Group's assets located and operating revenues derived from activities outside the PRC 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** | |
|---|---|---|---|
| | *Note* | **2010** ***RMB millions*** | 2009 *RMB millions* |
| Wireline voice | *(i)* | **32,915** | 41,060 |
| Mobile voice | *(ii)* | **14,102** | 9,051 |
| Internet | *(iii)* | **31,114** | 24,528 |
| Value-added services | *(iv)* | **10,849** | 10,347 |
| Integrated information application services | *(v)* | **7,153** | 5,928 |
| Managed data and leased line | *(vi)* | **6,066** | 5,528 |
| Others | *(vii)* | **5,353** | 6,112 |
| Upfront connection fees | *(viii)* | **265** | 592 |
| | | **107,817** | 103,146 |

*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, interconnections 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 interconnections 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, back ring tone 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 telecommunication 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** | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB millions*** | *RMB millions* |
| Interest expense incurred | **2,172** | 2,710 |
| Less: Interest expense capitalised* | **(137)** | (185) |
| Net interest expense | **2,035** | 2,525 |
| Interest income | **(139)** | (134) |
| Foreign exchange losses | **69** | 16 |
| Foreign exchange gains | **(110)** | (139) |
| | **1,855** | 2,268 |
| * Interest expense was capitalised in construction in progress at the following rates per annum | **1.3%-4.6%** | 1.3%-4.9% |

## 5. INCOME TAX

Income tax in the profit or loss comprises:

| | Six-month periods ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB millions*** | *RMB millions* |
| Provision for PRC income tax | **2,353** | 2,321 |
| Provision for income tax in other tax jurisdictions | **27** | 25 |
| Deferred taxation | **505** | 725 |
| | **2,885** | 3,071 |

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

| | | Six-month periods ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB millions*** | *RMB millions* |
| Profit before taxation | | **12,002** | 12,126 |
| Expected income tax expense at statutory tax rate of 25% | *(i)* | **3,001** | 3,032 |
| Differential tax rate on mainland PRC subsidiaries' and branches' income | *(i)* | **(333)** | (286) |
| Differential tax rate on other subsidiaries' income | *(ii)* | **(10)** | (15) |
| Non-deductible expenses | *(iii)* | **458** | 682 |
| Non-taxable income | *(iv)* | **(227)** | (340) |
| Other tax benefits | | **(4)** | (2) |
| Actual tax expense | | **2,885** | 3,071 |

*Note:*

(i) The provision for mainland PRC current income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland PRC 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 22%.

(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 2010 and 2009 is based on the profit attributable to equity holders of the Company of RMB9,076 million and RMB9,004 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 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.

Pursuant to the shareholders' approval at the Annual General Meeting held on 26 May 2009, a final dividend of RMB0.074963 (equivalent to HK$0.085) per share totalling approximately RMB6,067 million in respect of the year ended 31 December 2008 was declared and paid on 30 June 2009.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2010.

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 during the period are as follows:

| | **Assets** | | **Liabilities** | | **Net Balance** | |
|---|---|---|---|---|---|---|
| | **30 June 2010** ***RMB millions*** | 31 December 2009 *RMB millions* | **30 June 2010** ***RMB millions*** | 31 December 2009 *RMB millions* | **30 June 2010** ***RMB millions*** | 31 December 2009 *RMB millions* |
| *Current* | | | | | | |
| Provisions and impairment losses, primarily for doubtful debts | **1,125** | 931 | **–** | – | **1,125** | 931 |
| *Non-current* | | | | | | |
| Property, plant and equipment | **4,444** | 5,145 | **(1,634)** | (1,748) | **2,810** | 3,397 |
| Deferred revenues and installation costs | **1,136** | 1,229 | **(686)** | (732) | **450** | 497 |
| Land use rights | **5,528** | 5,593 | **–** | – | **5,528** | 5,593 |
| Available-for-sale equity securities | **–** | – | **(106)** | (133) | **(106)** | (133) |
| Deferred tax assets/(liabilities) | **12,233** | 12,898 | **(2,426)** | (2,613) | **9,807** | 10,285 |

| | **Balance at 1 January 2010** ***RMB millions*** | **Recognised in statement of comprehensive income** ***RMB millions*** | **Balance at 30 June 2010** ***RMB millions*** |
|---|---|---|---|
| *Current* | | | |
| Provisions and impairment losses, primarily for doubtful debts | 931 | 194 | 1,125 |
| *Non-current* | | | |
| Property, plant and equipment | 3,397 | (587) | 2,810 |
| Deferred revenues and installation costs | 497 | (47) | 450 |
| Land use rights | 5,593 | (65) | 5,528 |
| Available-for-sale equity securities | (133) | 27 | (106) |
| Net deferred tax assets | 10,285 | (478) | 9,807 |

## 9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

| | Note | **30 June 2010** ***RMB millions*** | 31 December 2009 *RMB millions* |
|---|---|---|---|
| Third parties | | **20,663** | 17,767 |
| China Telecom Group | *(i)* | **985** | 917 |
| Other state-controlled telecommunications operators in the PRC | | **1,005** | 827 |
| | | **22,653** | 19,511 |
| Less: Allowance for impairment of doubtful debts | | **(2,931)** | (2,073) |
| | | **19,722** | 17,438 |

*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 2010** ***RMB millions*** | 31 December 2009 *RMB millions* |
|---|---|---|
| Current, within 1 month | **11,419** | 10,895 |
| 1 to 3 months | **2,799** | 2,067 |
| 4 to 12 months | **1,675** | 1,514 |
| More than 12 months | **1,170** | 499 |
| | **17,063** | 14,975 |
| Less: Allowance for impairment of doubtful debts | **(2,779)** | (1,920) |
| | **14,284** | 13,055 |

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

| | **30 June 2010** ***RMB millions*** | 31 December 2009 *RMB millions* |
|---|---|---|
| Current, within 1 month | **1,946** | 1,918 |
| 1 to 3 months | **1,372** | 1,071 |
| 4 to 12 months | **1,601** | 922 |
| More than 12 months | **671** | 625 |
| | **5,590** | 4,536 |
| Less: Allowance for impairment of doubtful debts | **(152)** | (153) |
| | **5,438** | 4,383 |

## 10. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

| | **30 June 2010** *RMB millions* | 31 December 2009 *RMB millions* |
|---|---|---|
| Third parties | **27,736** | 26,402 |
| China Telecom Group | **8,061** | 7,526 |
| Other state-controlled telecommunications operators in the PRC | **554** | 393 |
| | **36,351** | 34,321 |

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

Ageing analysis of accounts payable is as follows:

| | **30 June 2010** *RMB millions* | 31 December 2009 *RMB millions* |
|---|---|---|
| Due within 1 month or on demand | **11,220** | 11,321 |
| Due after 1 month but within 3 months | **7,877** | 7,472 |
| Due after 3 months but within 6 months | **7,639** | 5,641 |
| Due after 6 months | **9,615** | 9,887 |
| | **36,351** | 34,321 |

# 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 2009 Annual Report.

# PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six-month period ended 30 June 2010, 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 2010, 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 2010, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

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

As at 30 June 2010, 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 |
| Capital Research and Management Company | 1,254,424,000 (Long position) | H shares | 9.04% | 1.55% | Investment manager |
| Commonwealth Bank of Australia | 1,251,386,000 (Long position) | H shares | 9.02% | 1.55% | Interest of controlled corporation |
| Blackrock, Inc | 1,082,330,096 (Long position) | H shares | 7.78% | 1.34% | Interest of controlled corporation |
| | 6,894,000 (Short position) | H shares | 0.05% | 0.009% | 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 |
| JPMorgan Chase & Co. | 836,367,442 (Long position) | H shares | 6.03% | 1.03% | 66,266,579 shares as benefical owner; 135,780,000 shares as investment manager; and 634,320,863 shares as security interest holder/approved lending agent |
| | 19,969,782 (Short position) | H shares | 0.14% | 0.025% | Benefical owner |
| | 634,320,863 (Shares available for lending) | H shares | 4.57% | 0.78% | Security interest holder/ approved lending agent |

Save as stated above, as at 30 June 2010, 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 2010.

## 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 2010. 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 ended 30 June 2010.

## 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 2010 to 30 June 2010.

## INTERIM REPORT

The Interim Report for the six months ended 30 June 2010 will be despatched to shareholders and made available on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the website of the Company (www.chinatelecom-h.com) in due course.

## FORWARD-LOOKING STATEMENTS

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, Mr. Shang Bing as the president and chief operating 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.