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 services, 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 by the PRC government and relevant regulation.

2. Basis of Preparation

These interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), *"Interim Financial Reporting"* issued by the International Accounting Standards Board (the "IASB") 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 22 August 2019, reflect the unaudited financial position of the Group as at 30 June 2019 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 2019.

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 2018 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.

3. 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 2018 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 IASB that are mandatorily effective for the current period:

IFRS 16, *"Leases"*
IFRIC 23, *"Uncertainty over Income Tax Treatments"*
Amendments to IFRS 9, *"Prepayment Features with Negative Compensation"*
Amendments to IAS 19, *"Plan Amendment, Curtailment or Settlement"*
Amendments to IAS 28, *"Long-term Interests in Associates and Joint Ventures"*
Amendments to IFRSs, *"Annual Improvements to IFRS Standards 2015–2017 Cycle"*

Except for IFRS 16, *"Leases"*, the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's interim financial statements.

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"*

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17, *"Leases"* ("IAS 17"), and the related interpretations.

(a) Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

3. Principal Accounting Policies (Continued)

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"* (Continued)

(a) Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings, equipment and other assets that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

3. Principal Accounting Policies (Continued)

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"* (Continued)

(a) Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

Variable lease payments that depend on an index or a rate are initially measured using the index or rate as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of assessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

The tax deductions of the Group's leasing transactions are attributable to the lease liabilities. The Group applies IAS 12, *"Income Taxes"* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

3. Principal Accounting Policies (Continued)

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"* (Continued)

(a) Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15, *"Revenue from Contracts with Customers"* ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9, *"Financial Instruments"* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(b) Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease. Upon application of new definition of a lease, certain operating lease under IAS 17 does not fall into the definition of a lease under IFRS 16 as portion of the asset under such operating lease arrangement is not an identified asset.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any cumulative effect at the date of initial application is recognised in the opening reserves and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to all lease arrangements, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of telecommunications towers, buildings, equipment and other assets in mainland China was determined on a portfolio basis; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

3. Principal Accounting Policies (Continued)

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"* (Continued)

(b) Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement date, but discounted using the incremental borrowing rates of the relevant lessees at the date of initial application by applying IFRS 16 transition provisions.

When recognising the lease liabilities for operating leases, the Group has applied incremental borrowing rates of the relevant lessees at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.6%.

	At 1 January 2019 RMB millions
Operating lease commitments disclosed as at 31 December 2018	**65,805**
Less: Recognition exemption — short-term leases	**(684)**
Recognition exemption — low-value assets	**(85)**
Variable lease payments	**(12,265)**
Reassessment on definition of a lease and change in allocation basis between lease and non-lease components	**(2,852)**
	49,919
Less: Total future interest expenses	**(4,271)**
Lease liabilities relating to operating leases recognised upon application of IFRS 16	**45,648**
Add: Finance lease obligations recognised at 31 December 2018	**216**
Lease liabilities as at 1 January 2019	**45,864**
Analysed as	
Current	**10,260**
Non-current	**35,604**

3. Principal Accounting Policies (Continued)

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"* (Continued)

(b) Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** RMB millions
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		43,956
Reclassified from lease prepayments	(a)	21,568
		65,524
By class:		
Telecommunications towers and related assets		27,354
Land		21,568
Buildings		7,079
Equipment		9,311
Others		212
		65,524

Note:

(a) Upon application of IFRS 16, lease prepayments amounting to RMB21,568 million were reclassified to right-of-use assets on the date of initial application.

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

3. Principal Accounting Policies (Continued)

Impacts and changes in accounting policies on application of IFRS 16, *"Leases"* (Continued)

(b) Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2018 RMB millions	Adjustments RMB millions	Carrying amounts under IFRS 16 at 1 January 2019 RMB millions
Non-current assets				
Right-of-use assets		—	65,524	65,524
Lease prepayments	(a)	21,568	(21,568)	—
Interests in associates		38,051	(263)	37,788
Deferred tax assets		6,544	676	7,220
Other assets		4,840	(746)	4,094
Current assets				
Prepayments and other current assets		23,619	(518)	23,101
Current liabilities				
Accounts payable		107,887	(100)	107,787
Current portion of lease liabilities		—	10,260	10,260
Current portion of finance lease obligations		101	(101)	—
Non-current liabilities				
Lease liabilities		—	35,604	35,604
Finance lease obligations		115	(115)	—
Equity				
Total equity attributable to equity holders of the Company		343,069	(2,440)	340,629
Non-controlling interests		1,030	(3)	1,027

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 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.

5. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Notes	**30 June 2019 RMB millions**	31 December 2018 RMB millions
Third parties		**35,231**	23,308
China Telecom Group	(i)	**1,754**	1,327
China Tower	(ii)	**15**	10
Other telecommunications operators in the PRC		**851**	510
		37,851	25,155
Less: Allowance for expected credit losses		**(6,335)**	(4,680)
		31,516	20,475

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 2019 RMB millions	31 December 2018 RMB millions
Current, within 1 month	**9,827**	8,376
1 to 3 months	**3,130**	2,117
4 to 12 months	**2,403**	1,932
More than 12 months	**1,676**	943
	17,036	13,368
Less: Allowance for expected credit losses	**(4,154)**	(2,898)
	12,882	10,470

5. 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 2019 RMB millions	31 December 2018 RMB millions
Current, within 1 month	**7,409**	3,318
1 to 3 months	**5,387**	2,300
4 to 12 months	**5,302**	3,994
More than 12 months	**2,717**	2,175
	20,815	11,787
Less: Allowance for expected credit losses	**(2,181)**	(1,782)
	18,634	10,005

6. Cash and Cash Equivalents

	30 June 2019 RMB millions	31 December 2018 RMB millions
Cash at bank and in hand	**16,323**	14,937
Time deposits with original maturity within three months	**3,033**	1,729
	19,356	16,666

7. Short-Term and Long-Term Debt

Short-term debt comprises:

	30 June 2019 RMB millions	31 December 2018 RMB millions
Loans from banks — unsecured	**8,581**	12,881
Super short-term commercial papers — unsecured	**17,498**	27,992
Other loans — unsecured	**80**	80
Loans from China Telecom Group — unsecured	**11,758**	8,584
Total short-term debt	**37,917**	49,537

7. Short-Term and Long-Term Debt (Continued)

The weighted average interest rate of the Group's total short-term debt as at 30 June 2019 was 3.1% (31 December 2018: 3.2%) per annum. As at 30 June 2019, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 4.4% (31 December 2018: 3.5% to 4.6%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 2.0% to 3.3% (31 December 2018: 2.1% to 3.3%) per annum, and will be repaid by 25 October 2019; the loans from China Telecom Group bear interest at rate of 3.5% (31 December 2018: 3.5%) per annum and are repayable within one year.

Long-term debt comprises:

	Notes	30 June 2019 RMB millions	31 December 2018 RMB millions
Loans from banks — unsecured	(i)	**8,591**	8,990
Other loans — unsecured		**1**	1
Medium-term note — unsecured	(ii)	**4,994**	—
Loans from China Telecom Group — unsecured	(iii)	**25,100**	37,000
Total long-term debt		**38,686**	45,991
Less: current portion		**(1,144)**	(1,139)
Non-current portion		**37,542**	44,852

Notes:

(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 2019, the loans from banks and other loans bear interest at rates ranging from 1.08% to 2.00% (31 December 2018: 1.00% to 8.30%) per annum with maturity through 2048.

(ii) On 22 January 2019, the Group issued three-year, 3 billion RMB denominated medium-term note with annual interest rate of 3.42% per annum, and incurred issuing costs of RMB3 million. The medium-term note is unsecured and is repayable on 21 January 2022. On 19 March 2019, the Group issued three-year 2 billion RMB denominated medium-term note with annual interest rate of 3.41% per annum and incurred issuing costs of RMB3 million. The medium-term note is unsecured and is repayable on 18 March 2022.

(iii) The Group obtained long-term RMB denominated loans amounting to RMB40,000 million 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 partially repaid these loans amounting to RMB3,000 million and RMB11,900 million, respectively , in 2018 and in the first half of 2019.

The Group's short-term and long-term debt do not contain any financial covenants. As at 30 June 2019, the Group had unutilised committed credit facilities amounting to RMB177,580 million (31 December 2018: RMB150,693 million).

8. Accounts Payable

Accounts payable are analysed as follows:

	30 June 2019 RMB millions	31 December 2018 RMB millions
Third parties	**88,020**	83,418
China Telecom Group	**19,426**	20,983
China Tower	**3,643**	2,850
Other telecommunications operators in the PRC	**729**	636
	111,818	107,887

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 2019 RMB millions	31 December 2018 RMB millions
Due within 1 month or on demand	**18,708**	20,619
Due after 1 month but within 3 months	**25,192**	14,568
Due after 3 months but within 6 months	**32,458**	36,067
Due after 6 months	**35,460**	36,633
	111,818	107,887

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 2019 RMB millions	31 December 2018 RMB millions	**30 June 2019 RMB millions**	31 December 2018 RMB millions	**30 June 2019 RMB millions**	31 December 2018 RMB millions
Provisions and impairment losses, primarily for expected credit losses	**2,300**	1,925	**—**	—	**2,300**	1,925
Property, plant and equipment and others	**5,337**	4,580	**(15,973)**	(13,022)	**(10,636)**	(8,442)
Deferred revenues and installation costs	**28**	39	**(20)**	(29)	**8**	10
Equity instruments at fair value through other comprehensive income	**—**	—	**(142)**	(87)	**(142)**	(87)
	7,665	6,544	**(16,135)**	(13,138)	**(8,470)**	(6,594)

	Balance at 31 December 2018 RMB millions	Changes in accounting policies RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 30 June 2019 RMB millions
Provisions and impairment losses, primarily for expected credit losses	1,925	—	375	2,300
Property, plant and equipment and others	(8,442)	676	(2,870)	(10,636)
Deferred revenues and installation costs	10	—	(2)	8
Equity instruments at fair value through other comprehensive income	(87)	—	(55)	(142)
	(6,594)	676	(2,552)	(8,470)

10. Operating Revenues

Disaggregation of revenue

	Notes	Six-month period ended 30 June 2019 RMB millions	2018 RMB millions
Type of goods or services			
Revenue from contracts with customers			
Voice services	(i)	**23,529**	26,679
Internet services	(ii)	**98,895**	96,010
Information and application services	(iii)	**46,759**	42,581
Telecommunications network resource and equipment services	(iv)	**10,937**	10,033
Sales of goods and others	(v)	**8,668**	16,233
Subtotal		**188,788**	191,536
Revenue from other sources	(vi)	**1,700**	1,493
Total operating revenues		**190,488**	193,029
Timing of revenue recognition			
A point in time		**7,166**	14,852
Over time		**183,322**	178,177
Total operating revenues		**190,488**	193,029

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 charged 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 amounts 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 revenue.

11. Network Operations and Support Expenses

	Note	Six-month period ended 30 June 2019 RMB millions	2018 RMB millions
Operating and maintenance		**29,931**	28,677
Utility		**6,775**	7,054
Network resources usage and related fee	(i)	**10,168**	13,872
Others		**3,906**	4,581
		50,780	54,184

Note:

(i) Network resources usage and related fee for the six-month period ended 30 June 2019 includes the variable lease payments and fee for non-lease components in relation to tower assets lease and fee in relation to the short-term leases and leases of low-value assets, variable lease payments and fee for non-lease components in relation to the usage of network resources provided by third parties.

12. Personnel Expenses

Personnel expenses are attributable to the following functions:

	Six-month period ended 30 June 2019 RMB millions	2018 RMB millions
Network operations and support	**21,882**	22,692
Selling, general and administrative	**11,434**	9,957
	33,316	32,649

13. Other Operating Expenses

	Notes	Six-month period ended 30 June 2019 RMB millions	2018 RMB millions
Interconnection charges	(i)	**6,289**	6,226
Cost of goods sold	(ii)	**6,876**	14,266
Donations		**1**	3
Others	(iii)	**723**	795
		13,889	21,290

13. 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.

14. Net Finance Costs

	Six-month period ended 30 June	
	2019 RMB millions	2018 RMB millions
Interest expense on short-term and long-term debts	**1,514**	1,769
Interest expense on lease liabilities	**804**	—
Less: Interest expense capitalised*	**(72)**	(104)
Net interest expense	**2,246**	1,665
Interest income	**(210)**	(145)
Foreign exchange losses	**310**	310
Foreign exchange gains	**(289)**	(316)
	2,057	1,514
* Interest expense was capitalised in construction in progress at the following rates per annum	**3.5%–4.4%**	3.5%–4.4%

15. Income Tax

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2019 RMB millions	2018 RMB millions
Provision for PRC income tax	**1,941**	3,363
Provision for income tax in other tax jurisdictions	**55**	81
Deferred taxation	**2,497**	1,084
	4,493	4,528

15. 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 2019 RMB millions	2018 RMB millions
Profit before taxation		**18,518**	18,159
Expected income tax expense at statutory tax rate of 25%	(i)	**4,630**	4,540
Differential tax rate on mainland China subsidiaries' and branches' income	(i)	**(133)**	(151)
Differential tax rate on other subsidiaries' income	(ii)	**(55)**	(31)
Non-deductible expenses	(iii)	**446**	172
Non-taxable income	(iv)	**(141)**	(37)
Others	(v)	**(254)**	35
Actual income tax expense		**4,493**	4,528

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 mainland China.

(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 8% to 35%.

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

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

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

16. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2019, a final dividend of RMB0.109851 (equivalent to HK$0.125) per share totaling RMB8,891 million in respect of the year ended 31 December 2018 was declared, and paid on 26 July 2019.

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.

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 2019 and 2018 is based on the profit attributable to equity holders of the Company of RMB13,909 million and RMB13,570 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.

18. Capital Commitments

As at 30 June 2019 and 31 December 2018, the Group had capital commitments as follows:

	30 June 2019 RMB millions	31 December 2018 RMB millions
Contracted for but not provided		
Property	**1,608**	1,103
Telecommunications network plant and equipment	**12,958**	14,200
	14,566	15,303

19. Fair Value Measurements of Financial Instruments

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instruments, 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 financial liabilities included in accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

Fair Value Measurements

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

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

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

19. Fair Value Measurements of Financial Instruments (Continued)

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 RMB859 million as at 30 June 2019 (31 December 2018: RMB638 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 2018: 1.0% to 4.9%). As at 30 June 2019 and 31 December 2018, the carrying amounts and fair values of the Group's long-term debt were as follows:

	30 June 2019		31 December 2018	
	Carrying amount RMB millions	**Fair value RMB millions**	Carrying amount RMB millions	Fair value RMB millions
Long-term debt	**38,686**	**37,262**	45,991	44,968

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

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:

		Six-month period ended 30 June	
	Notes	**2019 RMB millions**	2018 RMB millions
Construction and engineering services	(i)	**6,177**	7,544
Receiving ancillary services	(ii)	**8,477**	7,461
Interconnection revenues	(iii)	**49**	23
Interconnection charges	(iii)	**89**	96
Receiving community services	(iv)	**1,373**	1,317
Net transaction amount of centralised services	(v)	**49**	346
Property lease income	(vi)	**16**	18
Property lease related expenses	(vii)	**235**	272
Provision of IT services	(viii)	**166**	207
Receiving IT services	(viii)	**753**	624
Purchases of telecommunications equipment and materials	(ix)	**1,353**	1,438
Sales of telecommunications equipment and materials	(ix)	**626**	1,942
Internet applications channel services	(x)	**50**	129
Interest on loans from China Telecom Group*	(xi)	**770**	1,046
Others*	(xii)	**92**	92
Net deposit by China Telecom Group with Finance Company*	(xiii)	**297**	—

* 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.

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.

20. Related Party Transactions (Continued)

(a) Transactions with China Telecom Group (Continued)

Notes: (Continued)

(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 China Telecom Group for leasing of properties.

(vii) Amount for the six-month period ended 30 June 2019 includes the fee for short-term leases and leases of low-value assets, variable lease payments and fee for non-lease components totally amounting to RMB142 million, depreciation charge for right-of-use assets amounting to RMB85 million, and interest expense on lease liabilities amounting to RMB8 million, in relation to the leasing of properties from China Telecom Group. Amount for the six-month period ended 30 June 2018 represents amounts of property lease fee paid and payable to China Telecom Group for leasing of properties.

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

(ix) 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.

(x) 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.

(xi) Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 7).

(xii) Represent amounts paid and payable to China Telecom Group primarily for usage 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.

(xiii) Represent financial services provided by Finance Company to China Telecom Group, including lending services, deposit services and other financial services.

20. Related Party Transactions (Continued)

(a) Transactions with China Telecom Group (Continued)

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

	30 June 2019 RMB millions	31 December 2018 RMB millions
Accounts receivable	**1,754**	1,327
Contract assets	**19**	24
Prepayments and other current assets	**1,050**	1,035
Total amounts due from China Telecom Group	**2,823**	2,386
Accounts payable	**19,426**	20,983
Accrued expenses and other payables	**8,415**	2,171
Contract liabilities	**113**	145
Short-term debt	**11,758**	8,584
Long-term debt	**25,100**	37,000
Lease liabilities	**332**	—
Total amounts due to China Telecom Group	**65,144**	68,883

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 7.

As at 30 June 2019 and 31 December 2018, no material allowance for expected credit loss was recognised in respect of amounts due from China Telecom Group.

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

		Six-month period ended 30 June	
	Notes	2019 RMB millions	2018 RMB millions
Tower assets lease related expenses	(i)	**9,216**	7,841
Provision of IT services	(ii)	**12**	19

20. Related Party Transactions (Continued)

(b) Transactions with China Tower (Continued)

Notes:

(i) Amount for the six-month period ended 30 June 2019 includes the variable lease payments and fee for non-lease components totally amounting to RMB5,329 million, depreciation charge for right-of-use assets amounting to RMB3,409 million, and interest expense on lease liabilities amounting to RMB478 million, in relation to tower assets lease. Amount for the six-month period ended 30 June 2018 represents tower assets lease and related fee paid and payable to China Tower.

(ii) Represent IT and other ancillary services provided to China Tower.

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

	30 June 2019 RMB millions	31 December 2018 RMB millions
Accounts receivable	**15**	10
Prepayments and other current assets	**387**	293
Total amounts due from China Tower	**402**	303
Accounts payable	**3,643**	2,850
Accrued expenses and other payables	**1,241**	1,246
Contract liabilities	**34**	—
Lease liabilities	**25,642**	—
Total amounts due to China Tower	**30,560**	4,096

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 2019 and 31 December 2018, no material allowance for expected credit loss was recognised in respect of amounts due from China Tower.

20. 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	
	2019	2018
	RMB thousands	RMB thousands
Short-term employee benefits	**3,512**	2,855
Post-employment benefits	**505**	348
	4,017	3,203

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 13% 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 2019 were RMB3,758 million (six-month period ended 30 June 2018: RMB3,492 million).

The amount payable for contributions to the above defined contribution retirement plans as at 30 June 2019 was RMB760 million (31 December 2018: RMB675 million).

20. 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 20(a)) and China Tower (Note 20(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.