

Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2013

1. Principal Activities

China Telecom Corporation Limited (the “Company”) and its subsidiaries (hereinafter, collectively referred to as the “Group”) offers a comprehensive range of wireline and mobile telecommunications services including wireline voice, mobile voice, Internet, 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, 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. The Ministry of Industry and Information Technology of the PRC (hereinafter “MIIT”), pursuant to the authority delegated to it by the PRC State Council, is responsible for formulating the telecommunications industry policies and regulations, including the regulation and setting of tariff levels for basic telecommunications services, such as wireline and mobile local and long distance telephony services, telecommunications network resource services and lease of network equipment, roaming and interconnection arrangements.

2. Changes in Organisation During the Current Period

(i) Disposal of a subsidiary

Pursuant to an agreement entered into by the Company and China Telecommunications Corporation on 26 April 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 initial consideration for the disposal of the equity interest in E-surfing Media was RMB1,195 million, which was concluded based on the valuation of the equity interests in E-surfing Media as at 31 December 2012 as filed for the state-owned assets appraisals. In addition, an adjustment was made to the initial consideration to arrive at the final consideration based on 80% of the change in the book value of the net assets of E-surfing Media during the period from 31 December 2012 to the completion date of the disposal. The risks and rewards of the ownership of the equity interest in E-surfing Media were transferred to China Telecommunications Corporation on 30 June 2013. The final consideration was arrived at RMB1,248 million. RMB1,195 million of the final consideration, which represented the initial consideration, was received by 30 June 2013.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

2. Changes in Organisation During the Current Period (continued)

(i) Disposal of a subsidiary (continued)

Analysis of assets and liabilities of the disposed subsidiary:

	30 June 2013 RMB millions
Current assets	
Cash and cash equivalents	736
Accounts receivables	150
Other current assets	1
Non-current assets	
Property, plant and equipment	111
Other non-current assets	18
Current liabilities	
Accounts payable	222
Other current liabilities	64
Other non-current liabilities	8
Net assets disposed of	722

Gain on disposal of a subsidiary:

	30 June 2013 RMB millions
Consideration received or receivable	1,248
Net assets disposed of	(722)
Non-controlling interests	144
Gain on disposal	670

The gain on disposal of E-surfing Media has been included in investment income of the consolidated statement of comprehensive income.



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for the six-month period ended 30 June 2013

2. Changes in Organisation During the Current Period (continued)

(i) Disposal of a subsidiary (continued)

Net cash inflow from disposal of a subsidiary:

	30 June 2013
	RMB millions
Consideration received in cash and cash equivalents	1,195
Less: cash and cash equivalent balances disposed of	(736)
Net cash inflow from disposal of a subsidiary	459

(ii) Set up of a subsidiary

On 9 June 2013, the Group set up a subsidiary, iMUSIC Culture & Technology Co. Ltd., which engages in the provision of music production and related information services.

3. Basis of Preparation

These interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements, which were authorised for issuance by the Board of Directors on 21 August 2013, reflect the unaudited financial position of the Group as at 30 June 2013 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2013.

The interim financial information have been prepared on the historical cost basis except for certain available-for-sale equity securities, which are measured at fair values.

Except as described below, the accounting policies used in the interim financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

3. Basis of Preparation (continued)

During the current period, the Group applied for the first time, certain new or revised International Financial Reporting Standards (“IFRSs”) that are effective for the current period:

Amendments to IAS 1, “Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income”

The Group has applied the amendments to IAS 1 in the current period. The amendments introduced new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, “statement of comprehensive income” is renamed as “statement of profit or loss and other comprehensive income” and “income statement” is renamed as “statement of profit or loss”. However, the amendments to IAS 1 allow an entity to use titles for these statements other than those used in the amendments to IAS 1. The Group has not made any changes to the titles for these statements.

In addition, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories to disclose: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The application of the amendments has no significant impact on the presentation of items of other comprehensive income of the Group.

IFRS 10, “Consolidated Financial Statements”

IFRS 10 replaces the parts of IAS 27, “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and SIC 12, “Consolidation – Special Purpose Entities”. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The application of IFRS 10 has no significant impact on the Group’s interim financial statements.

IFRS 12, “Disclosure of Interests in Other Entities”

IFRS 12 is a disclosure standard, and brings together into a single standard all disclosure requirements applicable to entities’ interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those previously required by the respective standards.

The application of IFRS 12 has no significant impact on the Group’s interim financial statements.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

3. Basis of Preparation (continued)

IFRS 13, “Fair Value Measurement”

The Group has applied IFRS 13 for the first time in the current period. IFRS 13 establishes a single source of guidance for fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. Consequential amendments have been made to IAS 34 to require certain disclosures required for financial instruments to be made in the interim financial statements. Except for the disclosures of fair value information set out in note 19, the application of IFRS 13 has no significant impact on the Group’s interim financial statements.

Amendments to IFRS 7, “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities”

The Group has applied the amendments to IFRS 7 in the current period. The amendments require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendments has no significant impact on the Group’s interim financial statements.

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

These interim financial statements contain consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRSs.

These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. These interim financial statements have also been reviewed by the Company’s international auditor in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2012 that is included in these interim financial statements as being previously reported does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2012 are available from the Company’s registered office. The Company’s predecessor international auditor has expressed an unqualified opinion on those financial statements in the report dated 20 March 2013.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

4. Segmental Reporting

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

5. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Note	30 June 2013 RMB millions	31 December 2012 RMB millions
Third parties		25,857	19,637
China Telecom Group	(i)	826	626
Other telecommunications operators in the PRC		679	529
		27,362	20,792
Less: Allowance for doubtful debts		(3,077)	(2,024)
		24,285	18,768

Note:

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

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

	30 June 2013 RMB millions	31 December 2012 RMB millions
Current, within 1 month	13,057	11,402
1 to 3 months	3,219	2,319
4 to 12 months	2,060	1,613
More than 12 months	1,018	387
	19,354	15,721
Less: Allowance for doubtful debts	(2,963)	(1,932)
	16,391	13,789

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for the six-month period ended 30 June 2013

5. Accounts Receivable, Net (continued)

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

	30 June 2013	31 December 2012
	RMB millions	RMB millions
Current, within 1 month	2,931	1,945
1 to 3 months	2,360	1,573
4 to 12 months	1,923	980
More than 12 months	794	573
	8,008	5,071
Less: Allowance for doubtful debts	(114)	(92)
	7,894	4,979

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

6. Cash and Cash Equivalents

	30 June 2013	31 December 2012
	RMB millions	RMB millions
Cash at bank and in hand	17,767	22,375
Time deposits with original maturity within three months	2,215	7,607
	19,982	29,982

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

Short-term debt comprises:

	30 June 2013	31 December 2012
	RMB millions	RMB millions
Loans from banks – unsecured	5,391	5,521
Other loans – unsecured	80	182
Loans from China Telecom Group – unsecured	18,229	820
	23,700	6,523



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

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

The weighted average interest rate of the Group's total short-term debt as at 30 June 2013 is 4.7% (31 December 2012: 5.5%). As at 30 June 2013, the loans from banks and other loans bear interest at rates ranging from 4.5% to 6.3% (31 December 2012: 4.5% to 6.7%) per annum and are repayable within one year; the loans from China Telecom Group bear interest at 4.5% (31 December 2012: 4.5% to 4.7%) per annum and are repayable within one year.

Long-term debt and payable comprises:

	Note	30 June 2013 RMB millions	31 December 2012 RMB millions
Loans from banks – unsecured	(i)	1,163	1,240
Other loans – unsecured	(i)	1	1
Medium-term notes – unsecured	(ii)	29,971	29,951
Amounts due to China Telecommunications Corporation – unsecured			
Deferred consideration of the Mobile Network Acquisition	(iii)	61,710	61,710
Others		–	380
Total long-term debt and payable		92,845	93,282
Less: current portion		(10,214)	(10,212)
Non-current portion		82,631	83,070

Note:

(i) The loans from banks and other loans bear interest at rates ranging from 1.00% to 8.30% (31 December 2012: 1.00% to 8.30%) per annum with maturity through 2060.

(ii) On 23 October 2008, the Company issued five-year, 10 billion RMB denominated medium-term note with annual interest rate of 4.15% per annum.

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.

All of the above medium-term notes are unsecured.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

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

Note: (continued)

- (iii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces, municipalities and autonomous regions in the PRC (hereinafter referred to as the "Mobile Network Acquisition"). The Company may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition. The Company pays interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate is set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The annual interest rate for 2013 is 4.83%.

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

The Group's short-term and long-term debt and payable do not contain any financial covenants. As at 30 June 2013, the Group has unutilised credit facilities amounting to RMB145,205 million (31 December 2012: RMB163,130 million).

8. Accounts Payable

Accounts payable are analysed as follows:

	30 June 2013 RMB millions	31 December 2012 RMB millions
Third parties	55,333	56,333
China Telecom Group	12,596	11,473
Other telecommunications operators in the PRC	1,234	1,038
	69,163	68,844

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

Ageing analysis of accounts payable is as follows:

	30 June 2013 RMB millions	31 December 2012 RMB millions
Due within 1 month or on demand	15,320	18,427
Due after 1 month but within 3 months	13,996	17,783
Due after 3 months but within 6 months	19,103	15,831
Due after 6 months	20,744	16,803
	69,163	68,844



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

9. Deferred Tax Assets and Liabilities

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

	Assets		Liabilities		Net Balance	
	30 June	31 December	30 June	31 December	30 June	31 December
	2013	2012	2013	2012	2013	2012
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,282	1,028	-	-	1,282	1,028
Property, plant and equipment	1,269	1,279	(212)	(266)	1,057	1,013
Deferred revenues and installation costs	517	615	(321)	(378)	196	237
Available-for-sale equity securities	-	-	(76)	(73)	(76)	(73)
Deferred tax assets/(liabilities)	3,068	2,922	(609)	(717)	2,459	2,205

	Balance at 1 January 2013	Recognised in statement of comprehensive income	Disposal of a subsidiary	Balance at 30 June 2013
	RMB millions	RMB millions	RMB millions	RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,028	254	-	1,282
Property, plant and equipment	1,013	48	(4)	1,057
Deferred revenues and installation costs	237	(41)	-	196
Available-for-sale equity securities	(73)	(3)	-	(76)
Net deferred tax assets	2,205	258	(4)	2,459



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

10. Operating Revenues

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

	Note	Six-month period ended 30 June	
		2013 RMB millions	2012 RMB millions
Wireline voice	(i)	19,866	22,241
Mobile voice	(ii)	28,426	23,289
Internet	(iii)	48,395	42,825
Value-added services	(iv)	17,836	14,902
Integrated information application services	(v)	12,170	11,791
Telecommunications network resource services and lease of network equipment	(vi)	8,624	7,682
Others	(vii)	22,203	15,291
		157,520	138,021

Note:

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, installation fees and interconnection 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 interconnection 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, rental and repair and maintenance of equipment.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

11. Network Operations and Support Expenses

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

	Six-month period ended 30 June	
	2013	2012
	RMB millions	RMB millions
Operating and maintenance	12,838	11,694
Utility	5,199	3,966
Property rental and management fee	3,508	2,551
CDMA network capacity lease fee	–	11,768
Others	1,840	1,279
	23,385	31,258

12. Personnel Expenses

Personnel expenses are attributable to the following functions:

	Six-month period ended 30 June	
	2013	2012
	RMB millions	RMB millions
Network operations and support	14,546	14,348
Selling, general and administrative	7,760	7,105
	22,306	21,453

13. Other Operating Expenses

Other operating expenses consist of:

	Note	Six-month period ended 30 June	
		2013	2012
		RMB millions	RMB millions
Interconnection charges	(i)	7,787	6,733
Cost of goods sold	(ii)	18,927	12,252
Donations		5	4
Others		28	20
		26,747	19,009

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.



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for the six-month period ended 30 June 2013

14. Net Finance Costs

Net finance costs comprise:

	Six-month period ended 30 June	
	2013	2012
	RMB millions	RMB millions
Interest expense incurred	2,988	1,286
Less: Interest expense capitalised*	(168)	(175)
Net interest expense	2,820	1,111
Interest income	(178)	(216)
Foreign exchange losses	24	22
Foreign exchange gains	(51)	(44)
	2,615	873
*Interest expense was capitalised in construction in progress at the following rates per annum	1.1% – 5.8%	1.4% – 6.4%

15. Income Tax

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2013	2012
	RMB millions	RMB millions
Provision for PRC income tax	3,457	2,919
Provision for income tax in other tax jurisdictions	29	24
Deferred taxation	(261)	(146)
	3,225	2,797



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15. Income Tax (continued)

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

	Note	Six-month period ended 30 June	
		2013 RMB millions	2012 RMB millions
Profit before taxation		13,506	11,669
Expected income tax expense at statutory tax rate of 25%	(i)	3,377	2,917
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(84)	(81)
Differential tax rate on other subsidiaries' income	(ii)	(32)	(11)
Non-deductible expenses	(iii)	146	157
Non-taxable income	(iv)	(40)	(45)
Effect of change in tax rate	(v)	–	138
Others	(vi)	(142)	(278)
Actual income tax expense		3,225	2,797

Note:

- (i) Except for certain subsidiaries and branches which are 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) During 2012, certain branches with operations in the western region of the PRC 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 that were settled after 31 December 2011 were adjusted to reflect the change in tax rate. The overall effect of change in tax rate amounting to RMB138 million 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 period.



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16. Dividends

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 fully paid on 19 July 2013.

Pursuant to the shareholders' approval at the Annual General Meeting held on 30 May 2012, a final dividend of RMB0.069506 (equivalent to HK\$0.085) per share totaling RMB5,625 million in respect of the year ended 31 December 2011 was declared and of which RMB5,235 million was paid on 20 July 2012. The remaining amounts were paid in December 2012.

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

17. Basic Earnings Per Share

The calculation of basic earnings per share for the six-month period ended 30 June 2013 and 2012 is based on the profit attributable to equity holders of the Company of RMB10,213 million and RMB8,814 million, respectively, divided by 80,932,368,321 shares.

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

18. Capital Commitments

As at 30 June 2013 and 31 December 2012, the Group had capital commitments as follows:

	30 June 2013	31 December 2012
	RMB millions	RMB millions
Authorised and contracted for		
Property	753	462
Telecommunications network plant and equipment	7,600	6,641
	8,353	7,103
Authorised but not contracted for		
Property	993	764
Telecommunications network plant and equipment	9,730	8,401
	10,723	9,165



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19. Fair Value Measurements of Financial Instruments

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

Fair Value

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

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

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

The Group's available-for-sale equity investment securities are categorised as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities is RMB598 million as at 30 June 2013 (31 December 2012: RMB585 million), which was based on quoted market price on a PRC stock exchange. The Group's long-term investments, other than the available-for-sale equity investment securities, are unlisted equity interests for which no quoted market prices exist in the PRC and accordingly, a reasonable estimate of their fair values could not be made without incurring excessive costs.

The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The interest rates used 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 6.8% (31 December 2012: 1.0% to 6.8%). As at 30 June 2013 and 31 December 2012, the carrying amounts and fair values of the Group's long-term debt and payable were as follows:

	30 June 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB millions	RMB millions	RMB millions	RMB millions
Long-term debt and payable	92,845	91,814	93,282	92,931

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

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20. Related Party Transactions

(a) Transactions with China Telecom Group

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

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

	Note	Six-month period ended 30 June	
		2013 RMB millions	2012 RMB millions
Purchases of telecommunications equipment and materials	(i)	1,663	1,521
Sales of telecommunications equipment and materials	(i)	2,078	1,241
Construction and engineering services	(ii)	6,225	4,833
Provision of IT services	(iii)	83	132
Receiving IT services	(iii)	301	250
Receiving community services	(iv)	1,220	1,144
Receiving ancillary services	(v)	5,548	4,665
Operating lease expenses	(vi)	281	193
Net transaction amount of centralised services	(vii)	232	275
Interconnection revenues	(viii)	20	21
Interconnection charges	(viii)	200	217
Interest on amounts due to and loans from China Telecom Group	(ix)	1,997	18
Lease of CDMA network facilities	(x)	78	–
Lease of land use rights	(xi)	7	–
CDMA network capacity lease fee	(xii)	–	11,768
Reimbursement of capacity maintenance related costs of CDMA network	(xiii)	–	897

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.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

20. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Note: (continued)

- (v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repair and maintenance of telecommunications equipment and facilities and certain customer services.
- (vi) Represent amounts received and receivable from/paid and payable to China Telecom Group for leases of business premises and the amounts paid and payable to China Telecom Group for inter-provincial transmission optic fibres.
- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 7).
- (x) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA Network facilities located in Xizang Autonomous Region.
- (xi) Represent amounts received and receivable from/paid and payable to China Telecom Group for leases of land use rights.
- (xii) Represent amounts paid and payable to China Telecom Group for lease of CDMA mobile telecommunications network ("CDMA network") capacity.
- (xiii) Represent amounts shared between the Company and China Telecom Group for the capacity maintenance related costs in connection with the CDMA network capacity used by the Company.

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

	30 June 2013	31 December 2012
	RMB millions	RMB millions
Accounts receivable	826	626
Prepayments and other current assets	987	779
Total amounts due from China Telecom Group	1,813	1,405
Accounts payable	12,596	11,473
Accrued expenses and other payables	6,163	40,745
Short-term debt	18,229	820
Long-term debt and payable	61,710	61,710
Total amounts due to China Telecom Group	98,698	114,748

Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

20. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt and payable, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt and payable due to China Telecom Group are set out in Note 7.

As at 30 June 2013 and 31 December 2012, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

On 25 August 2010, the Company and China Telecommunications Corporation entered into supplemental agreements to renew the CDMA network capacity lease agreement (“the 2010 CDMA Network Lease”), which it first entered into with China Telecommunications Corporation and which were approved by the Company’s independent shareholders at an Extraordinary General Meeting held on 16 September 2008, for a further term of two years expiring on 31 December 2012. Pursuant to the 2010 CDMA Network Lease, the lease fee for the capacity on the constructed CDMA network shall be 28% of the CDMA service revenue. For the year ended 31 December 2011 and 2012, the minimum annual lease fee shall be 90% of the total amount of the lease fee paid by the Company to China Telecommunications Corporation in the previous year.

The 2010 CDMA Network Lease expired on 31 December 2012 and was not renewed.

Following the completion of the Mobile Network Acquisition, the Company leases certain CDMA Network facilities, properties and land use rights which do not form part of the assets acquired from China Telecom Group to maintain continuity in the business operations of the Company and the provision of the CDMA service by the Company. Accordingly, the Company entered into new related party transaction agreements with China Telecom Group on 22 August 2012 and the relevant agreements became effective on the day immediately after the completion date of the Mobile Network Acquisition.

Such new related party transactions comprise (i) the CDMA Network Facilities Lease Framework Agreement, pursuant to which the Company mainly leases certain CDMA Network facilities located in Xizang Autonomous Region from China Telecom Group, and (ii) the Land Use Right Lease Framework Agreement, pursuant to which the Company and China Telecom Group mutually leases certain land use rights from each other in connection with their respective operations.



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

20. Related Party Transactions (continued)

(b) Key management personnel compensation

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

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

	Six-month period ended 30 June	
	2013	2012
	RMB thousands	RMB thousands
Short-term employee benefits	4,469	4,547
Post-employment benefits	370	342
	4,839	4,889

The above remuneration is included in personnel expenses.

(c) Contributions to post-employment benefit plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 18% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the above plans for the six-month period ended 30 June 2013 were RMB2,652 million (six-month period ended 30 June 2012: RMB2,320 million).

The amount payable for contributions to the above plans as at 30 June 2013 was RMB707 million (31 December 2012: RMB615 million).



Notes to the Unaudited Interim Financial Statements (Continued)

for the six-month period ended 30 June 2013

20. Related Party Transactions (continued)

(d) Transactions with other government-related entities

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the 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 fellow subsidiaries (Note 20(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

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

