

CHINA TELECOM CORP LTD
Form 6-K
September 08, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

For the Month of September 2010

Commission File Number 1-31517

China Telecom Corporation Limited

(Translation of registrant's name into English)

31 Jinrong Street, Xicheng District

Beijing 100033, China

(Address of principal executive offices)

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(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):)

(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.)

Yes No

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

EXHIBITS

| Exhibit Number | | Page Number |
|---------------------------|---|------------------------|
| 1.1 | 2010 Interim Report, dated August 25, 2010. | A-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 regime and significant policies for the telecommunications industry in China, including changes in the structure or functions of the primary industry regulator, Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), or any changes in the regulatory policies of the MIIT and other relevant government authorities in China; the results of the ongoing restructuring of the telecommunications industry in China; any changes in the effects of competition on the demand and price of the Company's telecommunications services; 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

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

Date: September 8, 2010

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Financial Highlights**Excluding amortisation of the upfront connection fees**

| | Six-month periods | | |
|---|-------------------|---------|-----------------|
| | ended 30 June | | Rates of change |
| | 2009 | 2010 | |
| Operating revenues (<i>RMB millions</i>) | 102,554 | 107,552 | 4.9% |
| EBITDA ¹ (<i>RMB millions</i>) | 43,339 | 45,759 | 5.6% |
| EBITDA margin | 42.3% | 42.5% | 0.2pp |
| Net profit ² (<i>RMB millions</i>) | 8,412 | 8,811 | 4.7% |
| Basic earnings per share (<i>RMB</i>) | 0.10 | 0.11 | 4.7% |
| Capital expenditure (<i>RMB millions</i>) | 17,033 | 17,918 | 5.2% |
| Free cash flow ³ (<i>RMB millions</i>) | 19,652 | 18,591 | (5.4%) |

Including amortisation of the upfront connection fees

| | Six-month periods | |
|---|-------------------|---------|
| | ended 30 June | |
| | 2009 | 2010 |
| Operating revenues (<i>RMB millions</i>) | 103,146 | 107,817 |
| EBITDA ¹ (<i>RMB millions</i>) | 43,931 | 46,024 |
| EBITDA margin | 42.6% | 42.7% |
| Net profit ² (<i>RMB millions</i>) | 9,004 | 9,076 |

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

² Net profit represents profit attributable to equity holders of the Company.

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

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.

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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. EBITDA¹⁻² 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 Company² 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 share² was RMB0.109. Capital expenditure was RMB17,918 million, an increase of 5.2% over the same period of last year. Free cash flow³ 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.

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.

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.

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 Best Managed Company in China and Best Managed Company in Asian Telecom Sector by *FinanceAsia* 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 uninterrupted 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.

/s/ Wang Xiaochu

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

25 August 2010

Independent Review Report of the International Auditor

To the Board of Directors of

China Telecom Corporation Limited

Introduction

We have reviewed the interim financial statements set out on pages 8 to 31 which comprise the consolidated statement of financial position of China Telecom Corporation Limited as at 30 June 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period ended 30 June 2010 and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial statements in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard 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. A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at and for the six-month period ended 30 June 2010 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince s Building

10 Chater Road

Central, Hong Kong

25 August 2010

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2010

(Amounts in millions)

| | 30 June | 31 December |
|--|----------------|----------------|
| | 2010 | 2009 |
| | RMB | RMB |
| | Note | |
| 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 | 4 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 | 5 26,325 | 34,804 |
| Total current assets | 56,325 | 60,936 |
| Total assets | 411,596 | 426,520 |

The notes on pages 14 to 31 form part of these interim financial statements.

LIABILITIES AND EQUITY**Current liabilities**

| | | | |
|--|---|---------------|--------|
| Short-term debt | 6 | 34,667 | 51,650 |
| Current portion of long-term debt | 6 | 10,768 | 1,487 |
| Accounts payable | 7 | 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 | 6 | 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 |
|-------------------------------------|--|----------------|---------|

The notes on pages 14 to 31 form part of these interim financial statements.

Consolidated Statement of Comprehensive Income (Unaudited)*for the six-month period ended 30 June 2010**(Amounts in millions, except per share data)*

| | | Six-month periods | |
|---|------|-------------------|-------------|
| | | ended 30 June | |
| | | 2010 | |
| | Note | RMB | 2009 RMB |
| Operating revenues | 9 | 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 | 10 | (17,196) | (16,351) |
| Other operating expenses | 11 | (8,398) | (8,719) |
| Total operating expenses | | (93,997) | (88,827) |
| Operating profit | | 13,820 | 14,319 |
| Net finance costs | 12 | (1,855) | (2,268) |
| Investment income | | 9 | 50 |
| Share of profits from associates | | 28 | 25 |
| Profit before taxation | | 12,002 | 12,126 |
| Income tax | 13 | (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: | | | |