

CHINA TELECOM CORP LTD
Form 6-K
August 29, 2007

1934 Act Registration No. 1-31517

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the Month of August 2007

China Telecom Corporation Limited

(Translation of registrant's name into English)

31 Jinrong Street, Xicheng District

Beijing, China 100032

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): X)

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Edgar Filing: CHINA TELECOM CORP LTD - Form 6-K

Yes _____ No X

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82 .)

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO.333-113181) OF CHINA TELECOM CORPORATION LIMITED AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

EXHIBITS

Exhibit Number		Page
1.1	Announcement of the Interim Results for the Six Months Ended June 30, 2007, dated August 28, 2007	A-1
1.2	Disclosure regarding the EBITDA Reconciliation, dated August 28, 2007	B-1

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Corporation Limited (the Company) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. The forward-looking statements include, without limitation, the continued growth of the telecommunications industry in China; the development of the regulatory environment; and the Company's ability to successfully execute its business strategies.

Such forward-looking statements reflect the current views of the Company with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory policies of the Ministry of Information Industry and other relevant government authorities; any changes in telecommunications and related technology and applications based on such technology; and changes in political, economic, legal and social conditions in China, including the Chinese government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. Please also see the Risk Factors section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA TELECOM CORPORATION LIMITED

Date: August 29, 2007

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chairman and CEO

China Telecom Corporation Limited

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

(Stock Code: 0728)

ANNOUNCEMENT OF INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

HIGHLIGHTS

Including the amortisation of upfront connection fees

Operating revenues reached RMB88,624 million

EBITDA reached RMB46,217 million, EBITDA margin was 52.1%

Profit attributable to equity holders of the Company was RMB13,482 million, basic earnings per share was RMB0.17

Excluding the amortisation of upfront connection fees

Operating revenues reached RMB86,958 million, up by 2.5%

EBITDA reached RMB44,551 million, up by 0.8%, EBITDA margin was 51.2%

Profit attributable to equity holders of the Company was RMB11,816 million, up by 1.3%, basic earnings per share was RMB0.15

.MTotal number of access lines in service reached 224 million, net addition of 1.45 million, up by 0.7%.

.MBroadband subscribers reached 32.19 million, net addition of 3.87 million, up by 13.7%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am gratified by the results of the first half of the year 2007. Despite facing harsh challenges from intense market competition, we have successfully maintained our solid fundamentals, benefiting from the effective implementation of strategic transformation. The Company has continued to record growth in both revenue and profit. Through the transformation, our business structure was further optimised with our Internet access, value-added and integrated information services gaining momentum. This has also vigorously abated the pressure on the operation of our traditional voice business. What encourages me most is that, on implementation of the transformation during the past two years and beyond, our people at all levels have continued to liberalise their mindset and courageously faced the prevailing tough operating environment while executing the transformation strategy with passion. They keep on exploring and innovating products and services to satisfy the increasingly diverse communication and information needs of our

customers, leveraging our rich resources and infrastructure. We firmly believe that as we further deepen our strategic transformation and capitalise on our multi-services convergence offering edge, we would drive greater value for our customers and for you as shareholders.

FINANCIAL RESULTS

In the first half of 2007, operating revenues reached RMB88,624 million, of which RMB1,666 million were accounted for by the amortisation of upfront connection fees. Excluding the upfront connection fees, operating revenues were RMB86,958 million, a 2.5% growth compared to the same period in 2006. EBITDA¹ was RMB44,551 million, and the EBITDA margin¹ maintained at a healthy level of 51.2%. Operating expenses were RMB68,340 million, an increase of 3.3% compared to the same period in 2006. Profit attributable to equity holders of the Company¹ was RMB11,816 million, an increase of 1.3% compared to the same period last year, and basic earnings per share¹ was RMB0.15. Capital expenditure was RMB20,435 million, 1.6% less than that of the same period last year. Free cash flow² was RMB19,356 million.

Taking into consideration of the Company's business development needs and its cash flow position, the Board of Directors has resolved not to pay any interim dividend for the year in order to maintain adequate funding flexibility. The Board will proactively consider the final dividend proposal at the time of reviewing the full year results and propose to the shareholders' general meeting accordingly.

BUSINESS PERFORMANCE

In the first half of 2007, the Company's voice business was affected by the continuous decline in effective mobile tariff, the extensive implementation of mobile calling-party-pay packages and the increased diversity in communication methods. Our voice revenue recorded RMB56,997 million, a decrease of 6.9% from the same period last year. In face of the immense pressure of declining voice revenue caused by the aggressive expansion of mobile operators, the Company strengthened its customer brand operation to fully capitalize on branding premium value. Leveraging our two major customer brands, BizNavigator and One Home, we further expanded our Internet access, value-added and integrated information services, so that our non-voice businesses emerged as the new revenue-drivers for the Company. In the first half of 2007, our non-voice businesses revenue reached RMB29,961 million, an increase of 26.9% compared to the same period last year, triggering 7.5 percentage points growth in revenue and accounting for 34.5% of operating revenue. The Company's revenue profile was thus further optimised. Additionally, our high-quality customer brands enhanced effective packaged sales of both voice and non-voice businesses, fostering customer loyalty and consolidating revenue. It also progressively transformed voice usage value to integrated information services, enhancing our multi-services convergence offering edge and making good the loss in voice revenue to a certain extent.

-
- 1 Including the amortisation of upfront connection fees, EBITDA was RMB46,217 million, EBITDA margin was 52.1%, profit attributable to equity holders of the Company was RMB13,482 million and basic earnings per share was RMB0.17.
 - 2 2MFree cashflow is calculated from EBITDA (excluding amortisation of upfront connection fees) minus capital expenditure and income tax.

Starting from this year, the Company has further increased the marketing efforts of broadband access, in particular for the penetration of the government & enterprise customers as well as mid-to-high-end household customers, to achieve its high value and scale development. To reinforce our leading position in the broadband market, the Company has also persistently improved the quality of the Internet network as well as the user-ends bandwidth to enhance customers' experience. The number of our broadband subscribers increased by 3.87 million to 32.19 million in the first half of the year. In order to accelerate the development of our Internet applications business, we strengthened the cooperation with renowned software and content providers, such as Microsoft, Google and Sina to improve our back-end operation. Revenue brought by our Internet value-added services grew by 54.2% in the first half of the year.

For our value-added and integrated information services, the Company concentrated its efforts in promoting the development of services, such as Best Tone (information search engine), enterprise informatisation applications, IT services and applications. We also nurtured new value-added services such as media advertising and video applications, thus establishing an advantage over our peers in core competitiveness. These new services play an important role in consolidating the Company's traditional voice business and creating room for further business growth. The Company also established specialised subsidiaries to operate our Best Tone and system integration businesses respectively, introducing innovative management and incentive mechanisms to promote the rapid development of integrated information services at their growing phase and gradually establish a new operating model that would better suit their development.

Over the past two years and beyond, through transformation in our businesses, networks and human resources, we have developed a series of established products and services such as Best Tone, Mega Eye (remote monitoring) and ICT (Information, Communication and Technology), which laid a solid foundation for our customer brand operation. In the first half of the year, we transformed our operation model from product-oriented to customer-oriented to better cater to our customers' needs. We enriched the product combinations under our customer brands and aligned marketing resource allocation with customer value to enhance customers' perception and loyalty. Leveraging our two major customer brands, BizNavigator and One Home, we concentrated our marketing efforts and resources on the key customer segments of government and enterprise as well as mid-to-high-end household, providing them with our integrated information solutions which incorporated voice, broadband access and Internet applications, enhancing customers' value in a broader market. The success of BizNavigator and One Home brought our multi-services packaged strategy into a new stage. Consumers began to appreciate the value enhanced by the multi-services packaging under the customer brand oriented operation. Customer brand operations have driven the robust growth of our non-voice businesses and reduced the risk of our traditional voice business at the same time.

To tackle with the intense market competition, the Company has persistently improved its financial management. Leveraging comprehensive mechanisms, the Company allocated resource tilting towards business or operating units with high growth and high profitability to ensure the quality and growth of transformation businesses, and directed each level of the corporation to embrace

long-term value creation. The Company also strived to ensure sustainable revenue growth, reinforce financial control and cost control with a view to enhancing its operating efficiency and value creation capability.

CORPORATE GOVERNANCE

We are firmly committed to continuously improving our corporate governance and transparency to ensure our healthy development and enhance our corporate value. With regard to the US Sarbanes- Oxley Act, the Company continuously strengthened its internal control systems while further improving its risk management system to effectively lower operating risk. Our efforts in corporate governance have been widely recognized by the capital market and honored with a number of awards, including the accreditation with CAPITAL Outstanding China Enterprise Awards Telecommunications by CAPITAL magazine for two consecutive years. Furthermore, in the nomination of the Asia's Best Companies 2007 (China region) organised by FinanceAsia, we achieved top rankings in the Best Managed Company, Best Corporate Governance and Best Investor Relations categories.

FUTURE OUTLOOK

Our strategic transformation has gathered pace with brand building further strengthened and customer brand oriented operation progressively enhanced. Emerging integrated information business has grown rapidly, expanding new markets for the Company. Our revenue profile has been further enhanced, alleviating the risk of traditional voice business. In addition, we successfully acquired from our parent company, its subsidiaries in Hong Kong and US, as well as its system integration operating subsidiary. These acquisitions have afforded us with expanded markets for our development.

Looking ahead, we are fully confident. Rising demand in the domestic telecommunications market brings a great wealth of opportunities. The vast market potential in social informatization provides us with broader room for development. As we further deepen the strategic transformation, our roadmap is getting clearer. We have built our experience in integrated information operation with our people getting more suited to the requirements of strategic transformation. We are confident that the Company would achieve sustainable development and drive more value for its shareholders.

Finally, on behalf of the Board of Directors, I would like to thank our shareholders and customers for their continuous support to the Company. I would also like to take this opportunity to express my gratitude to our people for their considerable efforts in the corporate transformation.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

28 August 2007

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 2007 extracted from the unaudited interim financial statements of the Group as set out in its 2007 Interim Report.

Consolidated Income Statement (Unaudited)

for the six-month period ended 30 June 2007

(Amounts in millions, except per share data)

	Note	Six-month periods	
		ended 30 June 2007 RMB	2006 RMB (restated)
Operating revenues	4	88,624	87,345
Operating expenses			
Depreciation and amortisation		(25,933)	(25,494)
Network operations and support		(14,597)	(13,829)
Selling, general and administrative		(10,886)	(10,425)
Personnel expenses		(13,578)	(13,395)
Other operating expenses		(3,346)	(2,991)
Total operating expenses		(68,340)	(66,134)
Operating profit		20,284	21,211
Net finance costs	5	(2,022)	(2,498)
Investment loss			(20)
Share of profit from associates		7	7
Profit before taxation		18,269	18,700
Income tax	6	(4,760)	(4,512)
Profit for the period		13,509	14,188
Attributable to:			
Equity holders of the Company		13,482	14,155
Minority interests		27	33
Profit for the period		13,509	14,188
Basic earnings per share	7	0.17	0.17
Weighted average number of shares		80,932	80,932

Consolidated Balance Sheet (Unaudited)

at 30 June 2007

(Amounts in millions)

	<i>Note</i>	30 June 2007 RMB	31 December 2006 RMB (restated)
ASSETS			
Non-current assets			
Property, plant and equipment, net		318,352	328,379
Construction in progress		21,648	18,426
Lease prepayments		5,125	5,092
Interests in associates		587	581
Other investments		292	225
Deferred tax assets	9	8,710	10,971
Other assets		10,356	11,013
Total non-current assets		365,070	374,687
Current assets			
Inventories		2,922	3,213
Accounts receivable, net	10	18,942	15,992
Prepayments and other current assets		3,152	2,556
Time deposits with maturity over three months		145	119
Cash and cash equivalents		16,991	22,326
Total current assets		42,152	44,206
Total assets		407,222	418,893
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt		70,203	79,576
Current portion of long-term debt		9,311	8,242
Accounts payable	11	30,380	32,355
Accrued expenses and other payables		31,322	27,181
Income tax payable		3,257	3,124
Current portion of finance lease obligations			48
Current portion of deferred revenues		6,166	7,098
Total current liabilities		150,639	157,624
Net current liabilities		(108,487)	(113,418)
Total assets less current liabilities		256,583	261,269

	<i>Note</i>	30 June 2007 RMB	31 December 2006 RMB (restated)
Non-current liabilities			
Long-term debt		34,207	37,257
Deferred revenues		11,742	13,625
Deferred tax liabilities	9	2,095	2,711
Total non-current liabilities		48,044	53,593
Total liabilities		198,683	211,217
Equity			
Share capital		80,932	80,932
Reserves		126,146	125,296
Total equity attributable to equity holders of the Company		207,078	206,228
Minority interests		1,461	1,448
Total equity		208,539	207,676
Total liabilities and equity		407,222	418,893

Notes:

1. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting promulgated by the International Accounting Standards Board 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 28 August 2007, reflect the unaudited financial position of the Group as at 30 June 2007 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 2007.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2006 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 auditors 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. ACQUISITION AND BASIS OF PRESENTATION

Pursuant to an equity purchase agreement entered into by the Company with China Telecommunications Corporation (China Telecom) and together with its subsidiaries other than the Company are referred to as China Telecom Group) on 15 June 2007, the Company acquired the entire equity interests in China Telecom System Integration Co., Ltd. (CTSI), China Telecom (Hong Kong) International Limited (CT (HK)) and China Telecom (USA) Corporation (CT (USA)) (collectively the Third Acquired Group) from China Telecom for a total purchase price of RMB1,408 million on 30 June 2007 (hereinafter, referred to as the Third Acquisition). The purchase price was settled by cash in July 2007.

Since the Group and the Third Acquired Group are under common control of China Telecom, the Third Acquisition has been accounted for as a combination of entities under common control . Accordingly, the assets and liabilities of the Third Acquired Group have been accounted for at historical amounts and the consolidated financial statements of the Company prior to the Third Acquisition have been restated to include the results of operations and assets and liabilities of the Third Acquired Group on a combined basis. The assets of the Third Acquired Group that were retained by China Telecom which consist of bank deposits, have been reflected as a distribution to China Telecom in the consolidated statement of changes in equity for the six-month period ended 30 June 2007. The purchase price payable by the Company for the acquisition of the Third Acquired Group has been accounted for as an equity transaction in the consolidated statement of changes in equity.

The results of operations for the six-month period ended 30 June 2006 and the financial condition as at 31 December 2006 previously reported by the Group have been restated to include the results and assets and liabilities of the Third Acquired Group as set out below:

	The Group (as previously reported)	The Third Acquired Group	The Group (as restated)
	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>
Result of operations for the six-month period ended 30 June 2006:			
Operating revenues	86,936	409	87,345
Net profit	14,117	71	14,188
Financial condition as at 31 December 2006:			
Total assets	414,041	4,852	418,893
Total liabilities	210,168	1,049	211,217

The functional currencies of CT (HK) and CT (USA) are Hong Kong dollars and US dollars respectively. The results of operations of CT (HK) and CT (USA) are translated into Renminbi at average rate prevailing during the year. Balance sheet items of CT (HK) and CT (USA) are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in exchange reserves, a component of equity. For the periods presented, all significant balances and transactions between the Group and the Third Acquired Group have been eliminated on combination.

3. SEGMENTAL REPORTING

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, the Group has one business segment which is the provision of wireline telecommunications services. No analysis of the Group's operating revenues and profit before taxation by geographical segment has been presented as the majority of the Group's operating activities are

carried out in the PRC and less than 10 percent of the Group's operating revenues and profit before taxation were derived from activities outside the PRC. A majority of the Group's assets are located in the PRC and less than 10 percent of the Group's total assets are located outside the PRC.

4. OPERATING REVENUES

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

	<i>Note</i>	Six-month periods	
		ended 30 June	
		2007	2006
		<i>RMB millions</i>	<i>RMB millions</i>
Upfront connection fees	(i)	1,666	2,494
Upfront installation fees	(ii)	1,411	1,458
Monthly fees	(iii)	13,284	14,936
Local usage fees	(iv)	21,558	23,378
DLD	(iv)	12,194	12,889
ILD	(iv)	1,464	1,610
Internet	(v)	14,641	11,198
Managed data	(vi)	1,528	1,496
Interconnections	(vii)	7,086	6,975
Leased line	(viii)	2,521	2,183
Value-added services and integrated information services	(ix)	9,115	6,805
Others	(x)	2,156	1,923
		88,624	87,345

Note:

- (i) Represent the amortised amount of the upfront fees received for the initial activation of wireline services.
- (ii) Represent the amortised amount of the upfront fees received for installation of wireline services.
- (iii) Represent amounts charged to customers each month for their use of the Group's telephone services.
- (iv) Represent usage fees charged to customers for the provision of telephone services.
- (v) Represent amounts charged to customers for the provision of Internet access services.
- (vi) Represent amounts charged to customers for the provision of managed data transmission services.
- (vii) Represent amounts charged to domestic and foreign telecommunications operators for delivery of voice and data traffic connecting to the Group's wireline telecommunications networks.
- (viii) Represent primarily lease income from other telecommunications operators and business customers for the usage of the Group's wireline telecommunications networks and is measured by the number of lines leased and the agreed upon rate per line leased.

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

5. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions
Interest expense incurred	2,629	3,060
Less: MInterest expense capitalised*	(241)	(397)
Net interest expense	2,388	2,663
Interest income	(204)	(227)
Foreign exchange losses	2	70
Foreign exchange gains	(164)	(8)
	2,022	2,498

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

2.0% 5.9% 2.0% 5.3%

6. INCOME TAX

Income tax in the consolidated income statement comprises:

	Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions
Provision for PRC income tax	4,712	4,560
Provision for income tax in other tax jurisdictions	8	8
Deferred taxation	40	(56)
	4,760	4,512

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

	Note	Six-month periods	
		ended 30 June	
		2007	2006
		RMB millions	RMB millions
Profit before taxation		18,269	18,700
Expected income tax expense at statutory tax rate of 33%	(i)	6,029	6,171
Differential tax rate on PRC subsidiaries' income	(i)	(899)	(956)
Differential tax rate on other subsidiaries' income	(ii)	(8)	(7)
Non-deductible expenses	(iii)	654	744
Non-taxable income	(iv)	(928)	(1,280)
Effect of change of tax rate	9	72	
Tax credit for domestic equipment purchases		(160)	(160)
Income tax		4,760	4,512

- (i) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Company and its PRC subsidiaries as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries which are taxed at a preferential rate of 15%.
- (ii) Income tax provision of the Company's subsidiaries in the Hong Kong Special Administrative Region of China and other countries is based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 17.5% to 35%.
- (iii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.
- (iv) Amounts primarily represent connection fees received from customers which are not subject to income tax.

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month periods ended 30 June 2007 and 2006 is based on the profit attributable to equity holders of the Company of RMB13,482 million and RMB14,155 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.

8. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2007, a final dividend of RMB0.083302 (equivalent to HK\$0.085) per share totalling RMB6,741 million in respect of the year ended 31 December 2006 was declared, which was paid on 15 June 2007.

Pursuant to the shareholders' approval at the Annual General Meeting held on 23 May 2006, a final dividend of RMB0.077637 (equivalent to HK\$0.075) per share totalling RMB6,283 million in respect of the year ended 31 December 2005 was declared, which was paid on 15 June 2006.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2007.

9. DEFERRED TAX ASSET AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	Assets		Liabilities		Net Balance	
	30 June 2007 RMB millions	31 December 2006 RMB millions	30 June 2007 RMB millions	31 December 2006 RMB millions	30 June 2007 RMB millions	31 December 2006 RMB millions
<i>Current</i>						
Provisions and impairment losses, primarily for receivables	532	540			532	540
<i>Non-current</i>						
Property, plant and equipment	530	589	(1,172)	(1,566)	(642)	(977)
Deferred revenues and installation costs	1,688	2,152	(877)	(1,123)	811	1,029
Land use rights	5,960	7,690			5,960	7,690
Available-for-sale equity securities			(46)	(22)	(46)	(22)
Deferred tax assets/(liabilities)	8,710	10,971	(2,095)	(2,711)	6,615	8,260

Movements in temporary differences are as follows:

	Note	Balance at 1 January 2007 RMB millions	Recognised in income statement RMB millions	Recognised in equity RMB millions	Balance at 30 June 2007 RMB millions
<i>Current</i>					
Provisions and impairment losses, primarily for receivables		540	(8)		532
<i>Non-current</i>					
Property, plant and equipment	(i)	(977)	275	60	(642)
Deferred revenues and installation costs		1,029	(218)		811
Land use rights	(i)	7,690	(89)	(1,641)	5,960
Available-for-sale equity securities		(22)		(24)	(46)
Net deferred tax assets		8,260	(40)	(1,605)	6,615

Note:

- (i) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (new tax law), which will take effect on 1 January 2008. According to the new tax law, a unified corporate income tax rate of 25% and unified tax deduction standards will be applied to PRC entities. Effective from 1 January 2008, the 25% unified tax rate will replace the 33% tax rate currently in effect through 2007. In addition, entities currently taxed at preferential rates will be subject to a five-year transition period during which the tax rates will gradually be increased to the unified rate of 25% from 1 January 2008.

According to the new tax law, the income tax rate applicable to the Company and certain of its subsidiaries which are currently taxed at 33% will be reduced to the unified rate of 25% from 1 January 2008. For subsidiaries operating in special economic zones which are currently taxed at preferential rate of 15%, management expect that their tax rate will be increased to 25% from 1 January 2013. For subsidiaries operating in the western region of the PRC which were granted a preferential tax rate of 15% from 2004 to 2010, management expect that their tax rate will be increased to 25% from 1 January 2011. Accordingly, deferred tax assets and liabilities as at 1 January 2007 were adjusted to reflect the change in tax rate. For deferred tax assets and liabilities previously credited and charged to profit and loss upon initial recognition, the effect of change in the tax rate amounted to RMB72 million was recognised in the consolidated income statement. For deferred tax assets and liabilities previously credited and charged to equity upon initial recognition, the effect of change in the tax rate amounted to RMB1,641 million and RMB60 million respectively were recognised in the consolidated statement of changes in equity.

10. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	30 June 2007 <i>RMB millions</i>	31 December 2006 <i>RMB millions</i>
Third parties	18,541	15,501
China Telecom Group	67	199
Other state-controlled telecommunications operators in the PRC	2,373	1,792
	20,981	17,492
Less:MImpairment losses for bad and doubtful debts	(2,039)	(1,500)
	18,942	15,992

Amounts due from the provision of wireline telecommunications services to residential and business customers are due within 30 days from the date of billing.

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

	30 June 2007 <i>RMB millions</i>	31 December 2006 <i>RMB millions</i>
Current, within 1 month	11,724	11,634
1 to 3 months	2,785	1,074
4 to 12 months	1,153	1,062
More than 12 months	762	314
	16,424	14,084
Less:MImpairment losses for bad and doubtful debts	(1,915)	(1,376)
	14,509	12,708

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

	30 June 2007 <i>RMB millions</i>	31 December 2006 <i>RMB millions</i>
Current, within 1 month	1,709	1,716
1 to 3 months	1,621	814
4 to 12 months	760	546
More than 12 months	467	332
	4,557	3,408
Less:MImpairment losses for bad and doubtful debts	(124)	(124)
	4,433	3,284

11. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	30 June 2007 <i>RMB millions</i>	31 December 2006 <i>RMB millions</i>
Third parties	24,363	25,709
China Telecom Group	5,947	6,583
Other state-controlled telecommunications operators in the PRC	70	63
	30,380	32,355

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 2007 <i>RMB millions</i>	31 December 2006 <i>RMB million</i>
Due within 1 month or on demand	6,416	6,115
Due after 1 month but within 3 months	6,569	8,831
Due after 3 months but within 6 months	8,178	7,181
Due after 6 months	9,217	10,228
	30,380	32,355

12. RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

(a) Transactions with China Telecom Group

The Group is part of a large group of companies under China Telecom, a company owned by the PRC government, and has significant transactions and relationships with members of China Telecom. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

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

	<i>Note</i>	Six-month periods	
		ended 30 June	
		2007 <i>RMB millions</i>	2006 <i>RMB millions</i>
Purchases of telecommunications equipment and materials	<i>(i)</i>	53	95
Construction, engineering and information technology services	<i>(ii)</i>	3,406	3,420
Provision of community services	<i>(iii)</i>	1,025	1,199
Provision of ancillary services	<i>(iv)</i>	1,629	1,115
Provision of comprehensive services	<i>(v)</i>	409	339
Operating lease expenses	<i>(vi)</i>	193	195
Centralised service expenses	<i>(vii)</i>	169	120
Interconnection revenues	<i>(viii)</i>	75	91
Interconnection charges	<i>(viii)</i>	374	350
Interest on amounts due to and loans from China Telecom Group	<i>(ix)</i>	1,164	1,218

-
Note:

- (i) Represent commission paid and payable for procurement services provided by China Telecom Group.

- (ii) Represent provision of network construction, engineering and information technology services provided by China Telecom Group.
- (iii) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, hygiene and other community services.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (v) Represent amounts paid and payable to China Telecom Group which were not within the scope of other related party service agreements in respect of services for procurement of telecommunications equipment, network design, software upgrade, system integration and manufacturing of calling cards.
- (vi) Represent amounts paid and payable to China Telecom Group for leases of business premises and inter- provincial transmission optic fibres.
- (vii) Represent net amount charged by China Telecom for costs associated with common corporate services and international telecommunications facilities.
- (viii) Represent amounts charged from/to China Telecom for interconnection of domestic long distance telephone calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecom and loans from China Telecom Group.

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

	30 June 2007 <i>RMB millions</i>	31 December 2006 <i>RMB millions</i>
Accounts receivable	67	199
Prepayments and other current assets	524	588
Total amounts due from China Telecom Group	591	787
Accounts payable	5,947	6,583
Accrued expenses and other payables	3,542	1,984
Short-term debt	36,763	23,826
Long-term debt	30,150	30,150
Total amounts due to China Telecom Group	76,402	62,543

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

As at 30 June 2007 and 31 December 2006, no material impairment losses for bad and doubtful debts was recorded in respect of amounts due from China Telecom Group.

(b) Key management personnel compensation

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

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

	Six-month periods	
	ended 30 June	
	2007 <i>RMB thousands</i>	2006 <i>RMB thousands</i>
Short-term employee benefits	3,948	3,833
Post-employment benefits	301	331
	4,249	4,164

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

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

The Group's contributions for the six-month period ended 30 June 2007 were RMB1,214 million (six-month period ended 30 June 2006: RMB1,202 million).

The amount payable for contributions to defined contribution retirement plans as at 30 June 2007 was RMB531 million (31 December 2006: RMB522 million).

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

The Group is a state-controlled public utilities enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the State through government authorities, agencies, affiliations and other organisations (collectively referred to as state-controlled entities).

Apart from transactions with parent company and its affiliates, the Group have transactions with other state-controlled entities which include but not limited to the following:

sales and purchases of goods, properties and other assets

rendering and receiving services

lease of assets

depositing and borrowing money

use of public utilities

A-17

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

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationships on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details:

(i) Transactions with other state-controlled telecommunications operators in the PRC

The Group's wireline telecommunications networks interconnect with the networks of other state-controlled telecommunications operators. The Group also leases wireline telecommunications networks to these operators in the normal course of business. The interconnection and leased line charges are regulated by the Ministry of Information Industry. The extent of the Group's interconnection and leased line transactions with other state-controlled telecommunications operators in the PRC is as follows:

	Six-month periods	
	ended 30 June	
	2007 <i>RMB millions</i>	2006 <i>RMB millions</i>
Interconnection revenues	6,158	5,926
Interconnection charges	1,870	1,564
Leased line revenues	389	744

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

	30 June	
	2007 <i>RMB millions</i>	31 December 2006 <i>RMB millions</i>
Accounts receivable	2,373	1,792
Prepayments and other current assets	267	242
Total amounts due from other state-controlled telecommunications operators in the PRC	2,640	2,034
Accounts payable	70	63
Accrued expenses and other payables	201	181
Total amounts due to other state-controlled telecommunications operators in the PRC	271	244

Amounts due from/to other state-controlled telecommunications operators in the PRC bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

As at 30 June 2007 and 31 December 2006, there were no material impairment losses for bad and doubtful debts in respect of amounts due from other state-controlled telecommunications operators in the PRC.

(ii) Transactions with state-controlled banks

The Group deposits its cash balances with several state-controlled banks in the PRC and obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China. The Group's interest income earned from deposits with and interest expense incurred on loans from state-controlled banks in the PRC are as follows:

	Six-month periods	
	ended 30 June	
	2007 <i>RMB millions</i>	2006 <i>RMB millions</i>
Interest income	180	158
Interest expense	1,465	1,842

The amounts of cash deposited with and loans from state-controlled banks in the PRC are summarized as follows:

	30 June 2007	31 December 2006
	<i>RMB millions</i>	<i>RMB millions</i>
Cash at bank	12,834	10,659
Time deposits with maturity within three months	4,034	10,484
Time deposits with maturity over three months	145	119
 Total deposits with state-controlled banks in the PRC	 17,013	 21,262
Short-term loans	33,440	35,750
Long-term loans	13,362	15,347
 Total loans from state-controlled banks in the PRC	 46,802	 51,097

Further details of the interest rates and repayment terms of loans from state-controlled banks are set out in Note 8 to the interim financial statements included in the Interim Report.

The directors believe the above information has provided meaningful disclosure of related party transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2006 Annual Report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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

As at 30 June 2007, 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 2007, 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 2007, 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 of shares in issue (%)	Capacity
China Telecommunications Corporation	57,377,053,317	Domestic shares	85.57%	70.89%	Beneficial owner
	(Long position)				
Guangdong Rising Assets Management Co., Ltd	5,614,082,653	Domestic shares	8.37%	6.94%	Beneficial owner
	(Long position)				
Commonwealth Bank of Australia	1,228,624,000	H shares	8.85%	1.52%	Interest of controlled corporations
	(Long position)				
ABN AMRO Holding N.V.	937,521,293	H shares	6.76%	1.16%	Beneficial owner of 715,102,443 shares, and custodian corporation/approved lending agent of 222,418,850 shares
	(Long position)				
	120,390,850	H shares	0.87%	0.15%	Approved lending agent
	(Lending pool)				

Save as stated above, as at 30 June 2007, 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 2007.

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.

Save for the roles of Chairman and Chief Executive Officer of the Company being performed by the same individual, for the six months period ended 30 June 2007, 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.

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.

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 2007 to 30 June 2007.

INTERIM REPORT

The Interim Report for the six months ended 30 June 2007 will be despatched to shareholders and made available on the website of Hong Kong Exchanges and Clearing 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 consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Mr. Leng Rongquan as the president and chief operating officer, Madam Wu Andi as the executive vice president and chief financial officer, Mr. Zhang Jiping as the executive vice president, Madam Huang Wenlin, Mr. Li Ping as the executive vice president, Mr. Yang Jie as the executive vice president, Mr. Sun Kangmin as the executive vice president, Mr. Li Jinming as the non-executive director, and Mr. Zhang Youcai, Mr. Lo Hong Sui, Vincent, Mr. Shi Wanpeng, Mr. Xu Erming and Mr. Tse Hau Yin, Aloysius as the independent non-executive directors.

A-23

China Telecom Corporation Limited*(A joint stock limited company incorporated in the People's Republic of China with limited liability)***(Stock Code: 0728)****Disclosure of Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) and Reconciliation to Cash Flows from Operating Activities**

On August 28, 2007, the Company presented EBITDA in its interim report and announcement of the interim report for the six months ended June 30, 2007 in Hong Kong.

The Company's EBITDA represents profit before net finance costs, investment income, share of profit from associates, taxation, depreciation and amortisation and minority interests. As the telecommunications business is a capital-intensive industry, capital expenditures, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, the Company believes EBITDA may be helpful in analysing the operating results of a telecommunications service provider like itself. Although EBITDA is widely used in the global telecommunications industry as a benchmark to reflect operating performance, financing capability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles (GAAP). It also does not represent cash flows from operating activities. In addition, the Company's EBITDA may not be comparable to similar indicators provided by other companies.

The following table sets forth a reconciliation of the EBITDA for the six months ended June 30, 2007 to cash flows from operating activities, being the most comparable GAAP measure under International Financial Reporting Standards:

	RMB millions
EBITDA	46,217
Adjustments:	
Non-cash items included in EBITDA	1,474
Net change in working capital	(1,288)
Decrease in deferred revenue	(2,815)
Net interest paid	(2,436)
Income tax paid	(4,587)
Investment income received	6
Cash from operating activities	36,571

August 28, 2007