

Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2016

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, Africa, 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 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 23 August 2016, reflect the unaudited financial position of the Group as at 30 June 2016 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 2016.

These interim financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities at fair value.

Except as described below, these interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements of the Group.

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2. Basis of Preparation (continued)

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

Amendments to IFRS 11, “Accounting for Acquisitions of Interests in Joint Operations”

Amendments to IAS 1, “Disclosure Initiative”

Amendments to IAS 16 and IAS 38, “Clarification of Acceptable Methods of Depreciation and Amortisation”

Amendments to IFRSs, “Annual Improvements to IFRSs 2012-2014 Cycle”

Amendments to IAS 16 and IAS 41, “Agriculture: Bearer Plants”

Amendments to IFRS 10, IFRS 12 and IAS 28, “Investment Entities: Applying the Consolidation Exception”

The application of the above 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 2015 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 2015 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 2015 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 23 March 2016.

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3. 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 percent or more of the Group's operating revenues.

4. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Note	30 June 2016 RMB millions	31 December 2015 RMB millions
Third parties		31,161	22,766
China Telecom Group	(i)	905	492
China Tower		6	–
Other telecommunications operators in the PRC		1,204	782
		33,276	24,040
Less: Allowance for doubtful debts		(4,199)	(2,935)
		29,077	21,105

Note:

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

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4. Accounts Receivable, Net (continued)

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

	30 June 2016 RMB millions	31 December 2015 RMB millions
Current, within 1 month	10,818	10,001
1 to 3 months	3,273	2,181
4 to 12 months	2,279	1,821
More than 12 months	1,574	731
	17,944	14,734
Less: Allowance for doubtful debts	(3,548)	(2,393)
	14,396	12,341

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

	30 June 2016 RMB millions	31 December 2015 RMB millions
Current, within 1 month	5,191	3,648
1 to 3 months	3,962	1,618
4 to 12 months	4,063	2,199
More than 12 months	2,116	1,841
	15,332	9,306
Less: Allowance for doubtful debts	(651)	(542)
	14,681	8,764

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5. Cash and Cash Equivalents

	30 June 2016 RMB millions	31 December 2015 RMB millions
Cash at bank and in hand	28,560	30,916
Time deposits with original maturity within three months	1,516	953
	30,076	31,869

6. Short-term and Long-term Debt and Payable

Short-term debt comprises:

	30 June 2016 RMB millions	31 December 2015 RMB millions
Loans from banks – unsecured	4,910	5,361
Super short-term commercial papers – unsecured	18,197	33,995
Other loans – unsecured	182	182
Loans from China Telecom Group – unsecured	12,023	12,098
Total short-term debt	35,312	51,636

The weighted average interest rate of the Group's total short-term debt as at 30 June 2016 was 3.2% (31 December 2015: 3.1%) per annum. As at 30 June 2016, the Group's loans from banks and other loans bear interest at rates ranging from 3.9% to 5.1% (31 December 2015: 3.9% to 5.6%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 2.4% to 2.5% (31 December 2015: 2.1% to 3.0%) per annum, and are repayable by September 2016; the loans from China Telecom Group bear interest at rates from 3.5% to 4.5% (31 December 2015: 3.5% to 4.5%) per annum and are repayable within one year.

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6. Short-term and Long-term Debt and Payable (continued)

Long-term debt and payable comprises:

	Note	30 June 2016 RMB millions	31 December 2015 RMB millions
Loans from banks – unsecured	(i)	9,012	3,203
Other loans – unsecured	(i)	1	1
Amounts due to China Telecommunications Corporation – unsecured			
Deferred consideration of Mobile Network Acquisition	(ii)	61,710	61,710
Total long-term debt and payable		70,723	64,914
Less: current portion		(153)	(84)
Non-current portion		70,570	64,830

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 Group recognised the 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 loans was recognised as government grants in deferred revenue.

As at 30 June 2016, the loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2015: 1.00% to 8.30%) per annum with maturity through 2060.

- (ii) 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. 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 rates for 2015 and 2016 are 5.11% and 4.00%, respectively.

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 2016, the Group had unutilised committed credit facilities amounting to RMB126,857 million (31 December 2015: RMB128,839 million).

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7. Accounts Payable

Accounts payable are analysed as follows:

	30 June 2016 RMB millions	31 December 2015 RMB millions
Third parties	95,753	95,305
China Telecom Group	19,576	18,702
China Tower	9,915	3,272
Other telecommunications operators in the PRC	868	776
	126,112	118,055

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 based on the due dates is as follows:

	30 June 2016 RMB millions	31 December 2015 RMB millions
Due within 1 month or on demand	26,964	21,486
Due after 1 month but within 3 months	19,991	18,624
Due after 3 months but within 6 months	22,667	19,430
Due after 6 months	56,490	58,515
	126,112	118,055

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8. 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 2016 RMB millions	31 December 2015 RMB millions	30 June 2016 RMB millions	31 December 2015 RMB millions	30 June 2016 RMB millions	31 December 2015 RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,590	1,291	–	–	1,590	1,291
Property, plant and equipment and others	2,957	3,174	(3,394)	(1,605)	(437)	1,569
Deferred revenues and installation costs	154	190	(107)	(130)	47	60
Available-for-sale equity securities	–	–	(240)	(326)	(240)	(326)
Deferred tax assets/(liabilities)	4,701	4,655	(3,741)	(2,061)	960	2,594

	Recognised in consolidated statement of comprehensive income		
	Balance at 1 January 2016 RMB millions	comprehensive income RMB millions	Balance at 30 June 2016 RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,291	299	1,590
Property, plant and equipment and others	1,569	(2,006)	(437)
Deferred revenues and installation costs	60	(13)	47
Available-for-sale equity securities	(326)	86	(240)
Net deferred tax assets	2,594	(1,634)	960

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9. 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	
		2016 RMB millions	2015 RMB millions
Wireline voice	(i)	13,580	15,268
Mobile voice	(ii)	22,839	24,889
Internet	(iii)	73,017	62,274
Value-added services	(iv)	20,839	20,128
Integrated information application services	(v)	13,987	13,966
Telecommunications network resource services and lease of network equipment	(vi)	8,928	8,667
Others	(vii)	23,638	19,761
		176,828	164,953

Note:

- (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 as well as the resale of mobile services (MVNO).

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10. Network Operations and Support Expenses

Included in the Group's network operations and support expenses are as follows:

	Six-month period ended 30 June	
	2016 RMB millions	2015 RMB millions
Operating and maintenance	21,768	20,713
Utility	6,454	5,944
Property rental and management fee	11,669	5,648
Others	4,060	4,919
	43,951	37,224

11. Personnel Expenses

Personnel expenses are attributable to the following functions:

	Six-month period ended 30 June	
	2016 RMB millions	2015 RMB millions
Network operations and support	19,273	18,171
Selling, general and administrative	9,636	9,908
	28,909	28,079

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12. Other Operating Expenses

Other operating expenses consist of:

	Note	Six-month period ended 30 June	
		2016 RMB millions	2015 RMB millions
Interconnection charges	(i)	5,726	6,170
Cost of goods sold	(ii)	19,816	16,872
Donations		3	2
Others	(iii)	549	805
		26,094	23,849

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.
- (iii) Others mainly include other surcharges related to VAT.

13. Net Finance Costs

Net finance costs comprise:

	Six-month period ended 30 June	
	2016 RMB millions	2015 RMB millions
Interest expense incurred	2,110	2,517
Less: Interest expense capitalised*	(211)	(155)
Net interest expense	1,899	2,362
Interest income	(170)	(164)
Foreign exchange losses	38	11
Foreign exchange gains	(39)	(49)
	1,728	2,160
* Interest expense was capitalised in construction in progress at the following rates per annum	3.3%-5.0%	3.8%-5.7%

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14. Income Tax

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2016 RMB millions	2015 RMB millions
Provision for PRC income tax	1,967	3,922
Provision for income tax in other tax jurisdictions	60	28
Deferred taxation	1,720	(414)
	3,747	3,536

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

	Note	Six-month period ended 30 June	
		2016 RMB millions	2015 RMB millions
Profit before taxation		15,469	14,544
Expected income tax expense at statutory tax rate of 25%	(i)	3,867	3,636
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(211)	(185)
Differential tax rate on other subsidiaries' income	(ii)	(20)	(16)
Non-deductible expenses	(iii)	182	141
Non-taxable income	(iv)	(36)	(39)
Others	(v)	(35)	(1)
Actual income tax expense		3,747	3,536

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 38%.
- (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, losses on disposal of property, plant and equipment approved by tax authorities and other tax benefits.

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15. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 25 May 2016, a final dividend of RMB0.080182 (equivalent to HK\$0.095) per share totaling RMB6,489 million in respect of the year ended 31 December 2015 was declared and paid on 15 July 2016.

Pursuant to the shareholders' approval at the Annual General Meeting held on 27 May 2015, a final dividend of RMB0.076120 (equivalent to HK\$0.095) per share totaling RMB6,160 million in respect of the year ended 31 December 2014 was declared and paid on 17 July 2015.

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

16. Basic Earnings per Share

The calculation of basic earnings per share for the six-month period ended 30 June 2016 and 2015 is based on the profit attributable to equity holders of the Company of RMB11,673 million and RMB10,980 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.

17. Capital Commitments

As at 30 June 2016 and 31 December 2015, the Group had capital commitments as follows:

	30 June 2016 RMB millions	31 December 2015 RMB millions
Contracted for but not provided		
Property	514	403
Telecommunications network plant and equipment	9,039	9,745
	9,553	10,148

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18. Fair Value Measurements of Financial Instruments

Financial assets of the Group include cash and cash equivalents, bank deposits, investments, accounts receivable, prepayments and other receivables. Financial liabilities of the Group include short-term and long-term debt and payable, other non-current liabilities, 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 instruments (other than long-term debt and payable, other non-current liabilities and available-for-sale equity investment securities) 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 RMB1,255 million as at 30 June 2016 (31 December 2015: RMB1,597 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 and other non-current liabilities 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 and other non-current liabilities is categorised as level 2. The interest rates used by the Group in estimating the fair values of long-term debt and payable and other non-current liabilities, having considered the foreign currency denomination of the debt, ranged from 1.0% to 4.9% (31 December 2015: 1.0% to 4.9%). As at 30 June 2016 and 31 December 2015, the carrying amounts and fair values of the Group's long-term debt and payable and other non-current liabilities were as follows:

	30 June 2016		31 December 2015	
	Carrying amount RMB millions	Fair value RMB millions	Carrying amount RMB millions	Fair value RMB millions
Long-term debt and payable	70,723	71,150	64,914	65,156
Other non-current liabilities	469	434	455	419

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

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19. 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	
		2016 RMB millions	2015 RMB millions
Purchases of telecommunications equipment and materials	(i)	2,385	2,209
Sales of telecommunications equipment and materials	(i)	1,415	1,606
Construction and engineering services	(ii)	7,742	7,830
Provision of IT services	(iii)	124	66
Receiving IT services	(iii)	394	362
Receiving community services	(iv)	1,200	1,147
Receiving ancillary services	(v)	5,985	5,556
Property lease income	(vi)	15	15
Property lease expenses	(vi)	197	297
Net transaction amount of centralised services	(vii)	264	224
Interconnection revenues	(viii)	33	30
Interconnection charges	(viii)	145	212
Internet applications channel services	(ix)	150	188
Interest on amounts due to and loans from China Telecom Group	(x)	1,462	2,042
Lease of CDMA network facilities	(xi)	64	108
Lease of inter-provincial transmission optic fibres	(xii)	8	10
Lease of land use rights	(xiii)	4	8

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.

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19. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Note: (continued)

- (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 repairs and maintenance of telecommunications equipment and facilities and certain customer 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 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 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 6).
- (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.
- (xii) Represent amounts paid and payable to China Telecom Group for lease of certain inter-provincial transmission optic fibres within its service regions.
- (xiii) Represent amounts paid and payable to China Telecom Group for leases of land use rights.

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

	30 June 2016 RMB millions	31 December 2015 RMB millions
Accounts receivable	905	492
Prepayments and other current assets	912	732
Total amounts due from China Telecom Group	1,817	1,224
Accounts payable	19,576	18,702
Accrued expenses and other payables	6,179	1,464
Short-term debt	12,023	12,098
Long-term debt and payable	61,710	61,710
Total amounts due to China Telecom Group	99,488	93,974

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19. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

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 6.

As at 30 June 2016 and 31 December 2015, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

	Note	Six-month period ended 30 June	
		2016 RMB millions	2015 RMB millions
Tower assets lease fee	(i)	6,922	–
Provision of IT services	(ii)	6	–

Note:

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

Upon completion of the Tower Assets Disposal, the Company and China Tower entered into an agreement on 8 July 2016 to finally confirm the pricing and related arrangements in relation to the lease of telecommunications towers and related assets (including the "Tower Assets" and the tower products newly built by China Tower). The respective provincial branches of the Company and China Tower will enter into provincial service agreements in accordance with the actual demand for services. The service periods of these respective agreements are five years.

(ii) Represent IT services provided to China Tower.

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19. Related Party Transactions (continued)

(b) Transactions with China Tower (continued)

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

	30 June 2016 RMB millions	31 December 2015 RMB millions
Accounts Receivable	6	–
Prepayments and other current assets	1,906	1,789
Total amounts due from China Tower	1,912	1,789
Accounts payable	9,915	3,272
Accrued expenses and other payables	178	3,097
Total amounts due to China Tower	10,093	6,369

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 2016 and 31 December 2015, no material allowance for doubtful debts was recognised in respect of amounts due from China Tower.

(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	
	2016 RMB thousands	2015 RMB thousands
Short-term employee benefits	3,171	2,970
Post-employment benefits	392	461
	3,563	3,431

Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2016

19. Related Party Transactions (continued)

(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 2016 were RMB3,198 million (six-month period ended 30 June 2015: RMB2,998 million).

The amount payable for contributions to the above defined contribution retirement plans as at 30 June 2016 was RMB748 million (31 December 2015: RMB791 million).

(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 19(a)), 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.