

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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 18 August 2020, reflect the unaudited financial position of the Group as at 30 June 2020 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 2020.

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 2019 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.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 2A. Significant Event in the Current Period

Following the outbreak of the novel coronavirus (Covid-19) pandemic in early 2020, the Group has been coordinating its measures on Covid-19 pandemic prevention and control with its operation and development, and has taken a series of measures to ensure smooth and reliable communications, proactively fulfilling the corporate social responsibility. The Covid-19 pandemic has impacted the operation and development of the Group, but has also stimulated new informatisation demands. The Group will keep continuous and close attention on the developments of and changes in this situation, timely assess and actively respond to its impacts on the financial position, operating results and other aspects of the Group.

## 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 amendments to IFRSs, the accounting policies and methods of computation used in these interim financial statements are the same as those followed in the preparation of the 2019 annual financial statements of the Group.

### Application of amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB that are mandatorily effective for the current period:

Amendments to IAS 1 and IAS 8, "*Definition of Material*"

Amendments to IFRS 3, "*Definition of a Business*"

Amendments to IFRS 9, IAS 39 and IFRS 7, "*Interest Rate Benchmark Reform*"

In addition, the Group has early applied the Amendment to IFRS 16, "*Covid-19-Related Rent Concessions*".

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the above amendments to IFRSs in the current period has had no material effect on the Group's interim financial statements.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 3. Principal Accounting Policies (Continued)

### 3.1 Impacts and accounting policies on early application of Amendment to IFRS 16, "Covid-19-Related Rent Concessions"

#### 3.1.1 Accounting policies

##### *Leases*

##### Covid-19-related rent concessions

For rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

As a result of applying the practical expedient, the Group accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16, "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

#### 3.1.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening reserves as at 1 January 2020. The amount of which the Group recognised changes in lease payments that resulted from rent concessions in the profit or loss for the current interim period was not material to the interim financial statements.

## 4. Segment 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.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 5. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Notes	30 June 2020 RMB million	31 December 2019 RMB million
Third parties		<b>36,197</b>	24,438
China Telecom Group	(i)	<b>1,730</b>	1,188
China Tower	(ii)	<b>7</b>	5
Other telecommunications operators in the PRC		<b>950</b>	550
		<b>38,884</b>	26,181
Less: Allowance for credit losses		<b>(6,382)</b>	(4,692)
		<b>32,502</b>	21,489

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 2020 RMB million	31 December 2019 RMB million
Current, within 1 month	<b>9,393</b>	7,545
1 to 3 months	<b>2,759</b>	1,777
4 to 12 months	<b>2,164</b>	1,822
More than 12 months	<b>1,810</b>	1,002
	<b>16,126</b>	12,146
Less: Allowance for credit losses	<b>(4,030)</b>	(2,803)
	<b>12,096</b>	9,343

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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 2020 RMB million	31 December 2019 RMB million
Current, within 1 month	7,685	4,701
1 to 3 months	5,797	2,964
4 to 12 months	5,461	3,768
More than 12 months	3,815	2,602
	<b>22,758</b>	14,035
Less: Allowance for credit losses	<b>(2,352)</b>	(1,889)
	<b>20,406</b>	12,146

## 6. Cash and Cash Equivalents

	30 June 2020 RMB million	31 December 2019 RMB million
Cash at bank and in hand	19,049	20,006
Time deposits with original maturity within three months	2,894	785
	<b>21,943</b>	20,791

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

Short-term debt comprises:

	30 June 2020 RMB million	31 December 2019 RMB million
Loans from banks — unsecured	6,691	15,831
Super short-term commercial papers — unsecured	3,000	19,995
Other loans — unsecured	80	80
Loans from China Telecom Group — unsecured	2,241	6,621
	<b>12,012</b>	42,527

The weighted average interest rate of the Group's total short-term debt as at 30 June 2020 was 3.2% (31 December 2019: 2.9%) per annum. As at 30 June 2020, the Group's loans from banks and other loans bear interest at rates ranging from 3.4% to 4.4% (31 December 2019: 3.5% to 4.4%) per annum, and are repayable within one year; super short-term commercial paper bear interest at rate of 2.1% (31 December 2019: from 1.9% to 2.2%) per annum, and was repaid on 9 July 2020; the loans from China Telecom Group bear interest at rates ranging from 3.1% to 3.5% (31 December 2019: 3.5%) per annum and are repayable within one year.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

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

Long-term debt comprises:

	Notes	30 June 2020 RMB million	31 December 2019 RMB million
Loans from banks — unsecured	(i)	7,789	8,199
Other loans — unsecured		1	1
Medium-term notes — unsecured	(ii)	4,995	4,995
Corporate bonds — unsecured	(iii)	2,000	—
Loans from China Telecom Group — unsecured	(iv)	22,800	23,300
<b>Total long-term debt</b>		<b>37,585</b>	<b>36,495</b>
Less: current portion		(3,936)	(4,444)
<b>Non-current portion</b>		<b>33,649</b>	<b>32,051</b>

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 2020, the loans from banks and other loans bear interest at contractual rates ranging from 1.08% to 2.30% (31 December 2019: 1.08% to 2.30%) per annum with maturity through 2036.
- (ii) On 22 January 2019, the Group issued three-year RMB denominated medium-term note, amounting to RMB3,000 million, with 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 RMB denominated medium-term note, amounting to RMB2,000 million, with 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) On 10 March 2020, the Group issued three-year RMB denominated corporate bonds, amounting to RMB2,000 million, to qualified investors in Shanghai Stock Exchange, with interest rate of 2.90% per annum. The corporate bonds are unsecured and are payable on 9 March 2023.
- (iv) On 25 December 2017, the Group obtained long-term RMB denominated loans, amounting to RMB40,000 million, from China Telecommunications Corporation, with the interest rate of 3.80% per annum, which are repayable within 3 to 5 years. The Group partially repaid these loans amounting to RMB3,000 million, RMB13,700 million, and RMB500 million, respectively, in 2018, 2019 and the current interim period.

The Group’s short-term and long-term debt do not contain any financial covenants. As at 30 June 2020, the Group had unutilised committed credit facilities amounting to RMB263,029 million (31 December 2019: RMB245,847 million).

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 8. Accounts Payable

Accounts payable are analysed as follows:

	30 June 2020 RMB million	31 December 2019 RMB million
Third parties	95,704	78,123
China Telecom Group	19,494	19,531
China Tower	6,628	4,312
Other telecommunications operators in the PRC	613	650
	<b>122,439</b>	102,616

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 2020 RMB million	31 December 2019 RMB million
Due within 1 month or on demand	16,465	17,546
Due after 1 month but within 3 months	21,560	17,273
Due after 3 months but within 6 months	46,108	33,237
Due after 6 months	38,306	34,560
	<b>122,439</b>	102,616

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 9. Deferred Tax Assets and Liabilities

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

	Assets		Liabilities		Net Balance	
	30 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Provisions and impairment losses, primarily for credit losses	2,321	1,953	—	—	2,321	1,953
Property, plant and equipment and others	5,087	4,862	(22,117)	(18,831)	(17,030)	(13,969)
Right-of-use assets and lease liabilities	718	744	—	—	718	744
Deferred revenues and installation costs	11	18	(7)	(13)	4	5
Equity instruments at fair value through other comprehensive income	—	—	(198)	(234)	(198)	(234)
	<b>8,137</b>	<b>7,577</b>	<b>(22,322)</b>	<b>(19,078)</b>	<b>(14,185)</b>	<b>(11,501)</b>

	Recognised in consolidated		
	Balance at 1 January 2020	statement of comprehensive income	Balance at 30 June 2020
	RMB million	RMB million	RMB million
Provisions and impairment losses, primarily for credit losses	1,953	368	2,321
Property, plant and equipment and others	(13,969)	(3,061)	(17,030)
Right-of-use assets and lease liabilities	744	(26)	718
Deferred revenues and installation costs	5	(1)	4
Equity instruments at fair value through other comprehensive income	(234)	36	(198)
	<b>(11,501)</b>	<b>(2,684)</b>	<b>(14,185)</b>

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 10. Operating Revenues

### Disaggregation of revenue

	Notes	Six-month period ended 30 June	
		2020 RMB million	2019 RMB million
<b>Type of goods or services</b>			
Revenue from contracts with customers			
Voice services	(i)	<b>20,803</b>	23,529
Internet services	(ii)	<b>103,215</b>	98,895
Information and application services	(iii)	<b>49,266</b>	46,759
Telecommunications network resource and equipment services	(iv)	<b>11,424</b>	10,937
Sales of goods and others	(v)	<b>6,881</b>	8,668
Subtotal		<b>191,589</b>	188,788
Revenue from other sources	(vi)	<b>2,214</b>	1,700
<b>Total operating revenues</b>		<b>193,803</b>	190,488
<b>Timing of revenue recognition</b>			
A point in time		<b>5,329</b>	7,166
Over time		<b>188,474</b>	183,322
<b>Total operating revenues</b>		<b>193,803</b>	190,488

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, 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 revenues.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 11. Network Operations and Support Expenses

	Note	Six-month period ended 30 June	
		2020 RMB million	2019 RMB million
Operating and maintenance		<b>33,539</b>	29,931
Utility		<b>7,410</b>	6,775
Network resources usage and related fee	(i)	<b>11,473</b>	10,168
Others		<b>5,276</b>	3,906
		<b>57,698</b>	50,780

Note:

- (i) Network resources usage and related fee includes the variable lease payments not depending on an index or a rate and fee for non-lease components in respect of telecommunications towers and related assets lease and fee in respect of the short-term leases and leases of low-value assets, variable lease payments not depending on an index or a rate and fee for non-lease components in respect of 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	
	2020 RMB million	2019 RMB million
Network operations and support	<b>23,799</b>	21,882
Selling, general and administrative	<b>11,713</b>	11,434
	<b>35,512</b>	33,316

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 13. Other Operating Expenses

	Notes	Six-month period ended 30 June	
		2020 RMB million	2019 RMB million
Interconnection charges	(i)	5,804	6,289
Cost of goods sold	(ii)	4,888	6,876
Donations		2	1
Others	(iii)	748	723
		<b>11,442</b>	13,889

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	
	2020 RMB million	2019 RMB million
Interest expense on short-term and long-term debts	1,162	1,514
Interest expense on lease liabilities	745	804
Less: Interest expense capitalised*	(59)	(72)
Net interest expense	1,848	2,246
Interest income	(280)	(210)
Foreign exchange losses	525	310
Foreign exchange gains	(521)	(289)
	<b>1,572</b>	2,057
* Interest expense was capitalised in construction in progress at the following rates per annum	<b>3.5%-4.4%</b>	3.5%-4.4%

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 15. Income Tax

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2020 RMB million	2019 RMB million
Provision for PRC income tax	1,367	1,941
Provision for income tax in other tax jurisdictions	88	55
Deferred taxation	2,720	2,497
	<b>4,175</b>	4,493

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

	Notes	Six-month period ended 30 June	
		2020 RMB million	2019 RMB million
Profit before taxation		18,246	18,518
Expected income tax expense at statutory tax rate of 25%	(i)	4,562	4,630
Differential tax rate on mainland China subsidiaries' and branches' income	(i)	(279)	(133)
Differential tax rate on other subsidiaries' income	(ii)	(37)	(55)
Non-deductible expenses	(iii)	273	446
Non-taxable income	(iv)	(205)	(141)
Others	(v)	(139)	(254)
Actual income tax expense		<b>4,175</b>	4,493

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 15. Income Tax (Continued)

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 such as additional tax deduction on research and development expenses.

## 16. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting held on 26 May 2020, a final dividend of RMB0.114441 (equivalent to HK\$0.125) per share totaling RMB9,262 million in respect of the year ended 31 December 2019 was declared, and paid on 31 July 2020.

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.

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 2020 and 2019 is based on the profit attributable to equity holders of the Company of RMB13,949 million and RMB13,909 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.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 18. Capital Commitments

As at 30 June 2020 and 31 December 2019, the Group had capital commitments as follows:

	30 June 2020 RMB million	31 December 2019 RMB million
Contracted for but not provided		
Property	1,560	1,810
Telecommunications network plant and equipment	18,880	19,131
	<b>20,440</b>	20,941

## 19. Fair Value Measurements of Financial Instruments

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instruments, accounts receivable, financial assets at fair value through profit or loss 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.

### 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 financial instruments measured at fair value) approximate their carrying amounts due to the short-term maturity of these instruments.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 19. Fair Value Measurements of Financial Instruments (Continued)

The listed equity securities investments included in the Group's equity instruments at fair value through other comprehensive income are categorised as level 1 financial instruments. As at 30 June 2020, the fair value of the Group's listed equity securities investments is RMB1,084 million (31 December 2019: RMB1,228 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 2.9% to 4.9% (31 December 2019: 3.7% to 4.9%). As at 30 June 2020 and 31 December 2019, the carrying amounts and fair values of the Group's long-term debt were as follows:

	30 June 2020		31 December 2019	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
Long-term debt	<b>37,585</b>	<b>36,962</b>	36,495	35,780

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

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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:

	Notes	Six-month period ended 30 June	
		2020 RMB million	2019 RMB million
Construction and engineering services	(i)	5,785	6,177
Receiving ancillary services	(ii)	8,769	8,477
Interconnection revenues	(iii)	28	49
Interconnection charges	(iii)	56	89
Receiving community services	(iv)	1,440	1,373
Net transaction amount of centralised services	(v)	181	49
Property lease income	(vi)	17	16
Property lease related expenses	(vii)	189	142
Addition to right-of-use assets	(vii)	203	95
Interest expense on lease liabilities	(vii)	7	8
Provision of IT services	(viii)	235	166
Receiving IT services	(viii)	864	753
Purchases of telecommunications equipment and materials	(ix)	1,369	1,353
Sales of telecommunications equipment and materials	(ix)	748	626
Internet applications channel services	(x)	38	50
Interest on loans from China Telecom Group*	(xi)	501	770
Others*	(xii)	113	92
Net deposit by China Telecom Group with Finance Company*	(xiii)	204	297
Interest expense on the deposit by China Telecom Group with Finance Company*	(xiii)	29	—

\* 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.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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) Represent amounts in respect of the leasing of properties from China Telecom Group. Property lease related expenses include the fee for short-term leases, leases of low-value assets, variable lease payments not depending on an index or a rate and fee for non-lease components.
- (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 amounts related to financial services provided by Finance Company to China Telecom Group, including lending service, deposit service and other financial services.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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 2020 RMB million	31 December 2019 RMB million
Accounts receivable	1,730	1,188
Contract assets	57	27
Prepayments and other current assets	1,153	1,233
<b>Total amounts due from China Telecom Group</b>	<b>2,940</b>	2,448
Accounts payable	19,494	19,531
Accrued expenses and other payables	12,351	6,069
Contract liabilities	133	162
Lease liabilities	471	389
Short-term debt	2,241	6,621
Long-term debt	22,800	23,300
<b>Total amounts due to China Telecom Group</b>	<b>57,490</b>	56,072

Amounts due from/to China Telecom Group, other than short-term debt, long-term debt and deposit with Finance Company included in accrued expenses and other payables, 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 2020 and 31 December 2019, no material loss allowance 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	2020 RMB million	2019 RMB million
Tower assets lease related expenses	(i)	5,777	5,329
Addition to right-of-use assets	(i)	1,434	1,285
Interest expenses on lease liabilities	(i)	419	478
Provision of IT services	(ii)	15	12

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 20. Related Party Transactions (Continued)

### (b) Transactions with China Tower (Continued)

Notes:

- (i) Represent amounts in respect of the lease of tower assets. Tower assets lease related expenses include the variable lease payments not depending on an index or a rate and fee for non-lease components.
- (ii) Represent IT and other ancillary services provided to China Tower.

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

	30 June 2020 RMB million	31 December 2019 RMB million
Accounts receivable	7	5
Prepayments and other current assets	205	192
<b>Total amounts due from China Tower</b>	<b>212</b>	197
Accounts payable	6,628	4,312
Accrued expenses and other payables	1,380	1,261
Contract liabilities	34	1
Lease liabilities	21,815	24,474
<b>Total amounts due to China Tower</b>	<b>29,857</b>	30,048

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 2020 and 31 December 2019, no material loss allowance was recognised in respect of amounts due from China Tower.

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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	
	2020 RMB thousand	2019 RMB thousand
Short-term employee benefits	3,147	3,512
Post-employment benefits	442	505
	<b>3,589</b>	4,017

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 20% of the salaries, bonuses and certain allowances of the employees, while the PRC government resolved to reduce half of such contributions from February to April 2020 in order to help enterprises withstand the Covid-19 pandemic and stabilise employment. 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 2020 were RMB2,981 million (six-month period ended 30 June 2019: RMB3,758 million).

The amount payable for contributions to the above defined contribution retirement plans as at 30 June 2020 was RMB891 million (31 December 2019: RMB755 million).

# Notes to the Unaudited Interim Financial Statements

for the six-month period ended 30 June 2020

## 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.