1. Principal Activities

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

2. Basis of Presentation

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

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

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

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

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

3. Basis of Preparation

These interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), "*Interim Financial Reporting*" issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These interim financial statements, which were authorised for issuance by the Board of Directors on 20 August 2018, reflect the unaudited financial position of the Group as at 30 June 2018 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2018.

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

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

These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. These interim financial statements have also been reviewed by the Company's international independent auditor in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*", issued by the Hong Kong Institute of Certified Public Accountants.

4. Principal Accounting Policies

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

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

Application of new and amendments to IFRSs and interpretation

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

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

4. Principal Accounting Policies (Continued)

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

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

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

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

The Group recognises revenue from the following major sources:

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

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

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

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

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

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

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

4. Principal Accounting Policies (Continued)

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

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

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

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

Consideration payable to a customer

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

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

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

Incremental costs of obtaining a contract

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

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

4. Principal Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

4. Principal Accounting Policies (Continued)

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

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

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

Classification and measurement of financial assets

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

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

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

- the financial asset is held by the Group within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

4. Principal Accounting Policies (Continued)

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

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

Impairment under ECL model

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

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

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

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

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

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

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

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

4. Principal Accounting Policies (Continued)

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

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

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

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

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

4. Principal Accounting Policies (Continued)

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

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

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

4. Principal Accounting Policies (Continued)

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

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

5. Segmental Reporting

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

6. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

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

Notes:

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

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

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

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

6. Accounts Receivable, Net (Continued)

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

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

7. Cash and Cash Equivalents

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

8. Short-Term and Long-Term Debt

Short-term debt comprises:

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

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

Long-term debt comprises:

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

Note:

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

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

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

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

9. Accounts Payable

Accounts payable are analysed as follows:

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

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

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

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

10. Deferred Tax Assets and Liabilities

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

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

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

11. Operating Revenues

Disaggregation of revenue

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

Notes:

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

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

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

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

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

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

12. Network Operations and Support Expenses

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

Note:

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

13. Personnel Expenses

Personnel expenses are attributable to the following functions:

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

14. Other Operating Expenses

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

14. Other Operating Expenses (Continued)

Notes:

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

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

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

15. Net Finance Costs

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

16. Income Tax

Income tax in the profit or loss comprises:

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

16. Income Tax (Continued)

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

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

Notes:

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

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

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

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

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

17. Dividends

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

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

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

18. Basic Earnings Per Share

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

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

19. Capital Commitments

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

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

20. Fair Value Measurements of Financial Instruments

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

20. Fair Value Measurements of Financial Instruments (Continued)

Fair Value Measurements

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

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

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

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

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

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

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

21. Related Party Transactions

(a) Transactions with China Telecom Group

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

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

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

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

21. Related Party Transactions (Continued)

(a) Transactions with China Telecom Group (Continued)

Notes:

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

(ii) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.

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

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

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

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

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

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

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

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

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

21. Related Party Transactions (Continued)

(a) Transactions with China Telecom Group (Continued)

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

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

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt due to China Telecom Group are set out in Note 8.

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

21. Related Party Transactions (Continued)

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

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

Notes:

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

(ii) Represent IT services provided to China Tower.

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

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

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

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

21. Related Party Transactions (Continued)

(c) Key management personnel compensation

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

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

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

The above remuneration is included in personnel expenses.

(d) Contributions to post-employment benefit plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 21% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

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

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

21. Related Party Transactions (Continued)

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

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

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

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

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

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

22. Events after the end of the Reporting Period

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