

Consolidated Statement of Changes in Equity – Unaudited

for the six months ended 30 June 2007

(Expressed in Renminbi)

Equity attributable to equity shareholders of the Company													
		Share capital	Share premium (note f)	Capital reserve (note g)	Revaluation reserve	Statutory surplus reserve (note e)	Fair value reserve (note h)	Exchange reserve (note i)	Other reserve	Retained earnings/ shareholders' equity	Total	Minority interests	Total equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006		—	—	—	—	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
Contributions	(a)	—	—	—	—	—	—	—	—	478,335	478,335	—	478,335
Acquisition of minority interests through contributions from CTC		—	—	—	—	—	—	—	—	315,957	315,957	(315,957)	—
Profit distributions	(b)	—	—	—	—	—	—	—	—	(655,027)	(655,027)	(126,769)	(781,796)
Distributions	(c)	—	—	—	—	—	—	—	—	(834,638)	(834,638)	—	(834,638)
Net assets distributed to CTC in connection with the Restructuring	(d)	—	—	—	—	—	—	—	—	(1,660,674)	(1,660,674)	—	(1,660,674)
Recognition of deferred tax assets		—	—	—	—	—	—	—	42,507	—	42,507	—	42,507
Revaluation of property, plant and equipment		—	—	—	294,442	—	—	—	—	—	294,442	1,131	295,573
Profit for the period		—	—	—	—	—	—	—	—	194,083	194,083	15,740	209,823
As at 30 June 2006		—	—	—	294,442	—	—	—	42,507	4,610,811	4,947,760	94,566	5,042,326
As at 1 January 2007		5,444,986	1,557,783	1,413,776	294,442	69,969	—	—	42,507	657,846	9,481,309	101,781	9,583,090
Profit distributions	10(a)	—	—	—	—	—	—	—	—	(535,011)	(535,011)	(10,908)	(545,919)
Changes in fair value of available-for-sale securities	(h)	—	—	—	—	—	42,616	—	—	—	42,616	—	42,616
Recognition of deferred tax liabilities		—	—	—	—	—	(8,524)	—	—	—	(8,524)	—	(8,524)
Exchange differences on translation of financial statements of a subsidiary in Hong Kong	(i)	—	—	—	—	—	—	(1,541)	—	—	(1,541)	—	(1,541)
Profit for the period		—	—	—	—	—	—	—	—	374,210	374,210	10,582	384,792
Effect on opening deferred tax balances resulting from a decrease in future tax rate		—	—	—	—	—	—	—	(5,461)	—	(5,461)	—	(5,461)
As at 30 June 2007		5,444,986	1,557,783	1,413,776	294,442	69,969	34,092	(1,541)	37,046	497,045	9,347,598	101,455	9,449,053

Consolidated Statement of Changes in Equity – Unaudited (Continued)

for the six months ended 30 June 2007

(Expressed in Renminbi)

Notes:

- (a) *The capital contributions during the six months ended 30 June 2006 represent the injection of cash and other assets, including property, plant and equipment and the increase in shareholdings in the subsidiaries.*
- (b) *Profit distributions during the six months ended 30 June 2006 represent the appropriation made and dividend declared by certain of the subsidiaries of the Group prior to the establishment of the Company.*
- (c) *The distributions during the six months ended 30 June 2006 represent the reduction in capital of certain subsidiaries and distributions of cash and other assets, including property, plant and equipment by certain subsidiaries upon transformation into limited liability companies.*
- (d) *Pursuant to the Restructuring (as defined in note 1(b)), certain assets and liabilities of the Predecessor Operations (as defined in note 1(b)) were not transferred to the Group and were reflected as distributions to the then owner in the consolidated statement of changes in equity for the six months ended 30 June 2006.*
- (e) *Statutory surplus reserves*
According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the People's Republic of China Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.
- (f) *Share premium*
The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering.
- (g) *Capital reserve*
The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecom Corporation, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.
- (h) *Fair value reserve*
The fair value reserve represents the net change in the fair value of available-for-sale securities in other investments held at the balance sheet date.
- (i) *Exchange reserve*
The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of a subsidiary located in Hong Kong.

The notes on pages 14 to 28 form part of this interim financial report.