

Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2014

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 wireline voice, mobile voice, Internet, telecommunications network resource services and lease of network equipment, value-added services, integrated information 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”). Following the acquisition of Code Division Multiple Access (“CDMA”) mobile telecommunications business in October 2008, 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 lease of network equipment, International Internet access and transit, and Internet data centre service in certain countries of the Asia Pacific, Europe, South America and North America regions. The operations of the Group in the mainland China are subject to the supervision and regulation by the PRC government.

2. Basis of Presentation and Changes in Organisation

Basis of Presentation

Pursuant to an acquisition agreement entered into by CT Global and China Telecommunications Corporation on 16 December 2013, CT Global acquired 100% equity interest in CT Europe. The initial consideration for the Seventh Acquisition was RMB261 million. The initial consideration shall be adjusted for the difference between the net asset value on the completion date of the acquisition and the net asset value on the appraisal benchmark date of the acquisition, which was 30 June 2013, in order to arrive at the final consideration. The Seventh Acquisition was completed on 31 December 2013. The final consideration was RMB278 million, and was paid by 30 June 2014.

Since the Group and the Seventh Acquired Company are under common control of China Telecommunications Corporation, the Seventh Acquisition 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 related to the Seventh Acquired Company have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the Seventh Acquisition have been restated to include the results of operations and assets and liabilities related to the Seventh Acquired Company on a combined basis.

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for the six-month period ended 30 June 2014

2. Basis of Presentation and Changes in Organisation (continued)

Basis of Presentation (continued)

The consolidated results of operations for the six-month period ended 30 June 2013 as previously reported by the Group and the combined amounts presented in the consolidated financial statements of the Group to reflect the acquisition of the Seventh Acquired Company are set out below:

| | The Group (as previously reported) RMB millions | The Seventh Acquired Company RMB millions | The Group (as restated) RMB millions |
|--|--|--|--|
| Consolidated statement of comprehensive income for the six-month period ended 30 June 2013: | | | |
| Operating revenues | 157,520 | 39 | 157,559 |
| Profit for the period | 10,281 | 12 | 10,293 |

For the periods presented, all significant transactions and balances between the Group and the Seventh Acquired Company have been eliminated on combination.

Set up of a subsidiary

On 17 June 2014, the Group set up a subsidiary, Chengdu E-store Technology Co., Ltd, which engages in software technology development.

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. These interim financial statements, which were authorised for issuance by the Board of Directors on 27 August 2014, reflect the unaudited financial position of the Group as at 30 June 2014 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 2014.

These interim financial statements have been prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities.

Except as described below, these interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements.

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for the six-month period ended 30 June 2014

3. Basis of Preparation (continued)

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

| | |
|----------------------|---|
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| IFRIC 21 | Levies |

The application of the above new interpretation and amendments to IFRSs has had no material effect on the Group’s interim financial statements.

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 2013 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 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.

The financial information relating to the financial year ended 31 December 2013 that is included in these interim financial statements as being previously reported does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The Company’s international independent auditor has expressed an unqualified opinion on those financial statements in the report dated 19 March 2014.

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for the six-month period ended 30 June 2014

4. 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 resource 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 percent or more of the Group's operating revenues.

5. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

| | Note | 30 June 2014 RMB millions | 31 December 2013 RMB millions |
|---|------|---------------------------------|-------------------------------------|
| Third parties | | 29,184 | 21,293 |
| China Telecom Group | (i) | 549 | 391 |
| Other telecommunications operators in the PRC | | 1,211 | 536 |
| | | 30,944 | 22,220 |
| Less: Allowance for doubtful debts | | (3,749) | (2,198) |
| | | 27,195 | 20,022 |

Note:

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

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

| | 30 June 2014 RMB millions | 31 December 2013 RMB millions |
|------------------------------------|---------------------------------|-------------------------------------|
| Current, within 1 month | 12,549 | 11,887 |
| 1 to 3 months | 3,625 | 2,438 |
| 4 to 12 months | 2,646 | 1,784 |
| More than 12 months | 1,267 | 488 |
| | 20,087 | 16,597 |
| Less: Allowance for doubtful debts | (3,603) | (2,122) |
| | 16,484 | 14,475 |

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

5. Accounts Receivable, Net (continued)

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

| | 30 June 2014 | 31 December 2013 |
|------------------------------------|-------------------------|---------------------|
| | RMB millions | RMB millions |
| Current, within 1 month | 3,981 | 2,436 |
| 1 to 3 months | 2,957 | 1,169 |
| 4 to 12 months | 2,843 | 1,302 |
| More than 12 months | 1,076 | 716 |
| | 10,857 | 5,623 |
| Less: Allowance for doubtful debts | (146) | (76) |
| | 10,711 | 5,547 |

Amounts due from the provision of telecommunications services to customers are generally due within 30 days from the date of billing.

6. Cash and Cash Equivalents

| | 30 June 2014 | 31 December 2013 |
|--|-------------------------|---------------------|
| | RMB millions | RMB millions |
| Cash at bank and in hand | 15,687 | 14,639 |
| Time deposits with original maturity within three months | 1,204 | 1,431 |
| | 16,891 | 16,070 |

7. Short-Term and Long-term Debt and Payable

Short-term debt comprises:

| | 30 June 2014 | 31 December 2013 |
|--|-------------------------|---------------------|
| | RMB millions | RMB millions |
| Loans from banks – unsecured | 5,423 | 5,443 |
| Other loans – unsecured | 80 | 182 |
| Loans from China Telecom Group – unsecured | 10,984 | 22,062 |
| | 16,487 | 27,687 |

The weighted average interest rate of the Group's total short-term debt as at 30 June 2014 was 4.8% (31 December 2013: 4.7%) per annum. As at 30 June 2014, the loans from banks and other loans bear interest at rates ranging from 4.5% to 6.0% (31 December 2013: 4.5% to 6.0%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at 4.5% (31 December 2013: 4.5%) per annum and are repayable within one year.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

7. Short-Term and Long-term Debt and Payable (continued)

Long-term debt and payable comprises:

| | Note | 30 June 2014 RMB millions | 31 December 2013 RMB millions |
|---|-------|---------------------------------|-------------------------------------|
| Loans from banks – unsecured | (i) | 955 | 992 |
| Other loans – unsecured | (i) | 1 | 1 |
| Medium-term notes – unsecured | (ii) | 19,993 | 19,986 |
| Amounts due to China Telecommunications Corporation – unsecured | | | |
| Deferred consideration of the Mobile Network Acquisition | (iii) | 61,710 | 61,710 |
| Total long-term debt and payable | | 82,659 | 82,689 |
| Less: current portion | | (20,072) | (20,072) |
| Non-current portion | | 62,587 | 62,617 |

Note:

(i) The loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2013: 1.00% to 8.30%) per annum with maturity through 2060.

(ii) On 28 December 2009, the Company issued two batches of five-year, 10 billion RMB denominated medium-term notes with annual interest rate of 4.61% per annum.

The above medium-term notes are unsecured.

(iii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces, municipalities and autonomous regions in the PRC (hereinafter referred to as the "Mobile Network Acquisition"). The Company may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition, which is 31 December 2017. The Company pays interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate is set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The annual interest rate for 2014 is 6.25%.

If the amount is not paid when due, the Company is required to pay the liquidated damages on such amount at a daily rate of 0.03% of the amount in arrears from the day following the applicable due date to the date that such amount has actually been paid in full.

The Group's short-term and long-term debt and payable do not contain any financial covenants. As at 30 June 2014, the Group has unutilised committed credit facilities amounting to RMB134,756 million (31 December 2013: RMB157,694 million).

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

8. Accounts Payable

Accounts payable are analysed as follows:

| | 30 June 2014 | 31 December 2013 |
|---|-------------------------|---------------------|
| | RMB millions | RMB millions |
| Third parties | 58,690 | 66,115 |
| China Telecom Group | 14,017 | 13,905 |
| Other telecommunications operators in the PRC | 961 | 1,112 |
| | 73,668 | 81,132 |

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

Ageing analysis of accounts payable is as follows:

| | 30 June 2014 | 31 December 2013 |
|--|-------------------------|---------------------|
| | RMB millions | RMB millions |
| Due within 1 month or on demand | 18,910 | 19,349 |
| Due after 1 month but within 3 months | 13,092 | 16,178 |
| Due after 3 months but within 6 months | 14,351 | 15,396 |
| Due after 6 months | 27,315 | 30,209 |
| | 73,668 | 81,132 |

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

9. 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 | 31 December | 30 June | 31 December | 30 June | 31 December |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | RMB millions |
| Provisions and impairment losses, primarily for doubtful debts | 1,461 | 1,071 | - | - | 1,461 | 1,071 |
| Property, plant and equipment | 1,522 | 1,431 | (142) | (184) | 1,380 | 1,247 |
| Deferred revenues and installation costs | 353 | 425 | (228) | (270) | 125 | 155 |
| Available-for-sale equity securities | - | - | (167) | (177) | (167) | (177) |
| Deferred tax assets/(liabilities) | 3,336 | 2,927 | (537) | (631) | 2,799 | 2,296 |

| | Balance at 1 January 2014 | Recognised in consolidated statement of comprehensive income | Balance at 30 June 2014 |
|--|---------------------------|--|-------------------------|
| | RMB millions | RMB millions | RMB millions |
| Provisions and impairment losses, primarily for doubtful debts | 1,071 | 390 | 1,461 |
| Property, plant and equipment | 1,247 | 133 | 1,380 |
| Deferred revenues and installation costs | 155 | (30) | 125 |
| Available-for-sale equity securities | (177) | 10 | (167) |
| Net deferred tax assets | 2,296 | 503 | 2,799 |

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

10. Operating Revenues

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

| | Note | Six-month period ended 30 June | |
|---|-------|--------------------------------|------------------------------------|
| | | 2014 RMB millions | 2013 RMB millions (restated) |
| Wireline voice | (i) | 17,561 | 19,888 |
| Mobile voice | (ii) | 30,148 | 28,426 |
| Internet | (iii) | 54,755 | 48,394 |
| Value-added services | (iv) | 18,996 | 17,851 |
| Integrated information application services | (v) | 14,538 | 12,176 |
| Telecommunications network resource services and lease of network equipment | (vi) | 9,209 | 8,621 |
| Others | (vii) | 20,766 | 22,203 |
| | | 165,973 | 157,559 |

Note:

Before 1 June 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the Value-Added Tax ("VAT") Reform (Caishui [2014] No. 43) jointly issued by the Ministry of Finance and the State Administration of Taxation, from 1 June 2014, the pilot programme of replacing business tax with VAT is extended to cover the telecommunications industry. The VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 11% while the VAT rate for value-added telecommunications services (including Internet access services, short and multimedia messaging services, transmission and application service of electronic data and information) is 6%, and VAT is excluded from operating revenues. With effect from 1 June 2014, the Group is no longer required to pay business tax of 3% on telecommunications services.

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections fees and installation fees charged to customers for the provision of wireline telephony services.
- (ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.
- (iii) Represent amounts charged to customers for the provision of Internet access services.
- (iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services and etc.
- (v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.
- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, and repair and maintenance of equipment.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

11. Network Operations and Support Expenses

Network operations and support expenses consist of:

| | Six-month period ended 30 June | |
|------------------------------------|--------------------------------|----------------------------|
| | 2014 | 2013 |
| | RMB millions | RMB millions (restated) |
| Operating and maintenance | 15,527 | 12,879 |
| Utility | 5,777 | 5,200 |
| Property rental and management fee | 4,362 | 3,438 |
| Others | 3,666 | 1,840 |
| | 29,332 | 23,357 |

12. Personnel Expenses

Personnel expenses are attributable to the following functions:

| | Six-month period ended 30 June | |
|-------------------------------------|--------------------------------|----------------------------|
| | 2014 | 2013 |
| | RMB millions | RMB millions (restated) |
| Network operations and support | 15,126 | 14,549 |
| Selling, general and administrative | 9,516 | 7,779 |
| | 24,642 | 22,328 |

13. Other Operating Expenses

Other operating expenses consist of:

| | Note | Six-month period ended 30 June | |
|-------------------------|------|--------------------------------|----------------------------|
| | | 2014 | 2013 |
| | | RMB millions | RMB millions (restated) |
| Interconnection charges | (i) | 6,342 | 7,805 |
| Cost of goods sold | (ii) | 17,974 | 18,927 |
| Donations | | 7 | 5 |
| Others | | 195 | 28 |
| | | 24,518 | 26,765 |

Note:

(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.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

14. Net Finance Costs

Net finance costs comprise:

| | Six-month period ended 30 June | |
|---|--------------------------------|----------------------------|
| | 2014 | 2013 |
| | RMB millions | RMB millions (restated) |
| Interest expense incurred | 3,014 | 2,988 |
| Less: Interest expense capitalised* | (155) | (168) |
| Net interest expense | 2,859 | 2,820 |
| Interest income | (130) | (179) |
| Foreign exchange losses | 19 | 24 |
| Foreign exchange gains | (12) | (52) |
| | 2,736 | 2,613 |
| * Interest expense was capitalised in construction in progress at the following rates per annum | 4.2% – 6.0% | 1.1% – 5.8% |

15. Income Tax

Income tax in the profit or loss comprises:

| | Six-month period ended 30 June | |
|---|--------------------------------|----------------------------|
| | 2014 | 2013 |
| | RMB millions | RMB millions (restated) |
| Provision for PRC income tax | 4,020 | 3,457 |
| Provision for income tax in other tax jurisdictions | 34 | 29 |
| Deferred taxation | (493) | (263) |
| | 3,561 | 3,223 |

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

15. Income Tax (continued)

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

| | Note | Six-month period ended 30 June | |
|---|-------|--------------------------------|------------------------------------|
| | | 2014 RMB millions | 2013 RMB millions (restated) |
| Profit before taxation | | 15,035 | 13,516 |
| Expected income tax expense at statutory tax rate of 25% | (i) | 3,759 | 3,379 |
| Differential tax rate on PRC subsidiaries' and branches' income | (i) | (159) | (84) |
| Differential tax rate on other subsidiaries' income | (ii) | (25) | (31) |
| Non-deductible expenses | (iii) | 123 | 146 |
| Non-taxable income | (iv) | (31) | (45) |
| Others | (v) | (106) | (142) |
| Actual income tax expense | | 3,561 | 3,223 |

Note:

- (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 35%.
- (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 tax deduction on prior year research and development expenses and losses on disposal of property, plant and equipment approved by tax authorities during the period.

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for the six-month period ended 30 June 2014

16. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2014, a final dividend of RMB0.076583 (equivalent to HK\$0.095) per share totaling RMB6,198 million in respect of the year ended 31 December 2013 was declared and paid on 18 July 2014.

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2013, a final dividend of RMB0.067135 (equivalent to HK\$0.085) per share totaling RMB5,433 million in respect of the year ended 31 December 2012 was declared and paid on 19 July 2013.

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

17. Basic Earnings per Share

The calculation of basic earnings per share for the six-month period ended 30 June 2014 and 2013 is based on the profit attributable to equity holders of the Company of RMB11,436 million and RMB10,225 million, respectively, divided by 80,932,368,321 shares.

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

18. Capital Commitments

As at 30 June 2014 and 31 December 2013, the Group had capital commitments as follows:

| | 30 June 2014 RMB millions | 31 December 2013 RMB millions |
|--|--|-------------------------------------|
| Authorised and contracted for | | |
| Property | 617 | 931 |
| Telecommunications network plant and equipment | 6,772 | 6,807 |
| | 7,389 | 7,738 |
| Authorised but not contracted for | | |
| Property | 959 | 778 |
| Telecommunications network plant and equipment | 10,042 | 6,460 |
| | 11,001 | 7,238 |

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for the six-month period ended 30 June 2014

19. Fair Value Measurements of Financial Instruments

Financial assets of the Group include cash and cash equivalents, time deposits, investments, accounts receivable, advances and other receivables. Financial liabilities of the Group include short-term and long-term debt and payable, accounts payable, accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

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 assets and liabilities (other than long-term debt and payable and available-for-sale equity investment securities) recorded at amortised cost approximate their carrying amounts due to the short-term maturity of these instruments.

The Group's available-for-sale equity investment securities are categorised as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities is RMB958 million as at 30 June 2014 (31 December 2013: RMB999 million), based on quoted market price on PRC stock exchanges. The Group's long-term investments, other than the available-for-sale equity investment securities, are unlisted equity interests for which no quoted market prices exist in the PRC and because their fair values cannot be measured reliably, so their fair values were not disclosed.

The fair values of long-term debt and payable are 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 and payable is categorized as level 2. The interest rates used by the Group in estimating the fair values of long-term debt and payable, having considered the foreign currency denomination of the debt, ranged from 1.0% to 6.6% (31 December 2013: 1.0% to 6.8%). As at 30 June 2014 and 31 December 2013, the carrying amounts and fair values of the Group's long-term debt and payable were as follows:

| | 30 June 2014 | | 31 December 2013 | |
|----------------------------|-----------------|--------------|------------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | RMB millions | RMB millions | RMB millions | RMB millions |
| Long-term debt and payable | 82,659 | 83,943 | 82,689 | 82,002 |

During the period, there were no transfers among instruments in level 1, level 2 or level 3.

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for the six-month period ended 30 June 2014

20. 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:

| | Note | Six-month period ended 30 June | |
|---|--------|--------------------------------|------------------------------------|
| | | 2014 RMB millions | 2013 RMB millions (restated) |
| Purchases of telecommunications equipment and materials | (i) | 1,395 | 1,663 |
| Sales of telecommunications equipment and materials | (i) | 1,623 | 2,078 |
| Construction and engineering services | (ii) | 4,964 | 6,225 |
| Provision of IT services | (iii) | 81 | 83 |
| Receiving IT services | (iii) | 331 | 301 |
| Receiving community services | (iv) | 1,255 | 1,220 |
| Receiving ancillary services | (v) | 5,908 | 5,548 |
| Operating lease expenses | (vi) | 289 | 281 |
| Net transaction amount of centralised services | (vii) | 220 | 232 |
| Interconnection revenues | (viii) | 22 | 25 |
| Interconnection charges | (viii) | 173 | 205 |
| Interest on amounts due to and loans from China Telecom Group | (ix) | 2,290 | 1,997 |
| Lease of CDMA network facilities | (x) | 93 | 78 |
| Lease of land use rights | (xi) | 8 | 7 |
| Internet applications channel services | (xii) | 180 | – |

Note:

- (i) 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.
- (ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (iii) Represent IT services provided to and received from China Telecom Group.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
- (v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repair and maintenance of telecommunications equipment and facilities and certain customer services.
- (vi) Represent net amounts paid and payable to China Telecom Group for leases of business premises and the amounts paid and payable to China Telecom Group for inter-provincial transmission optic fibres.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

20. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Note: (continued)

(vii) 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.

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

(ix) 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 7).

(x) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network facilities located in Xizang Autonomous Region.

(xi) Represent amounts paid and payable to China Telecom Group for leases of land use rights.

(xii) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services.

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

| | 30 June 2014 RMB millions | 31 December 2013 RMB millions |
|---|---------------------------------|-------------------------------------|
| Accounts receivable | 549 | 391 |
| Prepayments and other current assets | 1,132 | 1,037 |
| Total amounts due from China Telecom Group | 1,681 | 1,428 |
| Accounts payable | 14,017 | 13,905 |
| Accrued expenses and other payables | 5,255 | 1,690 |
| Short-term debt | 10,984 | 22,062 |
| Long-term debt and payable | 61,710 | 61,710 |
| Total amounts due to China Telecom Group | 91,966 | 99,367 |

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt and payable, 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 and payable due to China Telecom Group are set out in Note 7.

As at 30 June 2014 and 31 December 2013, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

20. Related Party Transactions (continued)

(b) Key management personnel compensation

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

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

| | Six-month period ended 30 June | |
|------------------------------|--------------------------------|---------------|
| | 2014 | 2013 |
| | RMB thousands | RMB thousands |
| Short-term employee benefits | 4,728 | 4,469 |
| Post-employment benefits | 471 | 370 |
| | 5,199 | 4,839 |

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, 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 22% 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 2014 were RMB2,865 million (six-month period ended 30 June 2013: RMB2,652 million).

The amount payable for contributions to the above defined contribution retirement plans as at 30 June 2014 was RMB573 million (31 December 2013: RMB707 million).

20. Related Party Transactions (continued)

(d) Transactions with other government-related entities

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC 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 20(a)), the Group has transactions that are collectively, but not individually significant with other government-related entities, which include but are 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 believe the above information provides appropriate disclosure of related party transactions.

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2014

21. Events after the End of the Reporting Period

On 11 July 2014, the Company, China United Network Communications Corporation Limited and China Mobile Communication Company Limited entered into a Promoters' Agreement for China Communications Facilities Services Corporation Limited ("Promoters' Agreement") to establish China Communications Facilities Services Corporation Limited (the "Tower Company"). Pursuant to the Promoters' Agreement, the registered share capital of the Tower Company is RMB10,000 million. The Company, China United Network Communications Corporation Limited and China Mobile Communication Company Limited each subscribes for 2.99 billion shares, 3.01 billion shares and 4.00 billion shares of the Tower Company, respectively in cash at a par value of RMB1.00 per share, representing a shareholding percentage of 29.9%, 30.1% and 40.0%, respectively.

Pursuant to the Promoters' Agreement, the Company is required to pay RMB1,000 million of the total subscription amount by 31 July 2014, pay RMB1,000 million of the total subscription amount by 30 September 2014 and pay the remaining RMB990 million of the total subscription amount by 31 December 2014. The Company has paid RMB1,000 million in accordance with the requirement of the Promoters' Agreement in July 2014.

The Tower Company will primarily engage in the construction, maintenance and operation of telecommunications towers, and will also engage in the construction, maintenance and operation of ancillary facilities such as control rooms, power supply systems and air conditioning systems of base stations, etc. and indoor distribution systems as well as the provision of outsourcing maintenance services for base station equipment.