1. Principal Activities, Organisation and Basis of Presentation

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, telecommunication 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.

Organisation

As part of the reorganisation (the "Restructuring") of China Telecommunications Corporation, the Company was incorporated in the PRC on 10 September 2002. In connection with the Restructuring, China Telecommunications Corporation transferred to the Company the wireline telecommunications business and related operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province together with the related assets and liabilities (the "Predecessor Operations") in consideration for 68,317 million ordinary domestic shares of the Company. The shares issued to China Telecommunications Corporation have a par value of RMB1.00 each and represented the entire registered and issued share capital of the Company at that date.

On 31 December 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (collectively the "First Acquired Group") and certain network management and research and development facilities from China Telecommunications Corporation for a total purchase price of RMB46,000 million (hereinafter, referred to as the "First Acquisition").

On 30 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the "Second Acquired Group") from China Telecommunications Corporation for a total purchase price of RMB27,800 million (hereinafter, referred to as the "Second Acquisition").

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

On 30 June 2007, the Company acquired the entire equity interests in China Telecom System Integration Co., Ltd. ("CTSI"), CT Global and China Telecom (Americas) Corporation ("CT Americas") (collectively the "Third Acquired Group") from China Telecommunications Corporation for a total purchase price of RMB1,408 million (hereinafter, referred to as the "Third Acquisition").

On 30 June 2008, the Company acquired the entire equity interest in China Telecom Group Beijing Corporation ("Beijing Telecom" or the "Fourth Acquired Company") from China Telecommunications Corporation for a total purchase price of RMB5,557 million (hereinafter, referred to as the "Fourth Acquisition").

On 1 August 2011 and 1 December 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd and E-surfing Media Co., Ltd., acquired the e-commerce business and video media business (collectively the "Fifth Acquired Group") from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 million (hereinafter, referred to as the "Fifth Acquisition").

On 30 April 2012, the Company acquired the digital trunking business (the "Sixth Acquired Business") from Besttone Holding Co., Ltd., a subsidiary of China Telecommunications Corporation, at a purchase price of RMB48 million (hereinafter, referred to as the "Sixth Acquisition").

On 30 June 2013, the Company disposed of an 80% equity interest in E-surfing Media Co., Ltd. ("E-surfing Media"), a subsidiary of the Company primarily engaged in the provision of video media services, to China Telecommunications Corporation. The final consideration for the disposal of the equity interest in E-surfing was arrived at RMB1,248 million.

On 31 December 2013, CT Global acquired 100% equity interest in China Telecom (Europe) Limited ("CT Europe" or the "Seventh Acquired Company"), a wholly owned subsidiary of China Telecommunications Corporation, from China Telecommunications Corporation for a total purchase price of RMB278 million (hereinafter, referred to as the "Seventh Acquisition"), and was paid by 30 June 2014.

Hereinafter, the First Acquired Group, the Second Acquired Group, the Third Acquired Group, the Fourth Acquired Company, the Fifth Acquired Group, the Sixth Acquired Business and the Seventh Acquired Company are collectively referred to as the "Acquired Groups".

Basis of presentation

Since the Group and the Acquired Groups are under common control of China Telecommunications Corporation, the Group's acquisitions of the Acquired Groups have 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 these entities have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisitions are combined with the financial statements of the Acquired Groups. The considerations for the acquisition of the Acquired Groups are accounted for as an equity transaction in the consolidated statement of changes in equity.

1. Principal Activities, Organisation and Basis of Presentation (continued)

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.

Merger with subsidiaries

Pursuant to the resolution passed by the Company's shareholders at an Extraordinary General Meeting held on 25 February 2008, the Company entered into merger agreements with each of the following subsidiaries: Shanghai Telecom Company Limited, Guangdong Telecom Company Limited, Jiangsu Telecom Company Limited, Zhejiang Telecom Company Limited, Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited, Sichuan Telecom Company Limited, Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited. In addition, the Company entered into merger agreements with Beijing Telecom on 1 July 2008. Pursuant to these merger agreements, the Company merged with these subsidiaries and the assets, liabilities and business operations of these subsidiaries were transferred to the Company's branches in the respective regions.

2. Significant Accounting Policies

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities at fair value (Note 2(m)).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

2. Significant Accounting Policies (continued)

(a) Basis of preparation (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 40.

(b) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interests in associates.

A subsidiary is an entity controlled by the Company. When fulfilling the following conditions, the Company has control over an entity: (a) has power over an investee, (b) has exposure, or rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power over the investee to affect the amount of the investor's returns.

When assessing whether the Company has power, only substantive rights (held by the Company and other parties) are considered.

The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases, and the profit attributable to non-controlling interests is separately presented on the face of the consolidated statement of comprehensive income as an allocation of the profit or loss for the year between the non-controlling interests and the equity holders of the Company. Non-controlling interests represent the equity in subsidiaries not attributable directly or indirectly to the Company. For each business combination, the Group measures the non-controlling interests at the proportionate share, of the acquisition date, of fair value of the subsidiary's net identifiable assets. Non-controlling interests at the end of the reporting period are presented in the consolidated statement of financial position within equity and consolidated statement of changes in equity, separately from the equity of the Company's equity holders. Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised. When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

2. Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

An associate is an entity, not being a subsidiary, in which the Group exercises significant influence, but not control, over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's net identifiable assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the Group's equity share of the post-acquisition changes in the associate's net assets and any impairment loss relating to the investment. When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

All significant intercompany balances and transactions and unrealised gains arising from intercompany transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currencies

The accompanying consolidated financial statements are presented in Renminbi ("RMB"). The functional currency of the Company and its subsidiaries in mainland China is RMB. The functional currency of the Group's foreign operations is the currency of the primary economic environment in which the foreign operations operate. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those capitalised as construction in progress (Note 2(i)), are recognised as income or expense in profit or loss. For the periods presented, no exchange differences were capitalised.

When preparing the Group's consolidated financial statements, the results of operations of the Group's foreign operations are translated into RMB at average rate prevailing during the year. Assets and liabilities of the Group's foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. Significant Accounting Policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and time deposits with original maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates fair value. None of the Group's cash and cash equivalents is restricted as to withdrawal.

(e) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for doubtful debts (Note 2(o)) unless the effect of discounting would be immaterial, in which case they are stated at cost less allowance for doubtful debts.

(f) Inventories

Inventories consist of materials and supplies used in maintaining the telecommunications network and goods for resale. Inventories are valued at cost using the specific identification method or the weighted average cost method, less a provision for obsolescence.

Inventories that are held for resale are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs to make the sale and the related tax expenses.

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 2(o)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as assets under finance leases. Assets held under finance leases are initially recorded at amounts equivalent to the lower of the fair value of the leased assets at the inception of the lease or the present value of the minimum lease payments (computed using the rate of interest implicit in the lease). The net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation. Assets held under finance leases are amortised over their estimated useful lives on a straight-line basis. As at 31 December 2014, the carrying amount of assets held under finance leases was RMB18 million (2013: RMB28 million).

2. Significant Accounting Policies (continued)

(g) Property, plant and equipment (continued)

Gains or losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit or loss on the date of disposal.

Depreciation is provided to write off the cost of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

	Depreciable lives primarily range from
Buildings and improvements	8 to 30 years
Telecommunications network plant and equipment	6 to 10 years
Furniture, fixture, motor vehicles and other equipment	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value are reviewed annually.

(h) Lease prepayments

Lease prepayments represent land use rights paid. Land use rights are initially carried at cost or deemed cost and then charged to profit or loss on a straight-line basis over the respective periods of the rights which range from 20 years to 70 years.

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 2(o)). The cost of an item comprises direct costs of construction, capitalisation of interest charge, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 6) acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(o)). On disposal of a cash generating unit during the year, any attributable amount of the goodwill is included in the calculation of the profit or loss on disposal.

2. Significant Accounting Policies (continued)

(k) Intangible assets

The Group's intangible assets comprise computer software and customer relationships acquired in the CDMA business acquisition (Note 7).

Computer software that is not an integral part of any tangible assets, is recorded at cost less subsequent accumulated amortisation and impairment losses (Note 2(o)). Amortisation of computer software is calculated on a straight-line basis over the estimated useful lives, which mainly range from three to five years.

The customer relationships acquired in the CDMA business acquisition are recorded at the acquisition-date fair value and amortised on a straight-line basis over the expected customer relationship of five years. By the end of the expected customer relationship period, fully amortised customer relationships were written off.

(l) Investments in subsidiaries

In the Company's stand-alone statement of financial position, investments in subsidiaries are stated at cost less impairment losses (Note 2(o)).

(m) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value being recognised in other comprehensive income and accumulated separately in equity. For investments in available-for-sale equity securities, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 2(o)).

(n) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. Significant Accounting Policies (continued)

(o) Impairment

(i) Impairment of accounts and other receivables and investments in equity securities carried at cost

Accounts and other receivables and investments in equity securities carried at cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor/issuer.

The impairment loss for accounts and other receivables is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the financial asset's original effective interest rate where the effect of discounting is material, and is recognised as an expense in profit or loss.

The impairment loss for investments in equity securities carried at cost is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in profit or loss.

Impairment losses for accounts and other receivables are reversed through profit or loss if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

2. Significant Accounting Policies (continued)

(o) Impairment (continued)

(ii) Impairment of long-lived assets

The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at each year end.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs of disposal and value in use. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. The goodwill arising from a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised as an expense in profit or loss. Impairment loss recognised in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down cease to exist, is recognised as an income in profit or loss. The reversal is reduced by the amount that would have been recognised as depreciation and amortisation had the write-down not occurred. An impairment loss in respect of goodwill is not reversed. For the years presented, no reversal of impairment loss was recognised in profit or loss.

2. Significant Accounting Policies (continued)

(p) Revenue recognition

The revenue recognition methods of the Group are as follows:

(i) Revenue derived from local, domestic long distance and international, Hong Kong, Macau and Taiwan long distance usage are recognised as the services are provided.

(ii) Fees received for wireline installation charges for periods prior to 1 January 2012 are deferred and recognised over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortised over the same expected customer relationship period. From 2012 onwards, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.

(iii) Monthly service fees are recognised in the month during which the services are provided to customers.

(iv) Revenue from sale of prepaid calling cards are recognised as the cards are used by customers.

(v) Revenue derived from value-added services is recognised when the services are provided to customers.

Revenue from value-added services in which no third party service providers are involved, such as caller display and Internet data center services, are presented on a gross basis. Revenues from all other value-added services are presented on either gross or net basis based on the assessment of each individual arrangement with third parties. The following factors indicate that the Group is acting as principal in the arrangements with third parties:

i) The Group is responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;

ii) The Group takes title of the inventory of the applications before they are ordered by customers;

iii) The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;

2. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

iv) The Group establishes selling prices with customers;

v) The Group can modify the applications or perform part of the services;

vi) The Group has discretion in selecting suppliers used to fulfill an order; and

vii) The Group determines the nature, type, characteristics, or specifications of the applications or services.

If majority of the indicators of risks and responsibilities exist in the arrangements with third parties, the Group is acting as a principal and have exposure to the significant risks and rewards associated with the rendering of services or the sale of applications, and revenues for these services are recognised on a gross basis. If majority of the indicators of risks and responsibilities do not exist in the arrangements with third parties, the Group is acting as an agent, and revenues for these services are recognised on a net basis.

(vi) Revenue from the provision of Internet and telecommunications network resource services are recognised when the services are provided to customers.

(vii) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the minutes of traffic processed.

(viii) Lease income from operating leases is recognised over the term of the lease.

(ix) Revenue derived from integrated information application services are recognised when the services are provided to customers.

(x) Sale of equipment is recognised on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognised when the service is provided to customers.

2. Significant Accounting Policies (continued)

(p) Revenue recognition (continued)

The Group offers promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: The undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognises revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognised based upon the actual usage of such services. During each of the years in the two-year period ended 31 December 2014, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote the Group's core business of the provision of telecommunications services, and the fair value of the telecommunication services approximates the total contract consideration.

(q) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB26,122 million for the year ended 31 December 2014 (2013: RMB36,490 million), among which, the costs of terminal equipment offered as part of a promotional package to our customers for free or at a nominal amount to promote the Group's telecommunication service amounted to RMB15,340 million for the year ended 31 December 2014 (2013: RMB22,795 million).

(r) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, and foreign exchange gains and losses. Interest income from bank deposits is recognised as it accrues using the effective interest method.

Interest costs incurred in connection with borrowings are calculated using the effective interest method and are expensed as incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

2. Significant Accounting Policies (continued)

(s) Research and development expense

Research and development expenditure is expensed as incurred. For the year ended 31 December 2014, research and development expense was RMB607 million (2013: RMB630 million).

(t) Employee benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government and defined contribution retirement plans administered by independent external parties are recognised in profit or loss as incurred. Further information is set out in Note 38.

Compensation expense in respect of the stock appreciation rights granted is accrued as a charge to the profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is re-measured to fair value at the end of each reporting period with the effect of changes in the fair value of the liability charged or credited to profit or loss. Further details of the Group's stock appreciation rights scheme are set out in Note 39.

(u) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value recognised in profit or loss over the period of the borrowings, together with any interest, using the effective interest method.

(v) Accounts and other payables

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(w) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Significant Accounting Policies (continued)

(x) Income tax

Income tax for the year comprises current tax and movement in deferred tax assets and liabilities. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax is calculated on the basis of the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to profit or loss, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously recognised in other comprehensive income, in such case the effect of a change in tax rate is also recognised in other comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(y) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2. Significant Accounting Policies (continued)

(z) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);

(iii) The entity and the Group are joint ventures of the same third party;

(iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;

(v) The entity is controlled or jointly controlled by a person identified in (a);

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) 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.

3. Application of New and Revised International Financial Reporting Standards

The IASB has issued a number of new and revised IFRSs that are effective for accounting period beginning on or after 1 January 2014. The Group has applied the following new interpretation and amendments to IFRSs that are effective for the current year:

- 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 Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current accounting period (Note 41).

Amendments to IAS 32, "Offsetting Financial Assets and Financial Liabilities"

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" and "intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously". The application of the amendments has no significant impact on the Group's consolidated financial statements.

Amendments to IAS 36, "Recoverable Amount Disclosures for Non-Financial Assets"

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The application of the amendments has no significant impact on the Group's consolidated financial statements.

IFRIC 21, "Levies"

The interpretation defines a levy as a payment to a government for which an entity receives no specific goods or services. A liability is recognised when the obligating event occurs. The obligating event is the activity that triggers payment of the levy. This is typically specified in the legislation that imposes the levy. The application of the interpretation has no significant impact on the Group's consolidated financial statements.

4. Property, Plant and Equipment, Net

The Group

	Buildings and improvements RMB millions	Telecommunications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/Deemed cost:				
Balance at 1 January 2013	92,521	791,159	26,909	910,589
Additions	560	1,367	955	2,882
Transferred from construction in progress	2,926	58,424	1,494	62,844
Disposals	(657)	(14,915)	(1,126)	(16,698)
Reclassification	61	(175)	114	–
Balance at 31 December 2013	95,411	835,860	28,346	959,617
Additions	726	1,254	703	2,683
Transferred from construction in progress	2,661	57,880	1,497	62,038
Disposals	(642)	(74,688)	(1,670)	(77,000)
Reclassification	(2)	67	(65)	–
Balance at 31 December 2014	**98,154**	**820,373**	**28,811**	**947,338**
Accumulated depreciation and impairment:				
Balance at 1 January 2013	(36,248)	(481,932)	(18,628)	(536,808)
Depreciation charge for the year	(4,776)	(56,794)	(2,294)	(63,864)
Written back on disposal	540	13,819	1,037	15,396
Reclassification	(21)	44	(23)	–
Balance at 31 December 2013	(40,505)	(524,863)	(19,908)	(585,276)
Depreciation charge for the year	(4,735)	(55,687)	(2,266)	(62,688)
Written back on disposal	592	71,351	1,559	73,502
Reclassification	2	(7)	5	–
Balance at 31 December 2014	**(44,646)**	**(509,206)**	**(20,610)**	**(574,462)**
Net book value at 31 December 2014	**53,508**	**311,167**	**8,201**	**372,876**
Net book value at 31 December 2013	54,906	310,997	8,438	374,341

4. Property, Plant and Equipment, Net (continued)

The Company

	Buildings and improvements RMB millions	Telecomm-unications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/Deemed cost:				
Balance at 1 January 2013	91,906	788,483	25,774	906,163
Additions	544	1,335	906	2,785
Transferred from construction in progress	2,874	57,962	1,463	62,299
Disposals	(630)	(14,855)	(958)	(16,443)
Reclassification	60	(176)	116	–
Balance at 31 December 2013	94,754	832,749	27,301	954,804
Additions	**690**	**1,192**	**658**	**2,540**
Transferred from construction in progress	**2,606**	**57,618**	**1,455**	**61,679**
Disposals	**(610)**	**(74,546)**	**(1,475)**	**(76,631)**
Reclassification	**(2)**	**71**	**(69)**	**–**
Balance at 31 December 2014	**97,438**	**817,084**	**27,870**	**942,392**
Accumulated depreciation and impairment:				
Balance at 1 January 2013	(36,015)	(480,431)	(17,979)	(534,425)
Depreciation charge for the year	(4,692)	(56,556)	(2,141)	(63,389)
Written back on disposal	519	13,801	912	15,232
Reclassification	(21)	40	(19)	–
Balance at 31 December 2013	(40,209)	(523,146)	(19,227)	(582,582)
Depreciation charge for the year	**(4,644)**	**(55,413)**	**(2,145)**	**(62,202)**
Written back on disposal	**561**	**71,206**	**1,421**	**73,188**
Reclassification	**2**	**(7)**	**5**	**–**
Balance at 31 December 2014	**(44,290)**	**(507,360)**	**(19,946)**	**(571,596)**
Net book value at 31 December 2014	**53,148**	**309,724**	**7,924**	**370,796**
Net book value at 31 December 2013	54,545	309,603	8,074	372,222

5. Construction in Progress

	The Group RMB millions	The Company RMB millions
Balance at 1 January 2013	32,500	32,080
Additions	77,364	76,814
Transferred to property, plant and equipment	(62,844)	(62,299)
Transferred to intangible assets	(2,863)	(2,789)
Balance at 31 December 2013	44,157	43,806
Additions	**74,585**	**73,801**
Transferred to property, plant and equipment	**(62,038)**	**(61,679)**
Transferred to intangible assets	**(3,523)**	**(3,426)**
Balance at 31 December 2014	**53,181**	**52,502**

6. Goodwill

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Cost:				
Goodwill arising from acquisition of CDMA business	**29,917**	29,917	**29,877**	29,877

On 1 October 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the “CDMA business”) from China Unicom Limited and China Unicom Corporation Limited (collectively “China Unicom”). The purchase price of the business combination was RMB43,800 million, which was fully settled as at 31 December 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of CDMA business for a net settlement amount of RMB3,471 million due from China Unicom. This amount was subsequently settled by China Unicom in 2009. The business combination was accounted for using the purchase method.

The goodwill recognised in the business combination is attributable to the skills and technical talent of the acquired business’s workforce, and the synergies expected to be achieved from integrating and combining the CDMA mobile communication business into the Group’s telecommunications business.

6. Goodwill (continued)

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's telecommunications business. The recoverable amount of the Group's telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period and a pre-tax discount rate of 10.3% (2013: 10.6%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

Key assumptions used for the value in use calculation model are the number of subscribers, average revenue per subscriber and gross margin. Management determined the number of subscribers, average revenue per subscriber and gross margin based on historical trends and financial information and operational data.

7. Intangible Assets

The Group

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2013	14,988	11,238	26,226
Additions	461	–	461
Transferred from construction in progress	2,863	–	2,863
Disposals/written-off	(221)	(11,238)	(11,459)
Balance at 31 December 2013	18,091	–	18,091
Additions	**378**	**–**	**378**
Transferred from construction in progress	**3,523**	**–**	**3,523**
Disposals	**(239)**	**–**	**(239)**
Balance at 31 December 2014	**21,753**	**–**	**21,753**
Accumulated amortisation and impairment:			
Balance at 1 January 2013	(7,458)	(9,554)	(17,012)
Amortisation charge for the year	(2,787)	(1,684)	(4,471)
Written back on disposal/written-off	199	11,238	11,437
Balance at 31 December 2013	(10,046)	–	(10,046)
Amortisation charge for the year	**(2,923)**	**–**	**(2,923)**
Written back on disposal	**200**	**–**	**200**
Balance at 31 December 2014	**(12,769)**	**–**	**(12,769)**
Net book value at 31 December 2014	**8,984**	**–**	**8,984**
Net book value at 31 December 2013	8,045	–	8,045

7. Intangible Assets (continued)

The Company

	Computer software RMB millions	Customer relationships RMB millions	Total RMB millions
Cost:			
Balance at 1 January 2013	14,532	11,238	25,770
Additions	327	–	327
Transferred from construction in progress	2,789	–	2,789
Disposals/written-off	(192)	(11,238)	(11,430)
Balance at 31 December 2013	17,456	–	17,456
Additions	245	–	245
Transferred from construction in progress	3,426	–	3,426
Disposals	(233)	–	(233)
Balance at 31 December 2014	**20,894**	**–**	**20,894**
Accumulated amortisation and impairment:			
Balance at 1 January 2013.	(7,254)	(9,554)	(16,808)
Amortisation charge for the year	(2,729)	(1,684)	(4,413)
Written back on disposal/written-off	189	11,238	11,427
Balance at 31 December 2013	(9,794)	–	(9,794)
Amortisation charge for the year	(2,841)	–	(2,841)
Written back on disposal	197	–	197
Balance at 31 December 2014	**(12,438)**	**–**	**(12,438)**
Net book value at 31 December 2014	**8,456**	**–**	**8,456**
Net book value at 31 December 2013	7,662	–	7,662

8. Investments in Subsidiaries

	The Company	
	2014 RMB millions	2013 RMB millions
Unquoted investments, at cost	**6,060**	6,015

8. Investments in Subsidiaries (continued)

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2014 are as follows:

Name of Company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/ Issued capital (in RMB millions unless otherwise stated)	Principal activity
China Telecom System Integration Co., Limited	Limited Company	13 September 2001	PRC	392	Provision of system integration and consulting services
China Telecom Global Limited	Limited Company	25 February 2000	Hong Kong Special Administrative Region of the PRC	HK$168 million	Provision of international value-added network services
China Telecom (Americas) Corporation	Limited Company	22 November 2001	The United States of America	US$43 million	Provision of telecommunications services
China Telecom Best Tone Information Service Co., Limited	Limited Company	15 August 2007	PRC	350	Provision of Best Tone information services
China Telecom (Macau) Company Limited	Limited Company	15 October 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunications services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
China Telecom (Singapore) Pte. Limited	Limited Company	5 October 2006	Singapore	S$1	Provision of international value-added network services
E-surfing Pay Co., Ltd	Limited Company	3 March 2011	PRC	300	Provision of e-commerce services
Shenzhen Shekou Telecommunications Company Limited	Limited Company	5 May 1984	PRC	91	Provision of telecommunications services

8. Investments in Subsidiaries (continued)

Name of Company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/ Issued capital (in RMB millions unless otherwise stated)	Principal activity
China Telecom (Australia) Pty Ltd	Limited Company	10 January 2011	Australia	AUD1 million	Provision of international value-added network services
China Telecom Korea Co.,Ltd	Limited Company	16 May 2012	South Korea	KRW500 million	Provision of international value-added network services
China Telecom (Malaysia) SDN BHD	Limited Company	26 June 2012	Malaysia	RM500,000	Provision of international value-added network services
China Telecom Information Technology (Vietnam) Co., Ltd	Limited Company	9 July 2012	Vietnam	VND6,300 million	Provision of international value-added network services
iMUSIC Culture & Technology Co., Ltd.	Limited Company	9 June 2013	PRC	250	Provision of music production and related information services
China Telecom (Europe) Limited	Limited Company	2 March 2006	The United Kingdom of Great Britain and Northern Ireland	GBP16.15 million	Provision of international value-added network services
Zhejiang Yixin Technology Co., Ltd.	Limited Company	19 August 2013	PRC	10	Provision of instant messenger service
Chengdu E-store Technology Co., Ltd	Limited Company	17 June 2014	PRC	45	Provision of software technology

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company and Zhejiang Yixin Technology Co., Ltd. which is 73% owned by the Company, all of the above subsidiaries are directly or indirectly wholly-owned by the Company. No subsidiaries of the Group have material non-controlling interest.

9. Interests in Associates

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB millions	RMB millions	**RMB millions**	RMB millions
Unlisted equity investments, at cost	**3,219**	229	**3,554**	564
Share of post-acquisition changes in net assets	**887**	877	**–**	–
	4,106	1,106	**3,554**	564

The Group's and the Company's interests in associates are accounted for under the equity method and the cost method, respectively, and are individually and in aggregate not material to the Group's financial position or results of operations for all periods presented. Details of the Group's principal associates are as follows:

Name of company	**Attributable equity interest**	**Principal activities**
China Tower Corporation Limited	29.9%	Construction, maintenance and operation of telecommunications towers as well as ancillary facilities
Shanghai Information Investment Incorporation	24.0%	Provision of information technology consultancy services

The above associates are established in the PRC and are not traded on any stock exchange.

9. Interests in Associates (continued)

Summarised financial information of the Group's principal associates and reconciled to the carrying amounts in the Group's consolidated financial statements are disclosed below:

	China Tower Corporation Limited 2014 RMB millions
Current assets	9,676
Non-current assets	454
Current liabilities	244
Non-current liabilities	–
Operating revenues	–
Loss for the year	(114)
Other comprehensive income for the year	–
Total comprehensive income for the year	(114)
Dividend received from the associate	–
Reconciled to the Group's interests in the associate	
Net assets of the associate	9,886
Non-controlling interests of the associate	–
Group's effective interest in the associate	29.9%
Group's share of net assets of the associate	2,956
Carrying amount of the associate in the consolidated financial statements of the Group	2,956

China Tower Corporation Limited was set up in July 2014, so no comparative figures are presented.

9. Interests in Associates (continued)

	Shanghai Information Investment Incorporation	
	2014	2013
	RMB millions	RMB millions
Current assets	**6,309**	5,721
Non-current assets	**7,773**	7,683
Current liabilities	**4,887**	4,795
Non-current liabilities	**3,680**	3,265
Operating revenues	**3,740**	3,772
Profit for the year	**236**	267
Other comprehensive income for the year	**–**	(1)
Total comprehensive income for the year	**236**	266
Dividend received from the associate	**10**	8
Reconciled to the Group's interests in the associate		
Net assets of the associate	**5,515**	5,344
Non-controlling interests of the associate	**(1,738)**	(1,733)
Group's effective interest in the associate	**24.0%**	24.0%
Group's share of net assets of the associate	**906**	867
Carrying amount of the associate in the consolidated financial statements of the Group	**906**	867

10. Investments

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB millions	RMB millions	**RMB millions**	RMB millions
Available-for-sale equity securities	**945**	999	**944**	998
Other unlisted equity investments	**27**	27	**27**	27
	972	1,026	**971**	1,025

Other unlisted equity investments mainly represent the Group's and the Company's various interests in PRC private enterprises which are mainly engaged in the provision of information technology services and Internet contents.

11. Deferred Tax Assets and Liabilities

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

The Group

	Assets		Liabilities		Net Balance	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Provisions and impairment losses, primarily for doubtful debts	**1,156**	1,071	**–**	–	**1,156**	1,071
Property, plant and equipment	**1,788**	1,431	**(773)**	(184)	**1,015**	1,247
Deferred revenues and installation costs	**288**	425	**(189)**	(270)	**99**	155
Available-for-sale equity securities	**–**	–	**(163)**	(177)	**(163)**	(177)
Deferred tax assets/(liabilities)	**3,232**	2,927	**(1,125)**	(631)	**2,107**	2,296

	Balance at 1 January 2013 RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Disposal of a subsidiary RMB millions	Balance at 31 December 2013 RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,028	43	–	1,071
Property, plant and equipment	1,013	238	(4)	1,247
Deferred revenues and installation costs	237	(82)	–	155
Available-for-sale equity securities	(73)	(104)	–	(177)
Net deferred tax assets	2,205	95	(4)	2,296

	Balance at 1 January 2014 RMB millions	**Recognised in consolidated statement of comprehensive income RMB millions**	**Balance at 31 December 2014 RMB millions**
Provisions and impairment losses, primarily for doubtful debts	**1,071**	**85**	**1,156**
Property, plant and equipment	**1,247**	**(232)**	**1,015**
Deferred revenues and installation costs	**155**	**(56)**	**99**
Available-for-sale equity securities	**(177)**	**14**	**(163)**
Net deferred tax assets	**2,296**	**(189)**	**2,107**

11. Deferred Tax Assets and Liabilities (Continued)

The Company

	Assets		Liabilities		Net Balance	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Provisions and impairment losses, primarily for doubtful debts	**1,097**	990	**–**	–	**1,097**	990
Property, plant and equipment	**1,558**	1,232	**(736)**	(149)	**822**	1,083
Deferred revenues and installation costs	**288**	425	**(189)**	(271)	**99**	154
Available-for-sale equity securities	**–**	–	**(71)**	(85)	**(71)**	(85)
Deferred tax assets/(liabilities)	**2,943**	2,647	**(996)**	(505)	**1,947**	2,142

	Balance at 1 January 2013 RMB millions	Recognised in statement of comprehensive income RMB millions	Balance at 31 December 2013 RMB millions
Provisions and impairment losses, primarily for doubtful debts	982	8	990
Property, plant and equipment	852	231	1,083
Deferred revenues and installation costs	237	(83)	154
Available-for-sale equity securities	18	(103)	(85)
Net deferred tax assets	2,089	53	2,142

	Balance at 1 January 2014 RMB millions	**Recognised in statement of comprehensive income RMB millions**	**Balance at 31 December 2014 RMB millions**
Provisions and impairment losses, primarily for doubtful debts	**990**	**107**	**1,097**
Property, plant and equipment	**1,083**	**(261)**	**822**
Deferred revenues and installation costs	**154**	**(55)**	**99**
Available-for-sale equity securities	**(85)**	**14**	**(71)**
Net deferred tax assets	**2,142**	**(195)**	**1,947**

12. Inventories

Inventories represent:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	2014 RMB millions	2013 RMB millions
Materials and supplies	789	905	779	893
Goods for resale	3,436	5,618	1,243	2,310
	4,225	6,523	2,022	3,203

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

		The Group		The Company	
	Note	2014 RMB millions	2013 RMB millions	2014 RMB millions	2013 RMB millions
Accounts receivable					
Third parties		22,853	21,293	20,456	19,454
China Telecom Group	(i)	329	391	135	181
Other telecommunications operators in the PRC		858	536	848	527
Subsidiaries		–	–	1,273	1,306
		24,040	22,220	22,712	21,468
Less: Allowance for doubtful debts		(2,478)	(2,198)	(2,403)	(2,142)
		21,562	20,022	20,309	19,326

Note:

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

13. Accounts Receivable, Net (continued)

The following table summarises the changes in allowance for doubtful debts:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB millions	RMB millions	**RMB millions**	RMB millions
At beginning of year	**2,198**	2,024	**2,142**	1,961
Impairment losses for doubtful debts	**2,075**	1,740	**2,039**	1,721
Accounts receivable written off	**(1,795)**	(1,566)	**(1,778)**	(1,540)
At end of year	**2,478**	2,198	**2,403**	2,142

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

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB millions	RMB millions	**RMB millions**	RMB millions
Current, within 1 month	**11,273**	11,887	**11,172**	11,725
1 to 3 months	**2,600**	2,438	**2,541**	2,390
4 to 12 months	**1,865**	1,784	**1,851**	1,769
More than 12 months	**660**	488	**656**	487
	16,398	16,597	**16,220**	16,371
Less: Allowance for doubtful debts	**(2,355)**	(2,122)	**(2,336)**	(2,105)
	14,043	14,475	**13,884**	14,266

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

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB millions	RMB millions	**RMB millions**	RMB millions
Current, within 1 month	**3,012**	2,436	**2,809**	2,448
1 to 3 months	**1,679**	1,169	**1,449**	1,010
4 to 12 months	**1,924**	1,302	**1,446**	1,054
More than 12 months	**1,027**	716	**788**	585
	7,642	5,623	**6,492**	5,097
Less: Allowance for doubtful debts	**(123)**	(76)	**(67)**	(37)
	7,519	5,547	**6,425**	5,060

13. Accounts Receivable, Net (continued)

Ageing analysis of accounts receivable that are not impaired is as follows:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Not past due	**19,408**	17,839	**18,214**	17,190
Less than 1 month past due	**1,356**	1,206	**1,330**	1,184
1 to 3 months past due	**798**	977	**765**	952
Amounts past due	**2,154**	2,183	**2,095**	2,136
	21,562	20,022	**20,309**	19,326

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

14. Prepayments and Other Current Assets

Prepayments and other current assets represent:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Amounts due from China Telecom Group	**818**	1,037	**753**	828
Amounts due from subsidiaries	**–**	–	**378**	746
Amounts due from other telecommunications operators in the PRC	**414**	472	**411**	472
Prepayments in connection with construction work and equipment purchases	**1,895**	1,213	**943**	476
Prepaid expenses and deposits	**3,398**	2,418	**2,978**	2,009
Value-added tax recoverable	**1,072**	359	**906**	80
Other receivables	**2,984**	2,070	**1,567**	1,340
	10,581	7,569	**7,936**	5,951

15. Cash and Cash Equivalents

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Cash at bank and in hand	**18,660**	14,639	**9,509**	8,105
Time deposits with original maturity within three months	**1,776**	1,431	**107**	106
	20,436	16,070	**9,616**	8,211

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

Short-term debt comprises:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Loans from banks – unsecured	**5,399**	5,443	**5,376**	5,416
Super short-term commercial papers – unsecured	**18,997**	–	**18,997**	–
Other loans – unsecured	**182**	182	**182**	182
Loans from China Telecom Group – unsecured	**19,398**	22,062	**19,280**	21,980
Total short-term debt	**43,976**	27,687	**43,835**	27,578

The weighted average interest rate of the Group's and the Company's total short-term debt as at 31 December 2014 was 5.1% (2013: 4.7%) per annum and 5.1% (2013: 4.7%) per annum respectively. As at 31 December 2014, the Group's and the Company's loans from banks and other loans bear interest at rates ranging from 4.5% to 11.0% (2013: 4.5% to 6.0%) per annum and rates ranging from 4.5% to 6.0% (2013: 4.5% to 6.0%) per annum respectively, and are repayable within one year; super short-term commercial papers amounting to RMB7 billion bear interest at a fixed rate of 5.30% per annum and are repayable in March 2015 while two batches of RMB6 billion super short-term commercial papers bear interest at a fixed rate of 5.55% per annum and were repaid in January 2015; the loans from China Telecom Group bear interest at rate of 4.5% (2013: 4.5%) per annum and are repayable within one year.

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

Long-term debt and payable comprises:

	Interest rates and final maturity	The Group 2014 RMB millions	The Group 2013 RMB millions	The Company 2014 RMB millions	The Company 2013 RMB millions
Bank loans – unsecured					
Renminbi denominated	Interest rates ranging from 3.60% to 7.04% per annum with maturities through 2020	10	10	10	10
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060	491	534	491	534
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	349	428	349	428
Other currencies denominated		15	20	15	20
		865	992	865	992
Other loans – unsecured					
Renminbi denominated		1	1	1	1
Medium-term notes – unsecured (Note (i))		–	19,986	–	19,986
Amount due to China Telecommunications Corporation – unsecured					
Deferred consideration of Mobile Network Acquisition – Renminbi denominated (Note (ii))		61,710	61,710	61,710	61,710
Others		424	–	421	–
Total long-term debt and payable		63,000	82,689	62,997	82,689
Less: Current portion		(82)	(20,072)	(82)	(20,072)
Non-current portion		62,918	62,617	62,915	62,617

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

Note:

(i) 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. These medium-term notes were repaid by the Company on 29 December 2014.

(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 interest rates for 2014 and 2015 are 6.25% and 5.11%, 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 aggregate maturities of the Group's and the Company's long-term debt and payable subsequent to 31 December 2014 are as follows:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Within 1 year	**82**	20,072	**82**	20,072
Between 1 to 2 years	**82**	85	**82**	85
Between 2 to 3 years	**61,792**	86	**61,792**	86
Between 3 to 4 years	**71**	61,796	**71**	61,796
Between 4 to 5 years	**71**	74	**71**	74
Thereafter	**902**	576	**899**	576
	63,000	82,689	**62,997**	82,689

The Group's short-term and long-term debt and payable do not contain any financial covenants. As at 31 December 2014, the Group and the Company have unutilised committed credit facilities amounting to RMB130,488 million (2013: RMB157,694 million) and RMB130,488 million (2013: RMB157,694 million) respectively.

17. Accounts Payable

Accounts payable are analysed as follows:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	2014 RMB millions	2013 RMB millions
Third parties	71,934	66,115	65,991	60,213
China Telecom Group	15,667	13,905	14,979	13,276
Other telecommunications operators in the PRC	857	1,112	856	1,110
Subsidiaries	–	–	3,465	3,600
	88,458	81,132	85,291	78,199

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:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	2014 RMB millions	2013 RMB millions
Due within 1 month or on demand	17,783	19,349	14,089	15,370
Due after 1 month but within 3 months	11,678	16,178	11,481	15,968
Due after 3 months but within 6 months	14,825	15,396	14,600	15,161
Due after 6 months	44,172	30,209	45,121	31,700
	88,458	81,132	85,291	78,199

18. Accrued Expenses and Other Payables

Accrued expenses and other payables represent:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Amounts due to China Telecom Group	**1,043**	1,690	**847**	849
Amounts due to subsidiaries	**–**	–	**282**	459
Amounts due to other telecommunications operators in the PRC	**72**	59	**72**	59
Accrued expenses	**17,242**	14,774	**13,850**	13,291
Customer deposits and receipts in advance	**54,014**	53,063	**51,372**	50,815
Dividend payable	**71**	47	**–**	–
	72,442	69,633	**66,423**	65,473

19. Deferred Revenues

Deferred revenues represent the unearned portion of installation fees for wireline services received from customers and the unused portion of calling cards.

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Balance at beginning of year	**2,431**	3,445	**2,430**	3,442
Additions for the year				
– calling cards	**547**	484	**540**	484
	547	484	**540**	484
Reductions for the year				
– amortisation of installation fees	**(586)**	(860)	**(586)**	(860)
– usage of calling cards	**(534)**	(638)	**(531)**	(636)
Balance at end of year	**1,858**	2,431	**1,853**	2,430
Representing:				
– current portion	**1,060**	1,202	**1,055**	1,201
– non-current portion	**798**	1,229	**798**	1,229
	1,858	2,431	**1,853**	2,430

Included in other assets are primarily capitalised direct costs associated with the installation of wireline services. As at 31 December 2014, the unamortised portion of these costs was RMB818 million (2013: RMB1,172 million).

20. Share Capital

	The Group and the Company	
	2014	2013
	RMB millions	RMB millions
Registered, issued and fully paid		
67,054,958,321 ordinary domestic shares of RMB1.00 each	**67,055**	67,055
13,877,410,000 overseas listed H shares of RMB1.00 each	**13,877**	13,877
	80,932	80,932

All ordinary domestic shares and H shares rank pari passu in all material respects.

21. Reserves

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Statutory reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Exchange reserve RMB millions	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2013	16,821	10,746	65,729	112	(865)	91,664	184,207
Acquisition of the Seventh Acquired Company (Note 1)	(278)	–	–	–	–	–	(278)
Disposal of a subsidiary	380	–	–	–	–	11	391
Contribution from non-controlling interests	141	–	–	–	–	–	141
Dividends (Note 32)	–	–	–	–	–	(5,433)	(5,433)
Appropriations (Note (iii))	–	–	1,663	–	–	(1,663)	–
Total comprehensive income for the year	–	–	–	315	(79)	17,545	17,781
Balance as at 31 December 2013	17,064	10,746	67,392	427	(944)	102,124	196,809
Dividends (Note 32)	**–**	**–**	**–**	**–**	**–**	**(6,198)**	**(6,198)**
Appropriations (Note (iii))	**–**	**–**	**1,680**	**–**	**–**	**(1,680)**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(43)**	**3**	**17,680**	**17,640**
Balance as at 31 December 2014	**17,064**	**10,746**	**69,072**	**384**	**(941)**	**111,926**	**208,251**

21. Reserves (continued)

The Company

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Statutory reserves RMB millions (Note (iii))	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2013	29,148	10,746	65,729	74,494	180,117
Total comprehensive income for the year	–	–	–	16,943	16,943
Appropriations (Note (iii))	–	–	1,663	(1,663)	–
Dividends (Note 32)	–	–	–	(5,433)	(5,433)
Balance as at 31 December 2013	29,148	10,746	67,392	84,341	191,627
Total comprehensive income for the year	**–**	**–**	**–**	**16,761**	**16,761**
Appropriations (Note (iii))	**–**	**–**	**1,680**	**(1,680)**	**–**
Dividends (Note 32)	**–**	**–**	**–**	**(6,198)**	**(6,198)**
Balance as at 31 December 2014	**29,148**	**10,746**	**69,072**	**93,224**	**202,190**

Note:

(i) Capital reserve of the Group represents the sum of (a) the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation; and (b) the difference between the consideration paid by the Group for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation as described in Note 1, which were accounted for as equity transactions as disclosed in Note 1 to the financial statements, and the historical carrying amount of the net assets of these acquired entities.

The difference between the consideration paid by the Group and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.

Capital reserve of the Company represents the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation.

(ii) Other reserves of the Group represent primarily the change in the fair value of available-for-sale equity securities and the deferred tax liabilities recognised due to the change in fair value of available-for-sale equity securities.

21. Reserves (continued)

The Company (continued)

Note: (continued)

(iii) The statutory reserves consist of statutory surplus reserve and discretionary surplus reserve.

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRS, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2014, the Company transferred RMB1,680 million, being 10% of the year's net profit determined in accordance with IFRS, to this reserve. For the year ended 31 December 2013, the Company transferred RMB1,663 million, being 10% of the year's net profit determined in accordance with the IFRS.

The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2014 and 2013.

The statutory and discretionary surplus reserves are non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilised for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

(iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount of the Company determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As at 31 December 2014, the amount of retained earnings available for distribution was RMB93,224 million (2013: RMB84,341 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB6,085 million in respect of the financial year 2014 proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period (Note 32).

22. Operating Revenues

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

		The Group	
	Note	**2014 RMB millions**	2013 RMB millions
Wireline voice	(i)	**33,587**	38,633
Mobile voice	(ii)	**54,673**	58,217
Internet	(iii)	**112,431**	99,394
Value-added services	(iv)	**38,419**	36,230
Integrated information application services	(v)	**26,939**	25,233
Telecommunications network resource services and lease of network equipment	(vi)	**17,332**	17,586
Others	(vii)	**41,013**	46,291
		324,394	321,584

22. Operating Revenues (continued)

Note:

Before 1 June 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, and relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the 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 as well as the resale of mobile services (MVNO).

23. Network Operations and Support Expenses

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

	The Group	
	2014	2013
	RMB millions	RMB millions
Operating and maintenance	**38,159**	29,963
Utility	**11,644**	11,404
Property rental and management fee	**9,224**	7,284
Others	**9,624**	4,451
	68,651	53,102

24. Personnel Expenses

Personnel expenses are attributable to the following functions:

	The Group	
	2014 **RMB millions**	2013 RMB millions
Network operations and support	**32,855**	30,551
Selling, general and administrative	**17,798**	16,172
	50,653	46,723

25. Other Operating Expenses

Other operating expenses consist of:

		The Group	
	Note	**2014** **RMB millions**	2013 RMB millions
Interconnection charges	(i)	**12,483**	15,916
Cost of goods sold	(ii)	**33,836**	38,764
Donations		**23**	11
Others	(iii)	**1,176**	69
		47,518	54,760

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.

26. Total Operating Expenses

Total operating expenses for the year ended 31 December 2014 were RMB295,886 million (2013: RMB294,116 million) which include auditor's remuneration in relation to audit and non-audit services (excluding value-added tax) of RMB62 million and RMB6 million respectively (2013: RMB60 million and RMB1 million).

27. Net Finance Costs

Net finance costs comprise:

	The Group	
	2014	2013
	RMB millions	RMB millions
Interest expense incurred	**5,958**	5,840
Less: Interest expense capitalised*	**(308)**	(329)
Net interest expense	**5,650**	5,511
Interest income	**(304)**	(361)
Foreign exchange losses	**21**	61
Foreign exchange gains	**(76)**	(58)
	5,291	5,153
* Interest expense was capitalised in construction in progress at the following rates per annum	**4.5%–6.0%**	4.5%–5.8%

28. Income Tax

Income tax in the profit or loss comprises:

	The Group	
	2014	2013
	RMB millions	RMB millions
Provision for PRC income tax	**5,237**	5,590
Provision for income tax in other tax jurisdictions	**58**	31
Deferred taxation	**203**	(199)
	5,498	5,422

28. Income Tax (continued)

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

		The Group	
	Note	**2014 RMB millions**	2013 RMB millions
Profit before taxation		**23,257**	23,088
Expected income tax expense at statutory tax rate of 25%	(i)	**5,814**	5,772
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(248)**	(216)
Differential tax rate on other subsidiaries' income	(ii)	**(31)**	(31)
Non-deductible expenses	(iii)	**347**	428
Non-taxable income	(iv)	**(243)**	(120)
Effect of change in tax rate	(v)	**–**	4
Others	(vi)	**(141)**	(415)
Actual income tax expense		**5,498**	5,422

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) Certain branches with operations in the western region of the PRC gradually obtained approvals from tax authorities to adopt the preferential income tax rate of 15%. Accordingly, deferred tax assets that were recovered and deferred tax liabilities were settled after obtaining the approvals from tax authorities were adjusted to reflect the change in tax rate. The overall effect of change in tax rate was charged to the consolidated statement of comprehensive income.

(vi) 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 year.

29. Directors' and Supervisors' Remuneration

The following table sets out the remuneration paid or payable to the Company's Directors and Supervisors:

2014	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Wang Xiaochu	–	340	479	93	–	912
Yang Jie	–	340	479	92	–	911
Wu Andi[4]	–	296	431	87	–	814
Zhang Jiping	–	296	423	89	–	808
Yang Xiaowei	–	296	423	88	–	807
Sun Kangmin	–	296	431	88	–	815
Ke Ruiwen	–	296	423	77	–	796
Non-executive directors						
Zhu Wei[1]	–	–	–	–	–	–
Xie Liang[1]	–	–	–	–	–	–
Independent non-executive directors						
Tse Hau Yin	394	–	–	–	–	394
Cha May Lung	197	–	–	–	–	197
Xu Erming	200	–	–	–	–	200
Wang Hsuehming[2]	114	–	–	–	–	114
Qin Xiao[2]	82	–	–	–	–	82
Wu Jichuan[2]	–	–	–	–	–	–
Supervisors						
Shao Chunbao[5]	–	296	416	70	–	782
Tang Qi	–	199	466	68	–	733
Zhang Jianbin	–	157	406	65	–	628
Hu Jing	–	97	327	58	–	482
Du Zuguo[6]	–	–	–	–	–	–
Independent supervisor						
Zhu Lihao[3]	42	–	–	–	–	42
	1,029	2,909	4,704	875	–	9,517

1 Mr. Xie Liang retired as a Non-executive Director of the Company on 29 May 2014. Mr. Zhu Wei was appointed as a Non-executive Director of the Company on 29 May 2014.

2 Mr. Qin Xiao and Mr. Wu Jichuan retired as Independent Non-executive Directors of the Company on 29 May 2014. Madam Wang Hsuehming was appointed as an Independent Non-executive Director of the Company on 29 May 2014.

3 Madam Zhu Lihao retired as an independent supervisor of the Company on 29 May 2014.

4 Madam Wu Andi retired as an executive director of the Company on 10 February 2015.

5 Mr. Shao Chunbao resigned as a supervisor of the Company on 18 February 2015.

6 Mr. Du Zuguo resigned as a supervisor of the Company on 12 March 2015.

7 The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year.

29. Directors' and Supervisors' Remuneration (continued)

2013	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses[1] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Wang Xiaochu	–	350	1,148	67	–	1,565
Yang Jie	–	343	1,105	66	–	1,514
Wu Andi	–	298	1,031	64	–	1,393
Zhang Jiping	–	305	1,031	64	–	1,400
Yang Xiaowei	–	298	1,020	63	–	1,381
Sun Kangmin	–	306	1,019	64	–	1,389
Ke Ruiwen	–	298	550	68	–	916
Non-executive directors						
Chen Liangxian[2]	–	–	–	–	–	–
Xie Liang[2]	–	–	–	–	–	–
Independent non-executive directors						
Wu Jichuan	167	–	–	–	–	167
Qin Xiao	200	–	–	–	–	200
Tse Hau Yin	399	–	–	–	–	399
Cha May Lung	200	–	–	–	–	200
Xu Erming	200	–	–	–	–	200
Supervisors						
Shao Chunbao	–	297	393	63	–	753
Tang Qi[3]	–	66	75	21	–	162
Mao Shejun[3]	–	133	380	42	–	555
Zhang Jianbin	–	157	397	59	–	613
Hu Jing	–	96	308	52	–	456
Du Zuguo	–	–	–	–	–	–
Independent supervisor						
Zhu Lihao	100	–	–	–	–	100
	1,266	2,947	8,457	693	–	13,363

1 Including deferred performance bonus for the term of office from 2010 to 2012.

2 Mr. Chen Liangxian resigned as a Non-executive Director of the Company on 20 March 2013. Mr. Xie Liang was appointed as a Non-executive Director of the Company on 29 May 2013.

3 Mr. Mao Shejun retired as a Supervisor of the Company on 19 August 2013. Mr. Tang Qi was appointed as a Supervisor of the Company on 19 August 2013.

4 The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year.

30. Individuals with Highest Emoluments and Senior Management Remuneration

(a) Five highest paid individuals

None of the five highest paid individuals of the Group for the year ended 31 December 2014 were directors of the Company. Of the five highest paid individuals of the Group for the year ended 31 December 2013, one of them was director of the Company and whose remuneration was disclosed in Note 29.

The aggregate of the emoluments in respect of the five (2013: four) individuals (non-directors) are as follows:

	2014 RMB thousands	2013 RMB thousands
Salaries, allowances and benefits in kind	**7,869**	4,176
Discretionary bonuses	**2,532**	3,639
Retirement scheme contributions	**244**	113
	10,645	7,928

The emoluments of the five (2013: four) individuals (non-directors) with the highest emoluments are within the following bands:

	2014 Number of individuals	2013 Number of individuals
RMB0 – RMB1,000,000	**–**	–
RMB1,000,001 – RMB1,500,000	**–**	–
RMB1,500,001 – RMB2,000,000	**2**	2
RMB2,000,001 – RMB2,500,000	**3**	2

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the periods presented.

30. Individuals with Highest Emoluments and Senior Management Remuneration (continued)

(b) Senior management remuneration

The emoluments of the Group's senior management are within the following bands:

	2014 Number of individuals	2013 Number of individuals
RMB0 – RMB1,000,000	23	17
RMB1,000,001 – RMB1,500,000	–	5
RMB1,500,001 – RMB2,000,000	–	2
RMB2,000,001 – RMB2,500,000	1	1

31. Profit Attributable to Equity Holders of the Company

For the year ended 31 December 2014, the consolidated profit attributable to equity holders of the Company includes a profit of RMB16,801 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2013, the consolidated profit attributable to equity holders of the Company includes a profit of RMB16,633 million which has been dealt with in the stand-alone financial statements of the Company.

32. Dividends

Pursuant to a resolution passed at the Board of Directors' meeting on 18 March 2015, a final dividend of equivalent to HK$0.095 per share totaling approximately RMB6,085 million for the year ended 31 December 2014 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2014.

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.

33. Basic Earnings Per Share

The calculation of basic earnings per share for the years ended 31 December 2014 and 2013 is based on the profit attributable to equity holders of the Company of RMB17,680 million and RMB17,545 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.

34. Commitments and Contingencies

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing.

As at 31 December 2014 and 2013, the Group's and the Company's future minimum lease payments under non-cancellable operating leases are as follows:

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	**2014 RMB millions**	2013 RMB millions
Within 1 year	**2,635**	2,236	**2,457**	1,964
Between 1 to 2 years	**1,921**	1,516	**1,764**	1,319
Between 2 to 3 years	**1,389**	1,087	**1,271**	988
Between 3 to 4 years	**1,021**	779	**960**	718
Between 4 to 5 years	**678**	611	**647**	581
Thereafter	**1,495**	1,344	**1,475**	1,294
Total minimum lease payments	**9,139**	7,573	**8,574**	6,864

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2014 was RMB7,779 million (2013: RMB6,057 million).

34. Commitments and Contingencies (continued)

Capital commitments

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

	The Group		The Company	
	2014 RMB millions	2013 RMB millions	2014 RMB millions	2013 RMB millions
Contracted for but not provided				
– property	422	931	422	915
– telecommunications network plant and equipment	6,743	6,807	6,737	6,747
	7,165	7,738	7,159	7,662
Authorised but not contracted for				
– property	466	778	466	778
– telecommunications network plant and equipment	6,361	6,460	6,335	6,444
	6,827	7,238	6,801	7,222

Contingent liabilities

(a) The Company and the Group were advised by their PRC lawyers that, no material contingent liabilities were assumed by the Company or the Group.

(b) As at 31 December 2014 and 2013, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

As at 31 December 2014 and 2013, the Company did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to subsidiaries.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and based on such assessment, believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

35. Financial Instruments

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

(a) 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 and the Company's financial instruments (other than long-term debt and payable and available-for-sale equity investment securities) approximate their carrying amounts due to the short-term maturity of these instruments.

The Group and the Company's available-for-sale equity investment securities are categorised as level 1 financial instruments. As at 31 December 2014, the fair value of the Group and the Company's available-for-sale equity investment securities are RMB945 million (2013: RMB999 million) and RMB944 million (2013: RMB998 million), respectively, based on quoted market price on a PRC stock exchange. The Group and the Company'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.

35. Financial Instruments (continued)

(a) Fair Value Measurements (continued)

The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group and the Company for debt with substantially the same characteristics and maturities. The fair value measurement of long-term indebtedness is categorised as level 2. The interest rates used by the Group and the Company 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% (2013: 1.0% to 6.8%). As at 31 December 2014 and 2013, the carrying amounts and fair values of the Group and the Company's long-term debt and payable were as follows:

The Group

	2014		2013	
	Carrying amount RMB millions	Fair value RMB millions	Carrying amount RMB millions	Fair value RMB millions
Long-term debt and payable	63,000	63,043	82,689	82,002

The Company

	2014		2013	
	Carrying amount RMB millions	Fair value RMB millions	Carrying amount RMB millions	Fair value RMB millions
Long-term debt and payable	62,997	63,040	82,689	82,002

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

35. Financial Instruments (continued)

(b) Risks

The Group and the Company's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which comprises of interest rate risk and foreign currency exchange rate risk). The Group and the Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group and the Company's financial performance. Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, credit risk, and market risk. The Board regularly reviews these policies and authorises changes if necessary based on operating and market conditions and other relevant risks. The following summarises the qualitative and quantitative disclosures for each of the three main types of risks:

(i) Credit risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group and the Company, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunications services. To limit exposure to credit risk relating to deposits, the Group and the Company primarily place cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group and the Company has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the Group and the Company's credit policy and quantitative disclosures in respect of the Group and the Company's exposure on credit risk for accounts receivable are set out in Note 13.

(ii) Liquidity risk

Liquidity risk refers to the risk that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group and the Company manages liquidity risk by maintaining sufficient cash balances and adequate amount of committed banking facilities to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments, capital expenditures and new investments for a set minimum period of between 3 to 6 months.

35. Financial Instruments (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates at the end of the reporting period) and the earliest date the Group and the Company would be required to repay:

The Group

	2014					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	43,976	44,133	44,133	–	–	–
Long-term debt and payable	63,000	72,517	3,243	3,243	65,107	924
Accounts payable	88,458	88,458	88,458	–	–	–
Accrued expenses and other payables	72,442	72,442	72,442	–	–	–
	267,876	277,550	208,276	3,243	65,107	924

	2013					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	27,687	28,279	28,279	–	–	–
Long-term debt and payable	82,689	99,135	24,874	3,951	69,690	620
Accounts payable	81,132	81,132	81,132	–	–	–
Accrued expenses and other payables	69,633	69,633	69,633	–	–	–
Finance lease obligations	1	1	1	–	–	–
	261,142	278,180	203,919	3,951	69,690	620

35. Financial Instruments (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

The Company

	2014					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	43,835	43,989	43,989	–	–	–
Long-term debt and payable	62,997	72,514	3,243	3,243	65,107	921
Accounts payable	85,291	85,291	85,291	–	–	–
Accrued expenses and other payables	66,423	66,423	66,423	–	–	–
	258,546	268,217	198,946	3,243	65,107	921

	2013					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	27,578	28,168	28,168	–	–	–
Long-term debt and payable	82,689	99,135	24,874	3,951	69,690	620
Accounts payable	78,199	78,199	78,199	–	–	–
Accrued expenses and other payables	65,473	65,473	65,473	–	–	–
Finance lease obligations	1	1	1	–	–	–
	253,940	270,976	196,715	3,951	69,690	620

35. Financial Instruments (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

Management believes that the Group and the Company's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 16) will be sufficient to meet the Group and the Company's working capital requirements and repay its borrowings and obligations when they become due.

(iii) Interest rate risk

The Group and the Company's interest rate risk exposure arises primarily from its short-term debts and long-term debts and payable. Debts carrying interest at variable rates and at fixed rates expose the Group and the Company to cash flow interest rate risk and fair value interest rate risk, respectively. The Group and the Company manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The following table sets out the interest rate profile of the Group and the Company's debt at the end of the reporting period:

The Group

	2014		2013	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	5.0	43,156	4.7	26,807
Long-term debt	2.4	866	4.5	20,979
		44,022		47,786
Variable rate debt:				
Short-term debt	5.6	820	5.5	880
Deferred consideration due to China Telecommunications Corporation (as defined in Note 16)	5.1	61,710	6.3	61,710
		62,530		62,590
Total debt		106,552		110,376
Fixed rate debt as a percentage of total debt		41.3%		43.3%

35. Financial Instruments (continued)

(b) Risks (continued)

(iii) Interest rate risk (continued)

The Company

	2014		2013	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	5.0	43,015	4.7	26,698
Long-term debt	2.4	866	4.5	20,979
		43,881		47,677
Variable rate debt:				
Short-term debt	5.6	820	5.5	880
Deferred consideration due to China Telecommunications Corporation	5.1	61,710	6.3	61,710
		62,530		62,590
Total debt		106,411		110,267
Fixed rate debt as a percentage of total debt		41.2%		43.2%

As at 31 December 2014, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group and the Company's net profit for the year and retained earnings by approximately RMB469 million (2013: RMB469 million).

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group and the Company's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2013.

35. Financial Instruments (continued)

(b) Risks (continued)

(iv) Foreign currency exchange rate risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group and the Company's foreign currency risk exposure relates to bank deposits and borrowings denominated primarily in US dollars, Euros and Hong Kong dollars.

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group and the Company's financial position and result of operations because 93.1% (2013: 94.3%) of the Group and 99.2% (2013: 99.2%) of the Company's cash and cash equivalents and 99.2% (2013: 99.1%) and of the Group and the Company's short-term and long-term debt and payable as at 31 December 2014 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 16.

36. Capital Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of total debt-to-total assets ratio. For this purpose the Group defines total debt as the sum of short-term debt, long-term debt and deferred consideration due to China Telecommunications Corporation, and finance lease obligations. As at 31 December 2014, the Group's total debt-to-total assets ratio was 19.0% (2013: 20.3%), which is within the range of management's expectation.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

37. 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 are as follows. These transactions constitute continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company has complied with the relevant disclosure requirements under Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the Report of Directors.

	Note	2014 RMB millions	2013 RMB millions
Purchases of telecommunications equipment and materials	(i)	3,729	3,563
Sales of telecommunications equipment and materials	(i)	3,089	3,885
Construction and engineering services	(ii)	15,478	14,543
Provision of IT services	(iii)	167	192
Receiving IT services	(iii)	1,171	1,136
Receiving community services	(iv)	2,885	2,826
Receiving ancillary services	(v)	11,549	11,208
Property lease income	(vi)	39	46
Property lease expenses	(vi)	695	673
Net transaction amount of centralised services	(vii)	246	616
Interconnection revenues	(viii)	45	44
Interconnection charges	(viii)	391	394
Internet applications channel services	(ix)	366	–
Interest on amounts due to and loans from China Telecom Group*	(x)	4,431	3,912
Lease of CDMA network facilities*	(xi)	193	157
Lease of inter-provincial transmission optic fibres*	(xii)	22	25
Lease of land use rights*	(xiii)	15	16

* 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 either under Rules 14A.31, 14A.33 or 14A.65 of the Listing Rules.

37. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

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 repairs and maintenance of telecommunications equipment and facilities and certain customer services.

(vi) Represent amounts 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 16).

(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.

37. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

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

	2014 RMB millions	2013 RMB millions
Accounts receivable	329	391
Prepayments and other current assets	818	1,037
Total amounts due from China Telecom Group	1,147	1,428
Accounts payable	15,667	13,905
Accrued expenses and other payables	1,043	1,690
Short-term debt	19,398	22,062
Long-term debt and payable	61,710	61,710
Total amounts due to China Telecom Group	97,818	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 16.

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

(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:

	2014 RMB thousands	2013 RMB thousands
Short-term employee benefits	11,598	14,329
Post-employment benefits	1,069	794
	12,667	15,123

The above remuneration is included in personnel expenses.

37. Related Party Transactions (continued)

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal, autonomous regional and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 38.

(d) 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 37(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 believe the above information provides appropriate disclosure of related party transactions.

38. Post-Employment Benefits 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 year ended 31 December 2014 were RMB6,229 million (2013: RMB5,682 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2014 was RMB669 million (2013: RMB707 million)

39. Stock Appreciation Rights

The Group implemented a stock appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, stock appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of stock appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise. The Company recognises compensation expense of the stock appreciation rights over the applicable vesting period.

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of five years from date of grant and an exercise price of HK$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100%, respectively, of the total stock appreciation rights granted to such person.

39. Stock Appreciation Rights (continued)

During the year ended 31 December 2014 and 2013, no stock appreciation right units were exercised. For the year ended 31 December 2014, compensation expense of RMB130 million was recognized by the Group in respect of stock appreciation rights. For the year ended 31 December 2013, compensation expense of RMB39 million was reversed by the Group in respect of stock appreciation rights as a result of decline in share price of the Company.

As at 31 December 2014, the carrying amount of the liability arising from stock appreciation rights was RMB254 million (2013: RMB124 million). As at 31 December 2014, 609 million stock appreciation right units vested but were not exercised. The carrying amount of the corresponding liability was RMB183 million. As at 31 December 2013, 305 million stock appreciation right units vested but were not exercised. The carrying amount of the corresponding liability was RMB41 million.

40. Accounting Estimates and Judgements

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 2. Management believes the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

40. Accounting Estimates and Judgements (continued)

Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(o). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at the end of each reporting period. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs of disposal. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate fair value of the Group's long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

For the year ended 31 December 2014, no provision for impairment losses were made against the carrying value of property, plant and equipment (2013 Nil). In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

41. Possible Impact of Amendments, New Standards Issued But Not Yet Effective for the Annual Accounting Period Ended 31 December 2014

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards which are not yet effective for the annual accounting period ended 31 December 2014:

	Effective for accounting period beginning on or after
Amendments to IAS 19, "Defined Benefit Plans: Employee Contributions"	1 July 2014
Amendments to IFRSs, "Annual Improvements to IFRSs 2010-2012 Cycle"	1 July 2014 (with limited exceptions)
Amendments to IFRSs, "Annual Improvements to IFRSs 2011-2013 Cycle"	1 July 2014
Amendments to IFRSs, "Annual Improvements to IFRSs 2012-2014 Cycle"	1 January 2016
IFRS 14, "Regulatory Deferral Accounts"	1 January 2016
Amendments to IAS 1, "Disclosure Initiative"	1 January 2016
Amendments to IFRS 11, "Accounting for Acquisitions of Interests in Joint Operations"	1 January 2016
Amendments to IAS 16 and IAS 38, "Clarification of Acceptable Methods of Depreciation and Amortisation"	1 January 2016
Amendments to IAS 16 and IAS 41, "Agriculture: Bearer Plants"	1 January 2016
Amendments to IAS 27, " Equity Method in Separate Financial Statements "	1 January 2016
Amendments to IFRS 10 and IAS 28, " Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28, " Investment Entities: Applying the Consolidation Exception"	1 January 2016
IFRS 15, "Revenue from Contracts with Customers"	1 January 2017
IFRS 9, "Financial Instruments"	1 January 2018

The Group is in the process of making an assessment of the impact that will result from adopting the amendments and new standards issued by the IASB which are not yet effective for the accounting period ended on 31 December 2014. Except for IFRS 15, "Revenue from Contracts with Customers", so far the Group believes that the adoption of these amendments and new standards is unlikely to have a significant impact on its financial position and the results of operations.

In addition, the related requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap.622) would affect the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The related requirements come into operation form the Company's first financial year commencing after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Hong Kong Companies Ordinance on the consolidated financial statements in the period of its initial application. So far the Group believes that the related requirements will primarily only affect the presentation and disclosure of financial statements, but will unlikely have a significant impact on its financial position and the results of operation.

42. Parent and Ultimate Holding Company

The parent and ultimate holding company of the Group as at 31 December 2014 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.