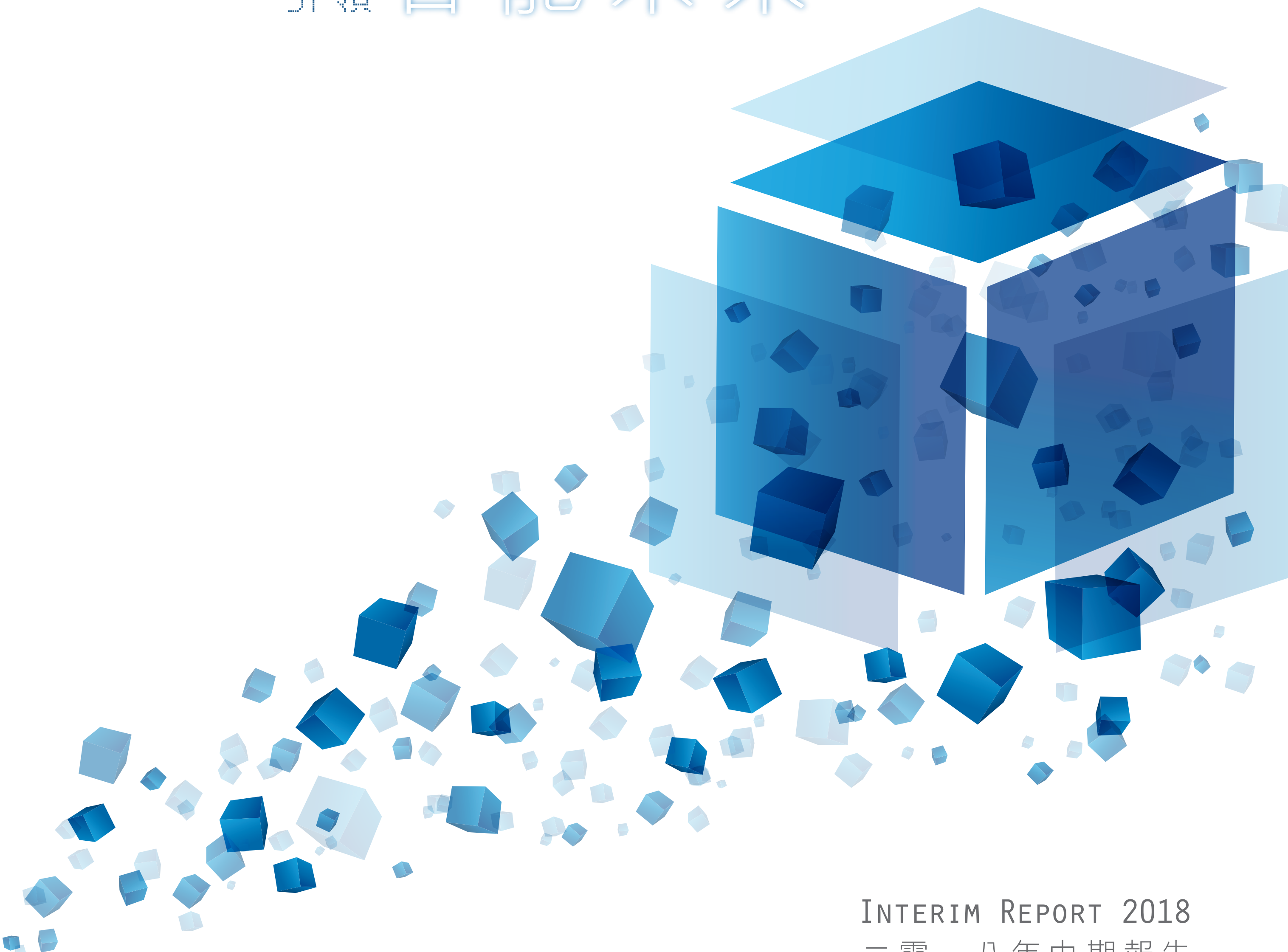
CHINA TELECOM

中國電信股份有限公司
China Telecom Corporation Limited

HKEx Stock Code 香港交易所股份代碼：728
NYSE Stock Code 紐約證券交易所股份代碼：CHA

Co-Building Our Smart Future

共建生態魔方 引領智能未來



Interim Report 2018
二零一八年中期報告

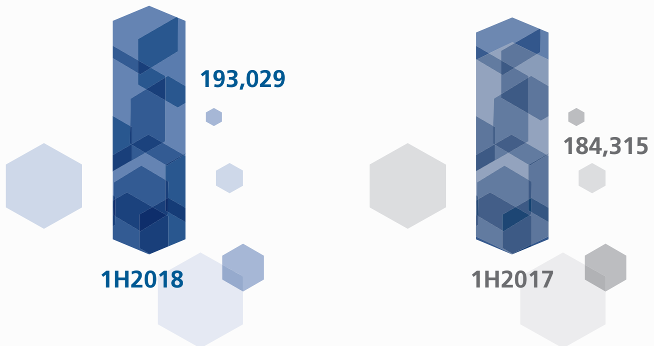
Forward-looking Statements

Certain statements contained in this report 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 China Telecom Corporation Limited (the "Company", a joint stock limited company incorporated in the People's Republic of China with limited liability) 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.

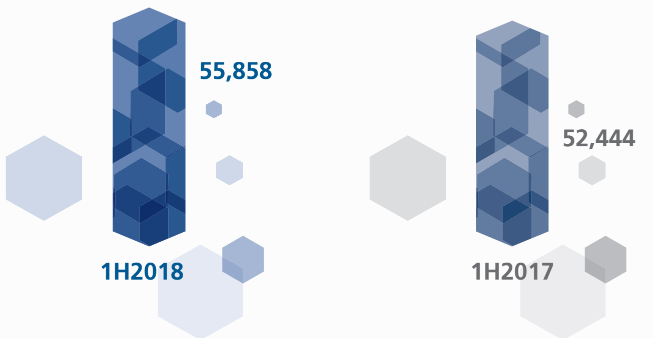
Contents

	Six-month period ended 30 June	
	2018	2017[4] (restated)
Operating revenues *(RMB millions)*	**193,029**	184,315
EBITDA[1] *(RMB millions)*	**55,858**	52,444
EBITDA margin[2]	**31.5%**	31.6%
Net profit[3] *(RMB millions)*	**13,570**	12,555
Earnings per share *(RMB)*	**0.168**	0.155
Capital expenditure *(RMB millions)*	**32,947**	41,119

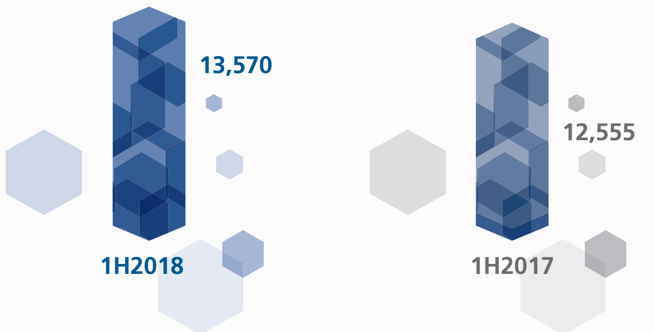
Operating revenues
(RMB millions)



EBITDA[1]
(RMB millions)



Net Profit[3]
(RMB millions)



1 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.
2 EBITDA margin was calculated based on EBITDA divided by service revenues.
3 Net profit refers to profit attributable to the equity holders of the Company.
4 In 2017, the Group acquired the satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited (陝西中和恒泰保險代理有限公司). As the transaction was recognised as a combination of entities under common control, the comparative figures of prior period have been restated accordingly. Please refer to note 2 to the unaudited interim financial statements in this interim report for details.

Chairman's Statement

Dear Shareholders,

In the first half of 2018, facing complicated and intensified industry conditions, we adhered to the established development strategy and were well organised for a balanced approach to persist in excellent execution, accomplishing successful achievement of new breakthrough in corporate development. Stepping a firm foothold in the present, we firmly seized the golden opportunities from expansion of customers potential, benefits released from data traffic and informatisation integrated development. With our dedicated and persistent efforts to proactively expand accompanied by implementation of effective self-defence measures, the business scale of fundamental businesses achieved rapid breakthrough and the growth of emerging businesses remained continuously strong. The revenue growth achieved industry-leading position while the profitability level steadily enhanced. With a vision looking forward into the future, we are facing prosperous business opportunities of intelligent information services in the era of digital economy. Through our unwavering devotion to promote the transformation of the "three initiatives", implement comprehensive in-depth reforms and innovation together with proactively prospect the landscape of 5G development, we endeavoured to create new value potential for shareholders.

Operating Results

In the first half of the year, operating revenues amounted to RMB193.0 billion. Of which, service revenues[1] amounted to RMB177.6 billion, representing an increase of 7.0% over the same period last year (if excluding the impact of the application of International Financial Reporting Standard 15 on the current period, it represented an increase of 8.5% over the same period last year) with revenue growth surpassing the industry average for consecutive years. Revenues from emerging businesses[2] accounted for 51.2% of service revenues, representing an increase of 6.1 percentage points over the same period last year with continual optimisation in revenue structure. EBITDA[3] amounted to RMB55.9 billion and EBITDA margin[3] was 31.5%, which remained primarily stable compared with the same period last year. Net profit[4] amounted to RMB13.6 billion, representing an increase of 8.1% over the same period last year while basic earnings per share were RMB0.168, achieving persistent favourable growth. Capital expenditure was RMB32.9 billion, representing a decrease of 19.9% with persistent and appropriate control. Free cash flow[5] reached RMB18.4 billion which has increased remarkably over the same period last year.

Taking into consideration the Company's profitability, cash flow level and the capital requirements for future development, the Board of Directors has decided not to pay an interim dividend this year in order to maintain adequate funding flexibility. The Board of Directors will proactively consider the expectation of shareholders' return and evaluate the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

Innovation and Integration Promoting New Breakthrough in Scale

In the first half of the year, the Company accurately grasped the changes of market demand and firmly adhered to proactive marketing strategy. Product innovation was accelerated while integration upgrade was promoted, attaining new breakthrough in scale development.

Acceleration of product innovation. Firmly seizing the development opportunities of large data traffic, we launched a series of enriched large data traffic package products to mid- to high-end users. Through in-depth co-operation with various well-known Internet enterprises, we offered numerous Internet card products for youngsters group. In overall, the demand from different targeted markets was fully satisfied. Through active external cooperation to enrich the variety of terminals, we launched the first batch of 17 multi-mode artificial intelligence (AI) handset models in total. The sales volume of multi-mode terminals of the entire industry accounted for 78%. With enriched forms of wireline broadband products, we comprehensively launched products such as self-selective broadband and daily-rental broadband. Besides, we vigorously expanded targeted markets including household second broadband as well as hotel and apartment broadband, effectively boosting customers' growth potential. Meanwhile, product innovation in the area of Intelligent Applications ecosphere[6] was further expedited and new growth engine was cultivated.

Promotion of integration upgrade. Insisting on relying superior business as the core, we achieved mutual integration and mutual promotion among businesses concurrent with value enhancement. On the foundation of business convergence among mobile, fibre broadband and e-Surfing HD, we comprehensively

1 Service revenues were calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.

2 Revenues from emerging businesses included revenues from data traffic, Internet applications and ICT services.

3 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation while EBITDA margin was calculated based on EBITDA divided by service revenues.

4 Net profit refers to profit attributable to the equity holders of the Company.

5 Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

6 Intelligent Applications ecosphere included Smart Family ecosphere, DICT ecosphere, IoT ecosphere and Internet Finance ecosphere. DICT refers to the integrated intelligent applications services based on three major technologies, namely communications technology, information technology, cloud and Big Data technology.

fostered integration upgrade of "large data traffic + Hundred-Mbps broadband + Smart Family" so as to simultaneously enhance competitive capabilities of integrated products as well as effectively increase customers loyalty. As a result, the churn rate of broadband subscribers remained stable with a slight decline. The triple-play bundled rate[7] of broadband subscribers reached 59%, representing an increase of 13 percentage points over the same period last year. Facing severe and intensified price competition, wireline broadband service, as a Smart Family service portal, not only attained effective self-defence but also bolstered the rapid development of Smart Family service. The value contribution of Smart Family to broadband services was persistently enhanced. The ARPU of broadband access was RMB47.2 while the broadband blended ARPU[8] was RMB52.5, maintaining the leading position in the industry.

Achievement of new breakthrough in scale. In the first half of the year, the growth of both mobile and broadband scale reached historical records high. Intelligent Applications ecosphere became revenue growth force.

Mobile service revenues amounted to RMB83.6 billion, representing an increase of 10.3% over the same period last year and continuing to maintain double-digit growth. Of which, the mobile handset Internet access revenue increased by 26.5% over the same period last year. The total number of mobile subscribers reached 282 million, representing a net increase of 31.66 million which was more than double of the net additions in the same period of last year and reached a historical record high. It accounted for 46.5% market share in the net additions of the industry and the overall total market share increased to 18.9%. Of which, the total number of 4G users reached 217 million, representing a net increase of 35.27 million while the penetration rate reached 77%. The aggregate handset Internet data traffic had strong growth momentum and increased by nearly four times. Wireline service revenues amounted to RMB94.0 billion, representing an increase of 4.2% over the same period last year with further enhancement of growth rate. The total number of wireline broadband subscribers reached 141 million, representing a net increase of 7.09 million and also achieved a historical record high. Of which, the proportion of wireline broadband subscribers of Hundred-Mbps reached 56%, representing an increase of 19 percentage points over the same period last year.

The contribution of Intelligent Applications ecosphere to the incremental service revenues of the Company exceeded over 50%. The e-Surfing HD revenues increased by 29.8% while the net increase of e-Surfing HD subscribers was 12.54 million, reaching a total of 98.30 million with 70% penetration rate. Revenues from IDC service maintained a growth rate of 20% and the growth rate of total revenues from cloud and Big Data reached 120%. Internet of Things (IoT) services achieved accelerated breakthrough with revenue growth rate attaining nearly 90%. The net increase of connected devices was nearly 30 million, being doubled as compared to the same period last year and reached a total of 74.19 million. The number of average monthly active users of Internet Finance (BestPay) exceeded 37.70 million, representing an increase of 34% over the same period last year. The gross merchandise value of personal accounts increased by nearly 90% compared to the same period last year.

Transformation and Reforms Fostered Further Enhancement of Capabilities

In the first half of the year, the Company expedited the promotion of network intelligentisation, service ecologicalisation and operation intellectualisation ("three initiatives" transformation), persistently promoting comprehensive in-depth reforms and boosting further enhancement of integrated competitiveness at all-round perspectives.

Further reinforcement of network capabilities. Despite continuous reduction in investment scale, enhancement of network fundamental capabilities still leaped forward a new progress while integrated customers experience maintained industry-leading position. Leveraging superior full coverage 4G network characterised by high- and low-frequency collaboration, we continuously optimised in-depth coverage for key scenes including high-speed rail and high-density business districts and deployed dynamic bandwidth expansion in accordance with users' demand. The

7 Triple-play bundled rate represented the proportion of broadband subscribers who also subscribe mobile and e-Surfing HD services at the same time.

8 Broadband blended ARPU was calculated based on the total monthly average revenues from Smart Family and broadband access divided by the average number of broadband subscribers.

number of 4G base stations reached 1.2 million while the network utilisation rate was 36%, offering vigorous support to the development of large data traffic. With efficient promotion of all-fibre network construction, full coverage of Fibre-to-the-Home (FTTH) for households in cities and towns[9] was primarily accomplished while Gbps broadband was deployed in more than 170 cities on demand. The bandwidth of IP metropolitan area network and backbone network reached 500Tbps and 170Tbps respectively, maintaining industry-leading position. With accelerated promotion of eMTC (enhanced Machine-Type Communications) pilot launch, we basically accomplished the whole-range speed rate IoT structure combining high, medium and low speed of 4G, eMTC and NB-IoT, respectively and offered differentiated services capabilities on demand. With our continuous efforts to promote evolution of network cloudification and intelligentisation, we pragmatically implemented *CTNet2025* network reconstitution and promoted self-R&D and scale commercial launch of key new products such as intelligent self-selective dedicated line and intelligent gateway based on Software-Defined Networking (SDN) technology, deploying SDN to enhance network operation and maintenance efficiency on cloud resources pool and backbone network. Based on the Network Functions Virtualisation Infrastructure (NFVI) standard unified with China Telecom cloud network, we commenced pilot launch of virtual IP Multimedia Subsystem (vIMS) embedded with full decoupling function, laying the foundation for full 5G network cloudification.

Acceleration of breakthrough in five ecospheres capabilities. In the aspect of Intelligent Connection ecosphere, we firmly grasped the upgrade of users' demand and insisted on customers' value operation. With in-depth integration, innovative products as well as strengthened edges on terminals, channels and services, scale development capabilities were consistently enhanced. In the aspect of Smart Family ecosphere, we strengthened the ecological cooperation of contents and smart homes, procuring to be complementary with the advantages of Intelligent Connection ecology. Leveraging three interactive portals including e-Surfing gateway, intelligent set-top box and e-Surfing housekeeper app, we fully exploited the competitiveness of subscribers scale, channel and services. e-Surfing HD, intelligent WiFi networking services, family cloud and smart homes progressively became core applications of Smart Family. In the aspect of DICT ecosphere, we fully leveraged the integration advantages of cloud with network and accelerated the breakthrough in cloud products capabilities. With our firm perseverance to grasp development opportunities for corporates subscribing for cloud, we accomplished breakthrough in projects covering government cloud services and key industry benchmark customers, affirming the Company's position as a major force in the area of DICT services. In the aspect of IoT ecosphere, we endeavoured to reinforce the efficiently-centralised operations, expedite the construction of platform capabilities and strengthen ecological cooperation. On the foundation of expansion of connection scale, we extended our services to data operation and explored the innovation of business models. In the aspect of Internet Finance ecosphere, we persisted in differentiated development and leveraged BestPay red packet as main portal to procure in-depth integration with fundamental businesses and promote integrated instalment model with Internet co-operative partners, effectively driving customers growth and enhancing customers loyalty.

Persistent enhancement of capabilities in intelligent operations. With the establishment of corporate core as the nucleus and Big Data as the driving force, we deepened the promotion of precision marketing, delicated service, lean network operations and precision management aiming at improving corporate scientific decision-making capabilities and operational management efficiency. The capabilities of Big Data platform were progressively strengthened while the capabilities of IT, network and platform throughout the entire network were converged and openly co-shared, effectively bolstering corporate swift operation. Big Data applications achieved effective results. The volume of collection and processing of Big Data reached 130TB per day, representing an increase of 86% over the same period last year. The frequency of platform interchange reached 500 million times per month, being 10 times over the same period last year. With the construction of a new generation of group-level support system, we achieved the speeding up of business processing time of the entire network with effective enhancement of customers' experience. Through the establishment of highly efficient and inter-driven integrated channel system, we emphasised to strengthen all channel

9 Households in cities and towns represented the households in the service areas of wireline broadband services offered by the Company.

collaboration among physical stores, government and enterprises, social cooperation and Internet. All-round customer contact points were expanded while customers' intelligent sales experience was strengthened. Meanwhile, we continued to preserve and uphold high standard of service quality. According to the assessment conducted by the Ministry of Industry and Information Technology for the first half year, the Company was ranked first in terms of various customer satisfaction appraisals on handset Internet access, wireline broadband, customer integrated services and mobile voice and attained the lowest customers complaint rate in the industry. In promoting efficiently-centralised and co-shared intelligent financial system, value-oriented resources allocation was persistently enhanced while measures to prevent and control risks were continuously strengthened, leading to effective safeguard for healthy and sustainable corporate development.

Enhancement of vitality and efficiency through reforms and innovation. The Company persistently deepened the three-dimensional inter-driven reform surrounding sub-division of performance evaluation units, professional operation and top-down support as the core. In addition to the foundation of about 59,000 sub-division units established, we gradually constructed different professional scenes including business districts, communities, rural villages and campuses. Through a series of new style working models such as leading team and providing assistance, the level of professional operation was strengthened. With persistent promotion of procedures optimisation, we fostered significant enhancement of top-down support efficiency through conducting reverse evaluation on management support personnel by frontline operation personnel. We proceeded to accelerate the establishment of operation systems and organisation mechanisms in alignment with transformation and upgrades, striving to build three talent teams comprising management, skills and professionalism. Through continuous reforms and innovation, frontline innovative practices continuously emerged with remarkable enhancement of corporate vitality and efficiency.

Active Embracement of New Era of 5G

Following the gradual affirmation of technical standards, the progress of 5G development began to speed up. In the first half of the year, the Company proactively embarked on exploring the landscape of 5G development and accumulating capabilities. We orderly promoted technology research as well as research and development of applications, formulated evolution path for future technology and published 5G Technologies White Paper. Network trials in scale were conducted in many cities focusing on promotion of applications trials including HD video, AR/VR, automated driving, drone and industrial Internet. Research on collaborative network trial for 5G and 4G was commenced, planning well for the landscape of 5G network, applications and business models.

As a next-generation emerging technology, 5G will accelerate the digitalisation transformation of the economy and the society and also significantly promote the development of important industries including IoT and intelligent manufacturing, creating vast connection potential and forming trillion-scale emerging industries. With firm adherence to the overall principle of efficient development, the Company will proactively grasp opportunities, appropriately manage the momentum, insist on open cooperation, facilitate efficient collaboration of 5G with 4G network resources and service capabilities as well as carry out 5G network precision investment construction in a progressive and focused manner, commencing 5G scale commercial launch on a timely basis.

Corporate Governance and Social Responsibility

We are always committed to upholding a high level of corporate governance. Insisting on governing the corporate in accordance with laws and regulations, we attach great importance to risk management and control and continuously enhance corporate transparency to ensure healthy and sustainable corporate growth. Our efforts have been widely recognised by the capital markets. We were awarded "Most Honored Company in Asia" by *Institutional Investor* for eight consecutive years. We were also awarded "Best Managed Company" and a special accolade of "Most Honored Company (2009–2018)" by *FinanceAsia*, in recognition of the Company's overall persistent efforts to pursue for excellence and remarkable accomplishment on corporate governance, investor relations and corporate social responsibility during the past decade.

As a major force of "Cyberpower, Digital China and Smart Society" and network infrastructure provider, we persevere in fulfillment of social responsibility. With further implementation of the "Speed Upgrade and Tariff Reduction" policy, we cancelled data roaming fees from 1 July 2018 for the benefit of the general public as a whole. We are also devoted to maintaining network and information security, striving to create a clean and healthy cyberspace. We promote energy saving and emission reduction as well as foster green development. With our proactive adherence to execute "the Belt and Road" policy, we built the first China-Nepal Terrestrial Optical Fibre Cable and China-Pakistan Terrestrial Optical Fibre Cable. We received high recognition and appreciation from the society through our efforts in successfully accomplishing telecommunications assurance for major conferences and events including Boao Forum for Asia, as well as combating flooding and disaster relief.

Outlook

Following the promotion of the construction of "Cyberpower, Digital China, and Smart Society", China has entered into a vital period of transformation of old impetus through digitalisation coupled with cultivation and reinforcement of new impetus. The rapid development of various new technologies including 5G, artificial intelligence and Big Data will assist rapid upgrade of industry and foster the digital economy development leaping forward to a new landmark, bringing precious development opportunities for the communications and information industry. From the perspective of the entire industry, market demand brings new growth potential for fundamental businesses development while domestic mobile and broadband markets still have vast growth potential. Demand for data traffic will undergo explosive growth. Under collaborative inter-promotion of integration of informatisation with new industrialisation, urbanisation and agricultural modernisation; the integration of informatisation with government management and social service; the integration of informatisation with real economy as well as the integration of informatisation with network and military-civilian aspects, emerging businesses will experience continuous rapid development. Meanwhile, increasingly intensified market competition has rendered industry growth potential being persistently squeezed. New technologies and new business models will continue to emerge, bringing new challenges on industry value. There are pressing needs for corporates to promptly explore new business models and new revenue growth points.

Looking ahead into the future, we are full of confidence. We will firmly seize the precious opportunities and actively respond to various challenges. With perseverance in scale development, we will adapt to the market changes momentum and optimise competition strategies. We will also persist in excellent execution, continuous enhancement of capabilities and optimisation of customers' experience. We will firmly uphold the implementation of reforms and innovation, optimise systems and mechanisms to enhance corporate vitality and efficiency. We will unwaveringly strengthen our strategic direction, deepen supply-side structural reform and promote "three initiatives" transformation, creating a new generation of information infrastructure featuring "Internet of everything, human-computer interaction as well as integration of the satellite with existing network as a whole". With the establishment of integrated ecology between information technology and various sectors and industries, we will enhance corporate total factor productivity and march towards the three major goals of "construction of Cyberpower, building a first-class enterprise, co-establishing better living".

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express my sincere thanks to all our employees for their hard work and contributions. Furthermore, I would like to extend my sincere gratitude towards Mr. Liu Aili and Madam Cha May Lung, Laura for their excellent contributions during their tenure of office as Directors of the Company.

Yang Jie
Chairman and Chief Executive Officer
Beijing, China

20 August 2018

Operating Revenues

In the first half of 2018, the Company adhered to its transformation and upgrades strategy, insisted on development of innovation and integration and accelerated scale expansion. Revenue structure was continuously optimised with revenue growth surpassing the industry average. In the first half of the year, operating revenues amounted to RMB193,029 million, representing an increase of 4.7% over the same period last year[1]. Service revenues[2] amounted to RMB177,588 million, representing an increase of 7.0% over the same period last year. Excluding the impact of the application of IFRS 15 on the current period, service revenues increased by 8.5% over the same period last year. Among the service revenues, mobile service revenues amounted to RMB83,552 million, increased by 10.3% over the same period last year; wireline service revenues amounted to RMB94,036 million, increased by 4.2% over the same period last year. Non-voice service revenues accounted for 85.0% of service revenues, representing an increase of 4.2 percentage points over the same period last year.

Operating Expenses

The Company efficiently allocated resources and optimised the cost structure in order to support scale development, facilitating persistent increases in effectiveness and efficiency of resources utilisation. In the first half of the year, operating expenses amounted to RMB173,872 million, representing an increase of 4.5% over the same period last year. Operating expenses accounted for 90.1% of operating revenues, representing a decrease of 0.1 percentage point over the same period last year.

In order to further enhance network capabilities and quality to support business scale development, the Company has increased its investment in and maintenance of 4G and fibre broadband network in recent years. In the first half of the year, depreciation and amortisation amounted to RMB36,701 million, representing an increase of 6.6% over the same period last year. At the same time, network operations and support expenses amounted to RMB54,184 million, representing an increase of 11.8% over the same period last year.

In the first half of the year, selling, general and administrative expenses amounted to RMB29,048 million, representing an increase of 1.1% over the same period last year.

The Company increased the incentives for frontline employees as well as talents for emerging businesses and technical experts. In the first half of the year, personnel expenses amounted to RMB32,649 million, representing an increase of 6.1% over the same period last year.

Through continuous increase in number of terminals sold through open channels as well as reduction in centralised procurement, the number of terminals directly sold by the Company declined. In the first half of the year, other operating expenses amounted to RMB21,290 million, representing a decrease of 10.9% over the same period last year.

1 In 2017, the Group acquired the satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited (陝西中和恒泰保險代理有限公司). As the transaction was recognised as a combination of entities under common control, the comparative figures of prior period have been restated accordingly. Please refer to note 2 to the unaudited interim financial statements in this interim report for details.

2 Service revenues were calculated based on operating revenues minus sales of mobile terminals (first half of 2018: RMB12,079 million; first half of 2017: RMB15,951 million), sales of wireline equipment (first half of 2018: RMB2,773 million; first half of 2017: RMB1,890 million) and other non-service revenues (first half of 2018: RMB589 million; first half of 2017: RMB478 million).

Net Finance Costs

The Company persistently intensified its efforts in efficiently-centralised capital management, which effectively lowered the level of interest-bearing debt. In the first half of 2018, the net finance costs of the Company amounted to RMB1,514 million, representing a decrease of 14.6% over the same period last year.

Profitability Level

Leading by its transformation and upgrades strategy, the Company deepened its reform and innovation and strived to promote cost reduction and efficiency enhancement, resulting in consistent improvement in profitability. In the first half of the year, profit attributable to equity holders of the Company amounted to RMB13,570 million, representing an increase of 8.1% over the same period last year. EBITDA[3] amounted to RMB55,858 million, representing an increase of 6.5% over the same period last year, while EBITDA margin[4] was 31.5%.

Capital Expenditure and Cash Flows

The Company persistently optimised the investment structure. Through the implementation of precision investment, investment efficiency and effectiveness were concurrently enhanced while comprehensive advantages in network were consistently reinforced. In the first half of the year, capital expenditure amounted to RMB32,947 million, representing a decrease of 19.9% over the same period last year. Benefitting from the sound growth in the Company's business and revenues, as well as effective management on capital expenditure, the free cash flow[5] was significantly improved in the first half of the year and amounted to RMB18,383 million, representing an increase of 154.1% over the same period last year.

Assets and Liabilities

The Company continued to maintain a solid financial position. As at 30 June 2018, the total assets increased by 0.2% to RMB662,299 million from RMB661,194 million at the end of 2017. Total indebtedness decreased by 20.2% to RMB83,267 million from RMB104,377 million at the end of 2017. The gearing ratio[6] decreased to 19.9% from 24.3% at the end of 2017.

Changes in Accounting Policies

On 1 January 2018, the Company has applied, for the first time, IFRS 15, "*Revenue from Contracts with Customers*" and IFRS 9, *"Financial Instruments"*. For the specific impact of the application of the above standards, please refer to note 4 to the unaudited interim financial statements in this interim report for details.

3 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.
4 EBITDA margin was calculated based on EBITDA divided by service revenues.
5 Free cash flow was calculated from EBITDA minus capital expenditure and income tax.
6 Gearing ratio was calculated based on total indebtedness divided by total capital while total capital was calculated based on total equity attributable to equity holders of the Company plus total indebtedness.

Deloitte. 德勤

To the Board of Directors of China Telecom Corporation Limited

Introduction

We have reviewed the interim financial statements of China Telecom Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 11 to 44, which comprise the consolidated statement of financial position as at 30 June 2018 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review, 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 these interim financial statements consists of making inquiries, 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 these interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 August 2018

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2018
(Amounts in millions)

	Notes	30 June 2018 RMB	31 December 2017 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net		**395,538**	406,257
Construction in progress		**78,337**	73,106
Lease prepayments		**21,890**	22,262
Goodwill		**29,920**	29,920
Intangible assets		**12,336**	12,391
Interests in associates		**36,432**	35,726
Investments		**–**	1,154
Equity instruments at fair value through other comprehensive income		**863**	–
Deferred tax assets	10	**6,148**	5,479
Other assets		**4,355**	3,349
Total non-current assets		**585,819**	589,644
Current assets			
Inventories		**3,831**	4,123
Income tax recoverable		**89**	693
Accounts receivable, net	6	**31,137**	22,096
Contract assets, net		**796**	–
Prepayments and other current assets		**21,308**	22,128
Short-term bank deposits		**2,922**	3,100
Cash and cash equivalents	7	**16,397**	19,410
Total current assets		**76,480**	71,550
Total assets		**662,299**	661,194

The notes on pages 18 to 44 form part of these interim financial statements.

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2018
(Amounts in millions)

	Notes	30 June 2018 RMB	31 December 2017 RMB
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	8	**33,838**	54,558
Current portion of long-term debt	8	**1,138**	1,146
Accounts payable	9	**119,447**	119,321
Accrued expenses and other payables		**52,507**	98,695
Contract liabilities		**56,808**	–
Income tax payable		**1,498**	404
Current portion of finance lease obligations		**33**	51
Current portion of deferred revenues		**403**	1,233
Total current liabilities		**265,672**	275,408
Net current liabilities		**(189,192)**	(203,858)
Total assets less current liabilities		**396,627**	385,786
Non-current liabilities			
Long-term debt	8	**48,224**	48,596
Finance lease obligations		**34**	26
Deferred revenues		**1,642**	1,828
Deferred tax liabilities	10	**10,549**	8,010
Other non-current liabilities		**633**	629
Total non-current liabilities		**61,082**	59,089
Total liabilities		**326,754**	334,497
Equity			
Share capital		**80,932**	80,932
Reserves		**253,723**	244,935
Total equity attributable to equity holders of the Company		**334,655**	325,867
Non-controlling interests		**890**	830
Total equity		**335,545**	326,697
Total liabilities and equity		**662,299**	661,194

The notes on pages 18 to 44 form part of these interim financial statements.

Consolidated Statement of Comprehensive Income (Unaudited)

for the six-month period ended 30 June 2018
(Amounts in millions, except per share data)

	Notes	Six-month period ended 30 June 2018 RMB	2017 RMB (restated)
Operating revenues	11	**193,029**	184,315
Operating expenses			
Depreciation and amortisation		**(36,701)**	(34,437)
Network operations and support	12	**(54,184)**	(48,461)
Selling, general and administrative		**(29,048)**	(28,742)
Personnel expenses	13	**(32,649)**	(30,777)
Other operating expenses	14	**(21,290)**	(23,891)
Total operating expenses		**(173,872)**	(166,308)
Operating profit		**19,157**	18,007
Net finance costs	15	**(1,514)**	(1,772)
Investment income		**39**	15
Share of profits of associates		**477**	453
Profit before taxation		**18,159**	16,703
Income tax	16	**(4,528)**	(4,090)
Profit for the period		**13,631**	12,613
Other comprehensive income for the period			
Items that will not be reclassified subsequently to profit or loss:			
Change in fair value of investments in equity instruments at fair value through other comprehensive income		**(308)**	–
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income		**77**	–
		(231)	–
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale equity securities		**–**	(235)
Deferred tax on change in fair value of available-for-sale equity securities		**–**	59
Exchange difference on translation of financial statements of subsidiaries outside mainland China		**64**	(96)
Share of other comprehensive income of associates		**(22)**	6
		42	(266)
Other comprehensive income for the period, net of tax		**(189)**	(266)
Total comprehensive income for the period		**13,442**	12,347

The notes on pages 18 to 44 form part of these interim financial statements.

Consolidated Statement of Comprehensive Income (Unaudited)

for the six-month period ended 30 June 2018
(Amounts in millions, except per share data)

	Note	Six-month period ended 30 June 2018 RMB	 2017 RMB (restated)
Profit attributable to			
Equity holders of the Company		**13,570**	12,555
Non-controlling interests		**61**	58
Profit for the period		**13,631**	12,613
Total comprehensive income attributable to			
Equity holders of the Company		**13,381**	12,289
Non-controlling interests		**61**	58
Total comprehensive income for the period		**13,442**	12,347
Basic earnings per share	18	**0.17**	0.16
Number of shares (in millions)	18	**80,932**	80,932

The notes on pages 18 to 44 form part of these interim financial statements.

Consolidated Statement of Changes in Equity (Unaudited)

for the six-month period ended 30 June 2018
(Amounts in millions)

		Attributable to equity holders of the Company									
	Notes	Share capital RMB	Capital reserve RMB	Share premium RMB	Surplus reserves RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance as at 1 January 2017, as previously reported		80,932	17,150	10,746	72,611	711	(622)	133,796	315,324	971	316,295
Adjusted for the Eighth Acquisition	2	–	10	–	–	–	–	43	53	–	53
Balance as at 1 January 2017, as restated		80,932	17,160	10,746	72,611	711	(622)	133,839	315,377	971	316,348
Profit for the period, as restated		–	–	–	–	–	–	12,555	12,555	58	12,613
Other comprehensive income for the period		–	–	–	–	(170)	(96)	–	(266)	–	(266)
Total comprehensive income for the period, as restated		–	–	–	–	(170)	(96)	12,555	12,289	58	12,347
Dividends	17	–	–	–	–	–	–	(7,530)	(7,530)	–	(7,530)
Others		–	–	–	–	(4)	–	–	(4)	–	(4)
Balance as at 30 June 2017, as restated		80,932	17,160	10,746	72,611	537	(718)	138,864	320,132	1,029	321,161
Balance as at 31 December 2017, as previously reported		**80,932**	**17,126**	**10,746**	**74,297**	**414**	**(881)**	**143,233**	**325,867**	**830**	**326,697**
Changes in accounting policies	4	**–**	**–**	**–**	**302**	**–**	**–**	**2,673**	**2,975**	**(1)**	**2,974**
Balance as at 1 January 2018, as restated		**80,932**	**17,126**	**10,746**	**74,599**	**414**	**(881)**	**145,906**	**328,842**	**829**	**329,671**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**13,570**	**13,570**	**61**	**13,631**
Other comprehensive income for the period		**–**	**–**	**–**	**–**	**(253)**	**64**	**–**	**(189)**	**–**	**(189)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**(253)**	**64**	**13,570**	**13,381**	**61**	**13,442**
Dividends	17	**–**	**–**	**–**	**–**	**–**	**–**	**(7,568)**	**(7,568)**	**–**	**(7,568)**
Balance as at 30 June 2018		**80,932**	**17,126**	**10,746**	**74,599**	**161**	**(817)**	**151,908**	**334,655**	**890**	**335,545**

The notes on pages 18 to 44 form part of these interim financial statements.

Consolidated Statement of Cash Flows (Unaudited)

for the six-month period ended 30 June 2018
(Amounts in millions)

	Note	Six-month period ended 30 June 2018 RMB	2017 RMB (restated)
Net cash from operating activities	(a)	**50,689**	47,000
Cash flows used in investing activities			
Capital expenditure		**(32,764)**	(30,068)
Purchase of investments		**(317)**	(301)
Lease prepayments		**(6)**	(7)
Proceeds from disposal of property, plant and equipment		**642**	707
Proceeds from disposal of lease prepayments		**14**	–
Proceeds from disposal of investments		**91**	–
Purchase of short-term bank deposits		**(2,839)**	(1,726)
Maturity of short-term bank deposits		**2,954**	1,725
Net cash used in investing activities		**(32,225)**	(29,670)
Cash flows used in financing activities			
Principal element of finance lease payments		**(46)**	(32)
Proceeds from bank and other loans		**28,531**	26,316
Repayments of bank and other loans		**(49,792)**	(45,802)
Payment of the acquisition price of the Eighth Acquisition (Note 2)		**(87)**	–
Payment for the acquisition of non-controlling interests		**(119)**	–
Net cash used in financing activities		**(21,513)**	(19,518)
Net decrease in cash and cash equivalents		**(3,049)**	(2,188)
Cash and cash equivalents at 1 January		**19,410**	24,617
Effect of changes in foreign exchange rate		**36**	(108)
Cash and cash equivalents at 30 June		**16,397**	22,321

The notes on pages 18 to 44 form part of these interim financial statements.

(Amounts in millions)

(a) Reconciliation of profit before taxation to net cash from operating activities

	Six-month period ended 30 June 2018 RMB	2017 RMB (restated)
Profit before taxation	**18,159**	16,703
Adjustment for:		
Depreciation and amortisation	**36,701**	34,437
Impairment losses for doubtful debts	**1,561**	1,193
Write down of inventories	**4**	139
Investment income	**(39)**	(15)
Share of profits of associates	**(477)**	(453)
Interest income	**(145)**	(137)
Interest expense	**1,665**	1,856
Net foreign exchange (gain)/loss	**(6)**	53
Net loss on retirement and disposal of long-lived assets	**1,643**	1,326
Operating profit before changes in working capital	**59,066**	55,102
Increase in accounts receivable	**(12,062)**	(8,773)
Increase in contract assets	**(140)**	–
Decrease in inventories	**311**	1,345
Decrease/(increase) in prepayments and other current assets	**890**	(4,013)
Decrease in other assets	**320**	119
Decrease in accounts payable	**(212)**	(976)
Increase in accrued expenses and other payables	**11,247**	8,964
Decrease in contract liabilities	**(5,367)**	–
Decrease in deferred revenues	**(71)**	(122)
Cash generated from operations	**53,982**	51,646
Interest received	**141**	135
Interest paid	**(1,692)**	(1,968)
Investment income received	**4**	6
Income tax paid	**(1,746)**	(2,819)
Net cash from operating activities	**50,689**	47,000

The notes on pages 18 to 44 form part of these interim financial statements.

1. Principal Activities

China Telecom Corporation Limited (the "Company") and its subsidiaries (hereinafter, collectively referred to as the "Group") offers a comprehensive range of wireline and mobile telecommunications services including voice, Internet, telecommunications network resource and equipment services, information and application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People's Republic of China (the "PRC"). The Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region ("Macau") of the PRC. The Group also provides international telecommunications services, including network equipment services, international Internet access and transit, Internet data centre and mobile virtual network services in certain countries and regions of the Asia Pacific, Europe, Africa, South America and North America. The operations of the Group in the mainland China are subject to the supervision and regulation by the PRC government.

2. Basis of Presentation

In December 2017, the Company acquired the satellite communications business (the "Satcom Business") from China Telecom Satellite Communication Co., Ltd., a wholly owned subsidiary of China Telecommunications Corporation, at a purchase price of RMB70 million. In the same month, E-surfing Pay Co., Ltd, the Company's wholly owned subsidiary, acquired a 100% interest in Shaanxi Zhonghe Hengtai Insurance Agent Limited ("Zhonghe Hengtai"), a wholly owned subsidiary of Shaanxi Communications Services Company Limited, (a company ultimately held by China Telecommunications Corporation), from Shaanxi Communications Services Company Limited, at a purchase price of RMB17 million. The acquisitions of the Satcom Business and Zhonghe Hengtai (collectively referred to as the "Eighth Acquired Group") are two separate transactions, which are collectively referred to as the "Eighth Acquisition". The final consideration of the Eighth Acquisition was paid by 30 June 2018.

Since the Group and the Eighth Acquired Group are under common control of China Telecommunications Corporation, the Group's acquisition of the Eighth Acquired Group has been accounted for as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the Eighth Acquired Group have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the Eighth Acquisition are combined with the financial statements of the Eighth Acquired Group.

The consolidated results of operations for the six-month period ended 30 June 2017 as previously reported by the Group and the combined amounts presented in the interim financial statements of the Group to reflect the acquisition of the Eighth Acquired Group are set out below:

	The Group (as previously reported) RMB millions	**The Eighth Acquired Group** RMB millions	**The Group (restated)** RMB millions
Consolidated statement of comprehensive income for the six-month period ended 30 June 2017			
Operating revenues	184,118	197	184,315
Profit for the period	12,595	18	12,613

For the period presented, all significant transactions between the Group and the Eighth Acquired Group have been eliminated on combination.

3. 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 Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These interim financial statements, which were authorised for issuance by the Board of Directors on 20 August 2018, reflect the unaudited financial position of the Group as at 30 June 2018 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 2018.

The preparation of interim financial statements in conformity with IAS 34, "*Interim Financial Reporting*" requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

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 independent auditor 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.

4. Principal Accounting Policies

These interim financial statements are prepared on the historical cost basis as modified by the revaluation of certain financial instruments which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs and interpretation, the accounting policies and methods of computation used in these interim financial statements are the same as those followed in the preparation of the 2017 annual financial statements of the Group.

Application of new and amendments to IFRSs and interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs and interpretation issued by the International Accounting Standards Board that are mandatorily effective for the current period:

IFRS 9, "*Financial Instruments*"
IFRS 15, "*Revenue from Contracts with Customers*" and the related Amendments
IFRIC 22, "*Foreign Currency Transactions and Advance Consideration*"
Amendments to IFRS 2, "*Classification and Measurement of Share-based Payment Transactions*"
Amendments to IFRS 4, "*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*"
Amendments to IAS 40, "*Transfers of Investment Property*"
Amendments to IAS 28 as part of the "*Annual Improvements to IFRS Standards 2014–2016 Cycle*"

4. Principal Accounting Policies (Continued)

Except for IFRS 9, "*Financial Instruments*" and IFRS 15, "*Revenue from Contracts with Customers*" and the related Amendments, the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's interim financial statements.

IFRS 9, "*Financial Instruments*" and IFRS 15, "*Revenue from Contracts with Customers*" and the related Amendments have been applied in accordance with the relevant transition provisions in the respective standards which result in changes in accounting policies, amounts reported and disclosures as described below.

4.1 Impact and changes in accounting policies on application of IFRS 15, "*Revenue from Contracts with Customers*"

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18, "*Revenue*", IAS 11, "*Construction Contracts*" and the related interpretations.

The Group recognises revenue from the following major sources:

- Telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services;
- Sale, and repair and maintenance of equipment as well as the resale of mobile services (MVNO); and
- Rental of properties and others.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening reserves, and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18, "*Revenue*" and IAS 11, "*Construction Contracts*" and the related interpretations.

(i) **Key changes in accounting policies resulting from application of IFRS 15**

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1 : Identify the contracts with a customer
- Step 2 : Identify the performance obligations in the contract
- Step 3 : Determine the transaction price
- Step 4 : Allocate the transaction price to the performance obligations in the contract
- Step 5 : Recognise revenue when the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied. i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. Principal Accounting Policies (Continued)

4.1 Impact and changes in accounting policies on application of IFRS 15, "*Revenue from Contracts with Customers*" (Continued)

(i) Key changes in accounting policies resulting from application of IFRS 15 (Continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Consideration payable to a customer

Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer, and also includes credit or other items that can be applied against amounts owed to the Group. Certain subsidies payable to third party agent incurred by the Group in respect of customer contracts, which will be ultimately enjoyed by end customers, are qualified as consideration payable to a customer. The Group accounted for such consideration payable to a customer as a reduction of the transaction price and, therefore, of operating revenues unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group and the fair value of the good or service received from the customer can be reasonably estimated.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, such as the promotional packages provided to customers bundling the sales of terminal equipment, e.g. mobile handsets, and the provision of telecommunications services, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Certain commissions incurred by the Group in obtaining customer contracts that payable to third party agents are qualified as incremental costs. The Group recognises such commissions as an asset, included in other assets, if it expects to recover these costs. However, by applying the practical expedient in IFRS 15, the Group recognised such costs as an expense when incurred if the amortisation period of the asset that would otherwise been recognised is one year or less.

The asset so recognised is subsequently amortised to consolidated statement of comprehensive income on a basis that is consistent with the recognition of revenue from the goods or services to which the asset relates. The asset is subject to impairment review.

4. Principal Accounting Policies (Continued)

4.1 Impact and changes in accounting policies on application of IFRS 15, "*Revenue from Contracts with Customers*" (Continued)

(ii) Summary of effects arising from initial application of IFRS 15

The impact of transition to IFRS 15 resulted in an increase to reserves at 1 January 2018, amounting to RMB3,691 million.

Adjustments made to the amounts recognised in the consolidated statement of financial position at 1 January 2018 are detailed in Note 4.3.

The following table summarises the key impacts of applying IFRS 15 on the Group's consolidated statement of comprehensive income for the current interim period:

	As reported RMB millions	**Adjustments** RMB millions	**Amounts without application of IFRS 15** RMB millions
Operating revenues	193,029	2,539	195,568
Total operating expenses	173,872	1,705	175,577
Profit for the period	13,631	626	14,257

4.2 Impact and changes in accounting policies on application of IFRS 9, "*Financial Instruments*"

In the current period, the Group has applied IFRS 9, "*Financial instruments*" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening reserves, without restating comparative information.

4. Principal Accounting Policies (Continued)

4.2 Impact and changes in accounting policies on application of IFRS 9, "*Financial Instruments*" (Continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39, "*Financial Instruments: Recognition and Measurement*".

(i) Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts receivable arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held by the Group within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3, "*Business Combinations*" applies.

Investments in equity instruments at fair value through other comprehensive income ("FVTOCI") are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in other reserves, and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings and surplus reserves.

Dividend on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in investment income in the consolidated statement of comprehensive income.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 4.2(ii).

4. Principal Accounting Policies (Continued)

4.2 Impact and changes in accounting policies on application of IFRS 9, "*Financial Instruments*" (Continued)

(i) Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts receivable and financial assets included in prepayments and other current assets) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

By applying the IFRS 9 simplified approach to measure ECL, the Group always recognises lifetime ECL for accounts receivable and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics, nature of services provided as well as type of customers, such as receivable from telephone and Internet subscribers and from other telecommunications operators and enterprise customers.

For all other instruments, i.e. financial assets included in prepayments and other current assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has been increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The Group recognises an impairment gain or loss in profit or loss by adjusting their carrying amount, with the exception of account receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 4.2(ii).

4. Principal Accounting Policies (Continued)

4.2 Impact and changes in accounting policies on application of IFRS 9, "*Financial Instruments*" (Continued)

(ii) Summary of effects arising from initial application of IFRS 9

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale, included in investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB1,154 million were reclassified from investments to equity instruments at FVTOCI, of which RMB185 million related to unquoted equity investments previously measured at cost less impairment under IAS 39. The fair value gains of RMB674 million relating to those investments previously carried at fair value continued to accumulate in other reserves.

As at 1 January 2018, as a result of the application of ECL model in IFRS 9, the additional credit loss allowance of RMB920 million and the related deferred tax impact of RMB203 million have been recognised against reserves and non-controlling interests. The additional loss allowance is charged against the respective assets.

Adjustments made to the amounts recognised in the consolidated statement of financial position at 1 January 2018 are detailed in Note 4.3.

4. Principal Accounting Policies (Continued)

4.3 Impact on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in accounting policies above, the Group's opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 RMB millions	IFRS 15 RMB millions	IFRS 9 RMB millions	1 January 2018 RMB millions (restated)
Non-current assets				
Investments	1,154	–	(1,154)	–
Equity instruments at fair value through other comprehensive income	–	–	1,154	1,154
Deferred tax assets	5,479	–	203	5,682
Other assets	3,349	1,210	–	4,559
Others with no adjustments	579,662	–	–	579,662
Total non-current assets	589,644	1,210	203	591,057
Current assets				
Accounts receivable, net	22,096	(596)	(919)	20,581
Contract assets, net	–	656	–	656
Prepayments and other current assets	22,128	(37)	(1)	22,090
Others with no adjustments	27,326	–	–	27,326
Total current assets	71,550	23	(920)	70,653
Total assets	661,194	1,233	(717)	661,710

4. Principal Accounting Policies (Continued)

4.3 Impact on opening consolidated statement of financial position arising from the application of all new standards (Continued)

	31 December 2017 RMB millions	IFRS 15 RMB millions	IFRS 9 RMB millions	1 January 2018 RMB millions (restated)
Current liabilities				
Accrued expenses and other payables	98,695	(64,912)	–	33,783
Contract liabilities	–	62,175	–	62,175
Current portion of deferred revenues	1,233	(787)	–	446
Others with no adjustments	175,480	–	–	175,480
Total current liabilities	275,408	(3,524)	–	271,884
Net current liabilities	(203,858)	3,547	(920)	(201,231)
Total assets less current liabilities	385,786	4,757	(717)	389,826
Non-current liabilities				
Deferred tax liabilities	8,010	1,066	–	9,076
Others with no adjustments	51,079	–	–	51,079
Total non-current liabilities	59,089	1,066	–	60,155
Total liabilities	334,497	(2,458)	–	332,039
Equity				
Share capital	80,932	–	–	80,932
Reserves	244,935	3,691	(716)	247,910
Total equity attributable to equity holders of the Company	325,867	3,691	(716)	328,842
Non-controlling interests	830	–	(1)	829
Total equity	326,697	3,691	(717)	329,671
Total liabilities and equity	661,194	1,233	(717)	661,710

5. Segmental Reporting

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

6. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Notes	**30 June 2018 RMB millions**	31 December 2017 RMB millions
Third parties		**33,702**	23,762
China Telecom Group	(i)	**3,050**	1,502
China Tower	(ii)	**10**	5
Other telecommunications operators in the PRC		**680**	669
		37,442	25,938
Less: Allowance for doubtful debts		**(6,305)**	(3,842)
		31,137	22,096

Notes:

(i) China Telecommunications Corporation together with its subsidiaries other than the Group are referred to as "China Telecom Group".

(ii) China Tower Corporation Limited, the Company's associate, is referred to as "China Tower".

Ageing analysis of accounts receivable from telephone and Internet subscribers based on the billing dates is as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Current, within 1 month	**9,768**	9,323
1 to 3 months	**3,065**	2,607
4 to 12 months	**2,529**	1,780
More than 12 months	**1,550**	878
	16,912	14,588
Less: Allowance for doubtful debts	**(4,042)**	(2,603)
	12,870	11,985

6. Accounts Receivable, Net (Continued)

Ageing analysis of accounts receivable from other telecommunications operators and enterprise customers based on dates of rendering of services is as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Current, within 1 month	**7,199**	4,421
1 to 3 months	**5,944**	1,973
4 to 12 months	**4,800**	2,644
More than 12 months	**2,587**	2,312
	20,530	11,350
Less: Allowance for doubtful debts	**(2,263)**	(1,239)
	18,267	10,111

7. Cash and Cash Equivalents

	30 June 2018 RMB millions	31 December 2017 RMB millions
Cash at bank and in hand	**14,779**	17,763
Time deposits with original maturity within three months	**1,618**	1,647
	16,397	19,410

8. Short-Term and Long-Term Debt

Short-term debt comprises:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Loans from banks – unsecured	**14,012**	16,565
Super short-term commercial papers – unsecured	**5,999**	18,745
Other loans – unsecured	**150**	150
Loans from China Telecom Group – unsecured	**13,677**	19,098
Total short-term debt	**33,838**	54,558

The weighted average interest rate of the Group's total short-term debt as at 30 June 2018 was 3.9% (31 December 2017: 4.0%) per annum. As at 30 June 2018, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 7.3% (31 December 2017: 3.5% to 7.3%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 3.3% to 4.0% (31 December 2017: 4.1% to 4.2%) per annum, and have been repaid by 17 August 2018; the loans from China Telecom Group bear interest at rate of 3.5% (31 December 2017: 3.5%) per annum and are repayable within one year.

Long-term debt comprises:

	Notes	**30 June 2018 RMB millions**	31 December 2017 RMB millions
Loans from banks – unsecured	(i)	**9,361**	9,741
Other loans – unsecured		**1**	1
Loans from China Telecom Group – unsecured	(ii)	**40,000**	40,000
Total long-term debt		**49,362**	49,742
Less: current portion		**(1,138)**	(1,146)
Non-current portion		**48,224**	48,596

Note:

(i) The loans from banks includes long-term RMB denominated government loans with below-market interest rates ranging from 1.08% to 1.20% per annum obtained by the Group through banks (the "Low-interest Loans"). The Group recognised the Low-interest Loans at their fair value on initial recognition, and accreted the discount to profit or loss using the effective interest rate method. The difference between the fair value and face value of the Low-interest Loans was recognised as government grants in deferred revenue.

As at 30 June 2018, the loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2017: 1.00% to 8.30%) per annum with maturity through 2048.

(ii) The Group obtained long-term RMB denominated loans with the interest rate of 3.8% per annum from China Telecommunications Corporation on 25 December 2017, which are repayable within 3 to 5 years.

The Group's short-term and long-term debt do not contain any financial covenants. As at 30 June 2018, the Group had unutilised committed credit facilities amounting to RMB153,827 million (31 December 2017: RMB154,793 million).

9. Accounts Payable

Accounts payable are analysed as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Third parties	92,771	93,324
China Telecom Group	22,852	22,682
China Tower	3,274	2,611
Other telecommunications operators in the PRC	550	704
	119,447	119,321

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

Ageing analysis of accounts payable based on the due dates is as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Due within 1 month or on demand	22,951	27,502
Due after 1 month but within 3 months	15,633	17,257
Due after 3 months but within 6 months	28,596	26,603
Due after 6 months	52,267	47,959
	119,447	119,321

10. Deferred Tax Assets and Liabilities

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

	Assets		Liabilities		Net Balance	
	30 June 2018 RMB millions	31 December 2017 RMB millions	**30 June 2018 RMB millions**	31 December 2017 RMB millions	**30 June 2018 RMB millions**	31 December 2017 RMB millions
Provisions and impairment losses, primarily for doubtful debts	**2,215**	1,626	**–**	–	**2,215**	1,626
Property, plant and equipment and others	**3,879**	3,782	**(10,418)**	(7,789)	**(6,539)**	(4,007)
Deferred revenues and installation costs	**54**	71	**(39)**	(52)	**15**	19
Available-for-sale equity securities	**–**	–	**–**	(169)	**–**	(169)
Equity instruments at fair value through other comprehensive income	**–**	–	**(92)**	–	**(92)**	–
	6,148	5,479	**(10,549)**	(8,010)	**(4,401)**	(2,531)

	Balance at 31 December 2017 RMB millions	Change in accounting policy RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 30 June 2018 RMB millions
Provisions and impairment losses, primarily for doubtful debts	**1,626**	**203**	**386**	**2,215**
Property, plant and equipment and others	**(4,007)**	**(1,066)**	**(1,466)**	**(6,539)**
Deferred revenues and installation costs	**19**	**–**	**(4)**	**15**
Available-for-sale equity securities	**(169)**	**169**	**–**	**–**
Equity instruments at fair value through other comprehensive income	**–**	**(169)**	**77**	**(92)**
	(2,531)	**(863)**	**(1,007)**	**(4,401)**

11. Operating Revenues

Disaggregation of revenue

	Notes	Six-month period ended 30 June 2018 RMB millions	2017 RMB millions (restated)
Type of goods or services			
Revenue from contracts with customers			
Voice services	(i)	**26,679**	31,862
Internet services	(ii)	**96,010**	84,768
Information and application services	(iii)	**42,581**	37,508
Telecommunications network resource and equipment services	(iv)	**10,033**	9,655
Sales of goods and others	(v)	**16,233**	19,223
Subtotal		**191,536**	183,016
Revenue from other sources	(vi)	**1,493**	1,299
Total operating revenues		**193,029**	184,315

Notes:

(i) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.

(ii) Represent amounts charge to customers for the provision of Internet access services.

(iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet data centre service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.

(iv) Represent primarily the amount of fees charged to other domestic telecommunications operators and enterprise customers for the provision of telecommunications network resource and equipment services.

(v) Represent primarily revenue from sales, and repair and maintenance of telecommunications equipment as well as the resale of mobile services (MVNO).

(vi) Represent primarily revenue from property rental and other revenues.

12. Network Operations and Support Expenses

	Note	Six-month period ended 30 June 2018 RMB millions	2017 RMB millions (restated)
Operating and maintenance		**28,677**	23,320
Utility		**7,054**	7,665
Property rental and management fee	(i)	**13,872**	13,074
Others		**4,581**	4,402
		54,184	48,461

Note:

(i) Property rental and management fee includes the fee in relation to the lease of telecommunications towers and related assets (hereinafter referred to as the "tower assets lease fee").

13. Personnel Expenses

Personnel expenses are attributable to the following functions:

	Six-month period ended 30 June 2018 RMB millions	2017 RMB millions (restated)
Network operations and support	**22,692**	21,673
Selling, general and administrative	**9,957**	9,104
	32,649	30,777

14. Other Operating Expenses

	Notes	Six-month period ended 30 June 2018 RMB millions	2017 RMB millions (restated)
Interconnection charges	(i)	**6,226**	5,914
Cost of goods sold	(ii)	**14,266**	17,136
Donations		**3**	4
Others	(iii)	**795**	837
		21,290	23,891

14. Other Operating Expenses (Continued)

Notes:

(i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.

(ii) Cost of goods sold primarily represents cost of telecommunications equipment sold.

(iii) Others mainly include tax and surcharges other than value-added tax and income tax.

15. Net Finance Costs

	Six-month period ended 30 June	
	2018	2017
	RMB millions	RMB millions (restated)
Interest expense incurred	**1,769**	2,032
Less: Interest expense capitalised*	**(104)**	(176)
Net interest expense	**1,665**	1,856
Interest income	**(145)**	(137)
Foreign exchange losses	**310**	79
Foreign exchange gains	**(316)**	(26)
	1,514	1,772
* Interest expense was capitalised in construction in progress at the following rates per annum	**3.5%–4.4%**	3.2%–4.9%

16. Income Tax

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2018	2017
	RMB millions	RMB millions (restated)
Provision for PRC income tax	**3,363**	2,520
Provision for income tax in other tax jurisdictions	**81**	39
Deferred taxation	**1,084**	1,531
	4,528	4,090

16. Income Tax (Continued)

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

	Notes	Six-month period ended 30 June 2018 RMB millions	2017 RMB millions (restated)
Profit before taxation		**18,159**	16,703
Expected income tax expense at statutory tax rate of 25%	(i)	**4,540**	4,176
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(151)**	(203)
Differential tax rate on other subsidiaries' income	(ii)	**(31)**	(19)
Non-deductible expenses	(iii)	**172**	180
Non-taxable income	(iv)	**(37)**	(42)
Others	(v)	**35**	(2)
Actual income tax expense		**4,528**	4,090

Notes:

(i) Except for certain subsidiaries and branches which are mainly taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.

(ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 34%.

(iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iv) Amounts represent miscellaneous income which are not subject to income tax.

(v) Amounts primarily represent settlement of tax filing differences of prior year annual tax return and other tax benefits.

17. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 28 May 2018, a final dividend of RMB0.093512 (equivalent to HK$0.115) per share totaling RMB7,568 million in respect of the year ended 31 December 2017 was declared, and paid on 27 July 2018.

Pursuant to the shareholders' approval at the Annual General Meeting held on 23 May 2017, a final dividend of RMB0.093043 (equivalent to HK$0.105) per share totaling RMB7,530 million in respect of the year ended 31 December 2016 was declared, and paid on 21 July 2017.

The Board of Directors has resolved not to pay an interim dividend.

18. Basic Earnings Per Share

The calculation of basic earnings per share for the six-month period ended 30 June 2018 and 2017 is based on the profit attributable to equity holders of the Company of RMB13,570 million and RMB12,555 million, respectively, divided by 80,932,368,321 shares.

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

19. Capital Commitments

As at 30 June 2018 and 31 December 2017, the Group had capital commitments as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Contracted for but not provided		
Property	**700**	346
Telecommunications network plant and equipment	**8,601**	10,900
	9,301	11,246

20. Fair Value Measurements of Financial Instruments

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instrument at fair value through other comprehensive income, accounts receivable and financial assets included in prepayments and other current assets. Financial liabilities of the Group include short-term and long-term debt, accounts payable and accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

20. Fair Value Measurements of Financial Instruments (Continued)

Fair Value Measurements

Based on IFRS 13, "*Fair Value Measurement*", the fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

The fair values of the Group's financial instruments (other than long-term debt and equity instruments at fair value through other comprehensive income) approximate their carrying amounts due to the short-term maturity of these instruments.

The listed equity securities investment included in Group's equity instruments at fair value through other comprehensive income are categorised as level 1 financial instruments. The fair value of the Group's listed equity securities investment is RMB661 million as at 30 June 2018 (31 December 2017: RMB969 million), based on quoted market price on PRC stock exchanges. The Group's other equity investments, included in equity instruments at fair value through other comprehensive income, are unlisted equity interests.

The fair value of long-term debt is estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The fair value measurement of long-term debt is categorised as level 2. The interest rates used by the Group in estimating the fair values of long-term debt, having considered the foreign currency denomination of the debt, ranged from 1.0% to 4.9% (31 December 2017: 1.0% to 4.9%). As at 30 June 2018 and 31 December 2017, the carrying amounts and fair values of the Group's long-term debt were as follows:

	30 June 2018		31 December 2017	
	Carrying amount RMB millions	**Fair value RMB millions**	Carrying amount RMB millions	Fair value RMB millions
Long-term debt	**49,362**	**48,112**	49,742	48,256

During both periods, there were no transfers among instruments in level 1, level 2 or level 3.

21. Related Party Transactions

(a) Transactions with China Telecom Group

The Group is a part of companies under China Telecommunications Corporation, a company owned by the PRC government, and has significant transactions and business relationships with members of China Telecom Group.

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

	Notes	Six-month period ended 30 June **2018** **RMB millions**	 2017 RMB millions (restated)
Construction and engineering services	(i)	**7,544**	8,579
Receiving ancillary services	(ii)	**7,461**	6,591
Interconnection revenues	(iii)	**23**	24
Interconnection charges	(iii)	**96**	83
Receiving community services	(iv)	**1,317**	1,223
Net transaction amount of centralised services	(v)	**346**	450
Property lease income	(vi)	**18**	15
Property lease expenses	(vi)	**272**	212
Provision of IT services	(vii)	**207**	194
Receiving IT services	(vii)	**624**	1,006
Purchases of telecommunications equipment and materials	(viii)	**1,438**	1,750
Sales of telecommunications equipment and materials	(viii)	**1,942**	1,151
Internet applications channel services	(ix)	**129**	180
Interest on amounts due to and loans from China Telecom Group*	(x)	**1,046**	1,339
Others*	(xi)	**92**	81

* These transactions are conducted on normal commercial terms and are fully exempted from compliance with the reporting, announcement, independent shareholders' approval and/or annual review requirements under Rules 14A.76 or 14A.90 of the Listing Rules.

21. Related Party Transactions (Continued)

(a) Transactions with China Telecom Group (Continued)

Notes:

(i) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.

(ii) 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.

(iii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.

(iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.

(v) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.

(vi) Represent amounts of property lease fee received and receivable from/paid and payable to China Telecom Group for mutual leasing of properties.

(vii) Represent IT services provided to and received from China Telecom Group.

(viii) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.

(ix) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.

(x) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 8).

(xi) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region, certain inter-provincial transmission optic fibres within its service regions and certain land use rights.

21. Related Party Transactions (Continued)

(a) Transactions with China Telecom Group (Continued)

Amounts due from/to China Telecom Group are summarised as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Accounts receivable	**3,050**	1,502
Contract assets	**21**	–
Prepayments and other current assets	**857**	774
Total amounts due from China Telecom Group	**3,928**	2,276
Accounts payable	**22,852**	22,682
Accrued expenses and other payables	**7,229**	1,838
Contract liabilities	**318**	–
Short-term debt	**13,677**	19,098
Long-term debt	**40,000**	40,000
Total amounts due to China Telecom Group	**84,076**	83,618

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 and conditions associated with short-term debt and long-term debt due to China Telecom Group are set out in Note 8.

As at 30 June 2018 and 31 December 2017, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

21. Related Party Transactions (Continued)

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

		Six-month period ended 30 June	
		2018	2017
	Notes	RMB millions	RMB millions
Tower assets lease fee	(i)	**7,841**	7,569
Provision of IT services	(ii)	**19**	10

Notes:

(i) Represent amounts paid and payable to China Tower for the lease of telecommunications towers and related assets.

(ii) Represent IT services provided to China Tower.

Amounts due from/to China Tower are summarised as follows:

	30 June 2018 RMB millions	31 December 2017 RMB millions
Accounts receivable	**10**	5
Prepayments and other current assets	**323**	2,152
Total amounts due from China Tower	**333**	2,157
Accounts payable	**3,274**	2,611
Accrued expenses and other payables	**1,349**	1,374
Contract liabilities	**43**	–
Total amounts due to China Tower	**4,666**	3,985

Amounts due from/to China Tower bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties.

As at 30 June 2018 and 31 December 2017, no material allowance for doubtful debts was recognised in respect of amounts due from China Tower.

21. Related Party Transactions (Continued)

(c) 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 period ended 30 June	
	2018	2017
	RMB thousands	RMB thousands
Short-term employee benefits	**2,855**	2,771
Post-employment benefits	**348**	412
	3,203	3,183

The above remuneration is included in personnel expenses.

(d) 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, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 21% 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. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the above plans for the six-month period ended 30 June 2018 were RMB3,492 million (six-month period ended 30 June 2017: RMB3,390 million).

The amount payable for contributions to the above defined contribution retirement plans as at 30 June 2018 was RMB592 million (31 December 2017: RMB569 million).

21. Related Party Transactions (Continued)

(e) Transactions with other government-related entities in the PRC

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its fellow subsidiaries (Note 21(a)) and China Tower (Note 21(b)), the Group has transactions that are collectively but not individually significant with other government-related entities, which include but not limited to the following:

- rendering and receiving services, including but not limited to telecommunications services
- sales and purchases of goods, properties and other assets
- lease of assets
- depositing and borrowing
- use of public utilities

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

The directors of the Company believe the above information provides appropriate disclosure of related party transactions.

22. Events after the end of the Reporting Period

On 8 August 2018, China Tower listed on the Main Board of The Stock Exchange of Hong Kong Limited, and made an offering of 43,114,800,000 new ordinary shares (including both Hong Kong and International offerings, assuming no exercise of the over-allotment option) at a price of HK$1.26 (equivalent to approximately RMB1.10) per share. The listing of China Tower led to an increase in the balance of interests in associates of the Group's interest in China Tower.

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 in this report, 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 2017 Annual Report.

Purchase, Sale or Redemption of Securities

During the six-month period ended 30 June 2018, 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 2018, none of the Directors or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in 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 maintained 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 2018, the Company has not granted its Directors or Supervisors, or their respective spouses or any of their respective minor child (natural or adopted) or on their behalf 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.

Changes of Directors, Supervisors and Senior Management since the Date of the 2017 Annual Report

The changes in the information relating to the Directors, Supervisors and Senior Management since the date of the Company's 2017 Annual Report are set out below:

On 28 May 2018, Madam Cha May Lung, Laura resigned from her positions as an Independent Non-Executive Director as well as a member and the Chairlady of the Nomination Committee of the Company due to her intention to focus on other business commitments and engagements. On the same date, Madam Wang Hsuehming, the Independent Non-Executive Director of the Company, was appointed as a member and the Chairlady of the Nomination Committee of the Company.

On 10 July 2018, Mr. Zhang Zhiyong and Mr. Liu Guiqing were appointed as Executive Vice Presidents of the Company.

On 19 July 2018, Mr. Liu Aili resigned from his positions as an Executive Director, President and Chief Operating Officer of the Company due to change in work arrangement.

On 20 July 2018, Madam Zhu Min was appointed as Executive Vice President, the Chief Financial Officer and Secretary of the Board of the Company. On the same date, Mr. Ke Ruiwen, the Executive Director and Executive Vice President of the Company, resigned from his position as a Joint Company Secretary of the Company due to change in work arrangement. The other positions held by Mr. Ke Ruiwen in the Company remain unchanged.

Meanwhile, Mr. Ke Ruiwen, the Executive Director and Executive Vice President of the Company, has resigned from the position of the Chairman of Supervisory Committee of China Tower Corporation Limited (listed in Hong Kong in August 2018). In addition, Mr. Sui Yixun, the Chairman of the Supervisory Committee of the Company, has been appointed as a Supervisor of China Tower Corporation Limited.

Mr. Ye Zhong, a Supervisor of the Company, has retired from the position of the Deputy General Manager of Zhejiang Financial Development Company and has also resigned from the positions of the Chairman of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman and General Manager of Zhejiang Agricultural Investment and Development Fund Co. Ltd., Chairman and General Manager of Zhejiang Infrastructure Investment (including PPP) Fund Co. Ltd. and Director of Zhejiang Provincial Industry Fund Co., Ltd..

Save as stated above, there is no other information of the Directors or Supervisors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The biographical details of the Directors and Supervisors are available on the website of the Company (www.chinatelecom-h.com).

Material Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 June 2018, 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 the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

Name of shareholders	Number of shares	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
JPMorgan Chase & Co.	1,478,119,112 (Long position)	H shares	10.65%	1.83%	177,403,806 shares as beneficial owner; 106,449,421 shares as investment manager; 10,700 shares as trustee; and 1,194,255,185 shares as approved lending agent
	32,694,200 (Short position)	H shares	0.24%	0.04%	Beneficial owner
	1,194,255,185 (Shares available for lending)	H shares	8.61%	1.48%	Approved lending agent

Name of shareholders	Number of shares	Type of shares	Percentage of the respective type of shares in issue	Percentage of the total number of shares in issue	Capacity
Citigroup Inc.	1,123,929,308 (Long position)	H shares	8.10%	1.39%	28,988,971 shares as interest of controlled corporation; and 1,094,940,337 shares as approved lending agent
	9,524,716 (Short position)	H shares	0.07%	0.01%	Interest of controlled corporation
	1,094,940,337 (Shares available for lending)	H shares	7.89%	1.35%	Approved lending agent
Templeton Global Advisors Limited	1,109,928,355 (Long position)	H shares	8.00%	1.37%	Investment manager
BlackRock, Inc.	1,108,935,253 (Long position)	H shares	7.99%	1.37%	Interest of controlled corporation
	994,000 (Short position)	H shares	0.01%	0.00%	Interest of controlled corporation
GIC Private Limited	838,531,200 (Long position)	H shares	6.04%	1.04%	Investment manager
Templeton Investment Counsel, LLC	694,040,270 (Long position)	H shares	5.00%	0.86%	Investment manager

Save as disclosed above, as at 30 June 2018, 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 Company.

Audit Committee

The audit committee has reviewed with management and the Company's international auditor, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2018.

Compliance with the Corporate Governance Code

The Company attaches 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, continuously 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-month period ended 30 June 2018. In the Company's opinion, through supervision by the Board of Directors and Independent Non-Executive Directors, with effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can enhance the Company's efficiency in decision-making and execution and effectively capturing business opportunities. Many leading international corporations around the world also have similar arrangements. In addition, Mr. Yang Jie, the Chairman of the Company, was unable to attend the annual general meeting of the Company for the year 2017 convened on 28 May 2018 due to other important work arrangement. The Company attaches high regards on the annual general meeting which provides an opportunity for direct communication between the Board of Directors of the Company and the shareholders. Therefore, the Chairman has appointed another executive director to chair the said annual general meeting and answer the questions raised by the shareholders.

Save as stated above, the Company has been in compliance with all the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six-month period ended 30 June 2018.

Compliance with the Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to govern securities transactions by Directors and Supervisors. Based on the written confirmations from the Directors and Supervisors, the Company's Directors and Supervisors have confirmed their compliance with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules regarding the requirements in conducting securities transactions for the period from 1 January 2018 to 30 June 2018.

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