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China Telecom Corporation Limited

中国电信股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 728)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

HIGHLIGHTS

- In the first half of 2015, despite the impact of the regulatory policies such as the VAT reform, the Company's overall development remained solid. Operating revenues amounted to RMB164,953 million. Service revenues amounted to RMB147,022 million, remaining stable as compared with the same period last year and outperforming industry average growth
- EBITDA was RMB50,739 million, up by 0.4% over the same period last year. EBITDA margin was 34.5%
- Profit attributable to equity holders of the Company was RMB10,980 million, declined by 4.0% over the same period last year. Basic earnings per share were RMB0.14
- The number of mobile subscribers reached 191 million, representing a net addition of 5.82 million from the end of last year, of which: the number of 4G terminal users reached approximately 29 million, with a net addition of approximately 22 million from the end of last year
- The number of wireline broadband subscribers reached 110 million, representing a net addition of 2.61 million from the end of last year

CHAIRMAN'S STATEMENT

In the first half of 2015, despite the challenges brought by the regulatory policies such as the value-added tax ("VAT") reform and "speed upgrade & tariff reduction", the Company managed to achieve a breakthrough in geographical limitations following the issuance of the LTE FDD licence and accelerated development comprehensively. With full exploitation of the competitive capabilities of

network, terminals, channels and customer service accumulated in preceding periods and leveraging the favourable policy of tower sharing, the Company focused on strategy implementation and promptly grasped the development pace and initiatives. The 4G network coverage was effectively enhanced and the 4G subscriber scale and market share rapidly increased despite intensified market competition. The edges in broadband network were rapidly transformed into marketing edges, accelerating development in fibre broadband services. The new integrated offering advantages of dual-100Mbps with 4G and fibre broadband gradually emerged while the scale operation and data traffic operation of the Company achieved remarkable overall results. At the same time, seizing these favourable opportunities, the Company persisted in comprehensive in-depth reform and accelerated the Internet-oriented transformation, resulting in continual strengthening in differentiated core competitiveness and vigorous promotion of scale development with a view to expanding the new horizons for future development in full strengths.

OPERATING RESULTS

In the first half of the year, despite the impact of the regulatory policies such as the VAT reform, the Company's overall development remained solid. Operating revenues amounted to RMB165.0 billion. Service revenues¹ amounted to RMB147.0 billion, remaining stable as compared with the same period last year and outperforming industry average growth. The revenues from emerging business increased by approximately 21% over the same period last year, accounting for approximately 34% of service revenues and representing an increase of 6 percentage points over the same period last year. The business structure continued to optimise rapidly. EBITDA² was RMB50.7 billion, up by 0.4% over the same period last year while EBITDA margin³ was 34.5%. Profit attributable to the equity holders of the Company was RMB11.0 billion, representing a decline of 4% over the same period last year. Basic earnings per share were RMB0.14. Capital expenditure was RMB36.7 billion while free cash flow⁴ was RMB10.5 billion.

Since the commencement of the pilot programme of the VAT reform in the telecommunications industry in June 2014, the Company has been striving to optimise its development and sales models, implement enhanced management over cost, procurement and vendors' tax qualifications as well as continue to optimise in revenue structure. The relevant monthly average adverse impact has been moderated. In the future, with the continual expansion of the VAT reform to other industries, it is expected that the Company will be entitled to more input VAT credits, which will be beneficial for the enhancement of its profitability in the long term.

¹ Service revenues were calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.

² EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

³ EBITDA margin was calculated based on EBITDA divided by service revenues.

⁴ Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

Taking into consideration the Company's profitability, cash flow level and the capital requirements for future development, the Board of Directors has decided not to pay an interim dividend this year in order to maintain adequate funding flexibility. The Board of Directors will proactively consider a final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

Focusing on key businesses to accelerate scale development

In the first half of the year, the Company accelerated the development of its 4G services, driving steady growth of the mobile business. Taking full advantages of tower sharing, the Company rolled out the 4G network fast and effectively to enhance time-to-market and savings in capital expenditure. Leveraging the global mainstream technology standard and spectrum resources advantages, the network has basically covered city areas of county-level or above in general. With investment focus on high-valued areas, the coverage in key cities with high data traffic demand was further strengthened. The Company reasonably applied carrier aggregation technology and launched "e-Surfing 4G+" (LTE-A) service in selected key cities in August to create superior network, branding and reputation. The launch of signature 4G handsets specialised in video streaming, on-line shopping and security functions as well as entry-level handsets rapidly facilitated the all-round co-operation with mainstream handset manufacturers with enriching selection. The Company strengthened brand promotion and experience marketing. A new integrated offering of dual-100Mbps was launched and the design of package plans was optimised to induce the existing subscribers to upgrade to 4G services. Meanwhile, the Company adhered to the terminal-led approach with strategic handsets such as Apple and Samsung to attract more high-end subscribers, resulting in effective enhancement in customer acquisition capabilities. In the first half of the year, mobile service revenues reached RMB62.3 billion, representing an increase of 0.6% over the same period last year. The net addition of mobile subscribers was 5.82 million, with total mobile subscribers reaching 191 million. Of which the net addition of 4G terminal users was approximately 22 million, reaching a total of approximately 29 million. The 4G user market share enhanced rapidly as compared with the end of last year. The 3G/4G subscribers accounted for approximately 68% of the total number of mobile subscribers and the subscriber structure was further optimised.

In the first half of the year, the Company fully leveraged the network edges accumulated over the years and comprehensively commenced the end-to-end bandwidth upgrade. The Company also reinforced the concerted development of broadband and 4G, as well as speeding up the product upgrade to promote the profitable and sustainable development of wireline broadband services. Capitalising on its own investment and the introduction of private capital, the construction of fibre network was accelerated. The interconnection of IDCs and capacity expansion of backbone network were fostered to enhance the transmission efficiency of Internet data. Through the establishment of strategic cooperation with key Internet content providers, the access of high quality content sources was assured. Focusing on customers' experience and clearing all hurdles in the entire end-to-end process, the Company provided superior and high speed Internet experience for subscribers. Implementing the policy of "speed upgrade & tariff reduction", the Company launched free upgrade for subscribers below 4Mbps bandwidth, and provided promotion offers such as tariff reduction for 50Mbps and 100Mbps mainstream broadband

products, leveraging the price elasticity to optimise subscriber structure and enhancing value of subscribers. The Company also focused on the high-definition contents and integrated applications to further perfect the “Smart Family” products portfolio with “Joy me” as a core. In the first half of the year, the wireline broadband service revenue reached RMB37.6 billion, representing an increase of 3% over the same period last year. The number of wireline broadband subscribers reached 110 million, representing a net increase of 2.61 million. The average bandwidth of wireline broadband subscribers reached 18Mbps in June, doubling over the same period last year while the 100Mbps bandwidth subscribers accounted for over 10% of the total subscribers.

In the first half of the year, the Company accelerated the development of emerging business with continual expansion in business scale and revenue contribution. In addition to focusing on innovative data traffic products including dedicated-data traffic packages, “Data Traffic 800” and “Liuliangbao”, the Company refined the package design in response to the policy of “speed upgrade & tariff reduction”, providing more data concessions to subscribers. It led to rapid increase in data traffic scale and overall value. In the first half of the year, mobile handset Internet access revenues amounted to RMB22.5 billion, representing an increase of 43% over the same period last year. The handset Internet data traffic increased by 77% over the same period last year, and the monthly average data traffic per 3G/4G handset subscriber reached 311MB, representing an increase of 43% over same period last year. The Company reinforced differentiated capabilities of YiChat products by launching the enterprise version to create the edges in business communications services. New services applications like payment and lifestyle service were also embedded. The user scale of YiChat expanded continuously and the registered users reached 180 million by end of June. The Company also accelerated the expansion of the collaborative business coverage of “BestPay” and deepened the exploration in Internet finance services such as wealth management and credit reference. In the first half of the year, the gross merchandise value of “BestPay” reached approximately RMB380 billion, an increase of two-fold over the same period last year. Led by the “Smart Cities” project, the Company fully leveraged the industry applications to drive the key markets such as business customers and campuses. The Company persisted in strengthening the integrated operation of IDC nationwide and launched the new deployment “8+2+X”⁵ integrating cloud and network to provide secured, timely and premier cloud services for customers to establish the differentiated service capability in the enterprise market. The Company firmly grasped the business opportunities of “Internet+” and accelerated the upgrade of ICT service from basic integration service to Internet-oriented operations. In the first half of the year, the Company’s overall ICT revenues amounted to RMB14.2 billion, representing an increase of 11% over the same period last year.

Fostering reform and innovation to enhance differentiated edges

In the first half of the year, the Company adhered to comprehensive in-depth reform and persisted in stimulating corporate vitality. Through thorough promotion of sub-division of performance evaluation units, the Company accelerated the selection and training of “unit CEOs” with over 30,000 “unit CEOs” nationwide. As the main force of market-oriented reform grew rapidly, the efficiency and return

⁵ “8+2+X” denotes 8 major regional nodes, 2 core cloud data centre bases in Inner Mongolia and Guizhou and dynamic city nodes in accordance with customers’ demand.

of the frontline operation was profoundly enhanced. The establishment of the “top-down” service support system was expedited, promoting change in corporate management and further flattening organisation structure. Through various methods including efficiently-centralised support, frontline-oriented service and reverse appraisal, internal interaction was strengthened and a highly-efficient, responsive and collaborative operating system was created.

Accurately grasping the Internet dynamics, the Company has achieved remarkable progress in Internet-oriented transformation. The Company proactively commenced the professional and coordinated channel operation with O2O as a core as well as enhanced the development efficiency of specialty stores and open channels. Marketing modes such as WeChat shops were further diversified. With the consolidation of online sales and service portals, the online integrated service platform “Joy go” was launched, so as to strengthen the efficiently-centralised Internet-oriented marketing and services. The overall capability and cost efficiency of channel sales were further enhanced. Firmly seizing the strategic opportunities of the implementation of the national “Internet+” action plan, the Company timely released the “Internet+” action white paper with the layout of four key strategic areas: modern agriculture, industrial manufacturing, emerging services and corporate operations, focusing on 10 major projects such as smart production. In cooperation with the partners, the Company will explore the best business models for value chain operations and work together to create an open, highly-efficient collaborative industry ecosystem to promote the evolution and upgrade of traditional industries. The Company leveraged new international mainstream technology such as Software Defined Network (SDN) to promote the Internet-oriented transformation of the network while using customer experience as a core to promote transformation of network maintenance to network operations. Facing the demands from Internet-oriented operations, the efficiently-centralised operations of IT services was expedited, resulting in consistent enhancement in both market response capability and operating efficiency.

Focused on the Company’s own strengths and resources, the capabilities of differentiated products were rapidly enhanced. The security products were developed quickly. The network security product “cloud dam” and security handsets launched at the end of last year started to establish their scale. The recent launch of “e-Surfing security” brand and a series of related products continuously optimised the all-round security protection system integrating the “cloud, pipe and device”. The operation capability of secured WiFi platform was further strengthened and the hotspots of the Company’s “aWiFi” platform reached 500,000. The Company leveraged the edges in secured unified account authentication and large scale hotspot resources to attract business partners to explore the new WiFi business models. The application scope and scale of Near Field Communication (NFC) business continued to expand, with the launch of public transport card function in 90 cities nationwide and e-Surfing RFID function in 24 provinces, as well as UnionPay applications collaborating with 23 banks. The NFC users have already exceeded 20 million. In addition to providing secured cloud-based infrastructure resources, the Company continued to expand cloud applications and services to further enrich the cloud computing product line. In the first half of the year, the revenues from cloud computing products amounted to RMB470 million, representing a 54% increase over the same period last year with rapid increase in worldwide leading and reputable corporate customers. Applying the existing rich data resources, the Company proactively explored Big Data products development and launched precision marketing and

customer retention internally while further promoting the application scope of Big Data products such as “Smart Insight”, “Smart Credit Reference” externally, laying a foundation for future scale development.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

We are committed to maintaining a high level of corporate governance, attaching great importance to risk management and control. We strive to enhance corporate transparency and value to ensure our healthy and orderly growth. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We have been accredited with a number of awards and recognition for the year to date, including the “Most Honored Company in Asia” by *Institutional Investor* for five consecutive years and the “Overall Best Managed Company in Asia” by *FinanceAsia* for five consecutive years.

We persisted in operating with integrity and proactively fulfilled our corporate social responsibility to maintain a fair and orderly environment for market competition and facilitate healthy development of the entire value chain. Meanwhile, we actively promoted green operations, further strengthening energy conservation and emission reduction to improve utilisation efficiency of resources. We accomplished telecommunications assurance tasks for significant events such as the 2015 World Table Tennis Championships and disaster reliefs and were highly commended by the society.

OUTLOOK

2015 marks a crucial year for the Company’s 4G scale development and change in the industry competitive landscape. The Company is facing various challenges including a slowdown in macro-economic growth, saturated market on mobile subscribers, VAT reform and “speed upgrade & tariff reduction”, as well as intensifying competition within and across the industries. However, following the rapid development of the Internet industry together with the initiation and implementation of the national “Internet+” action plan, the benefits from the national “innovation-driven” policy became prominent. With the rapid growth in the demand for the high speed Internet, there will be huge development opportunity for information economy represented by the “Internet+” and vast potential for the Company’s prospects.

In the second half of the year, the Company will optimise the allocation of investment resources and adopt the latest technology to continuously strengthen 4G premier network quality, brand advantage and leading customer experience, fully leveraging the tower sharing to enhance corporate value and taking customer experience as the core. We will step up our support for non-customised handsets, vigorously promoting the development of signature terminals such as dual-SIM 6-mode handsets, 4G+ handsets and security handsets. We will also comprehensively accelerate the transformation of channel operation model with O2O as the core and establish 60,000 premier specialty stores to strengthen our influence on terminals and channels. At the same time, the Company will further strengthen its differentiated competitive edges in wireline broadband network and promote scale development of its “Smart Family” products, “Joy me”, to continuously enhance the scale and return of the fibre broadband subscribers.

The Company will closely follow up and strive to accommodate the regulatory requirements of “speed upgrade & tariff reduction”. The Company will continuously explore and optimise the business model of data traffic operation, leveraging data price elasticity to increase sales at lower unit prices in order to achieve a win-win situation. Making use of Big Data analysis, the Company will commence precision data traffic operations to enhance data value. We will commence co-operation in various forms and actively explore and refine the data traffic operation model integrating forward- and backward-operations. At the same time, the Company will leverage its strengths in network and customer resources to continuously promote Internet-oriented transformation and manage well its Internet data analytics to accelerate scale expansion of its differentiated products. Adhering to open cooperation, the Company will aim for achieving breakthroughs on “Internet+” applications and the rapid formation of product capabilities in cloud computing, Big Data, Internet of Things and other new technology application areas, strengthening competitive advantages of the ecosystem.

Looking ahead, we have full confidence. We will follow the established strategic plans to pursue innovative development, in-depth reform and excellent execution. We will well-perform the “punches combo” of scale development, data traffic operation and Internet data analytics to further enhance revenue and subscriber market share, fully promoting the changes in the industry landscape towards a favourable direction, with a view to continuously creating new value for shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express my sincere thanks to all our employees for their hard work and contribution. Also, I would like to welcome Mr. Sui Yixun and Mr. Ye Zhong to join our Supervisory Committee.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, China

19 August 2015

GROUP RESULT

China Telecom Corporation Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015 extracted from the unaudited interim financial statements of the Group as set out in its 2015 Interim Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the six-month period ended 30 June 2015

(Amounts in millions, except per share data)

		Six-month period ended 30 June	
		2015	2014
	Note	RMB	RMB
Operating revenues	3	164,953	165,973
Operating expenses			
Depreciation and amortisation		(33,585)	(32,776)
Network operations and support		(37,224)	(29,332)
Selling, general and administrative		(25,062)	(36,943)
Personnel expenses		(28,079)	(24,642)
Other operating expenses		<u>(23,849)</u>	<u>(24,518)</u>
Total operating expenses		<u>(147,799)</u>	<u>(148,211)</u>
Operating profit		17,154	17,762
Net finance costs	4	(2,160)	(2,736)
Investment income		6	2
Share of (losses)/profits of associates		<u>(456)</u>	<u>7</u>
Profit before taxation		14,544	15,035
Income tax	5	<u>(3,536)</u>	<u>(3,561)</u>
Profit for the period		<u>11,008</u>	<u>11,474</u>

		Six-month period ended 30 June	
		2015	2014
	<i>Note</i>	RMB	RMB
Other comprehensive income for the period:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of available-for-sale securities		967	(41)
Deferred tax on change in fair value of available-for-sale equity securities		(242)	10
Exchange difference on translation of financial statements of subsidiaries outside mainland China		(11)	26
Share of other comprehensive income of associates		<u>1</u>	<u>(2)</u>
Other comprehensive income for the period, net of tax		<u>715</u>	<u>(7)</u>
Total comprehensive income for the period		<u><u>11,723</u></u>	<u><u>11,467</u></u>
Profit attributable to:			
Equity holders of the Company		10,980	11,436
Non-controlling interests		<u>28</u>	<u>38</u>
Profit for the period		<u><u>11,008</u></u>	<u><u>11,474</u></u>
Total comprehensive income attributable to:			
Equity holders of the Company		11,695	11,429
Non-controlling interests		<u>28</u>	<u>38</u>
Total comprehensive income for the period		<u><u>11,723</u></u>	<u><u>11,467</u></u>
Basic earnings per share	6	<u><u>0.14</u></u>	<u><u>0.14</u></u>
Number of shares (in millions)		<u><u>80,932</u></u>	<u><u>80,932</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)*at 30 June 2015**(Amounts in millions)*

		30 June	31 December
		2015	2014
	<i>Note</i>	RMB	RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net		364,198	372,876
Construction in progress		63,443	53,181
Lease prepayments		24,119	24,410
Goodwill		29,917	29,917
Intangible assets		8,796	8,984
Interests in associates		3,651	4,106
Investments		1,939	972
Deferred tax assets	8	3,896	3,232
Other assets		4,192	4,053
		<u>504,151</u>	<u>501,731</u>
Total non-current assets			
Current assets			
Inventories		3,573	4,225
Income tax recoverable		1,144	1,360
Accounts receivable, net	9	27,691	21,562
Prepayments and other current assets		12,995	10,581
Short-term bank deposits		2,173	1,379
Cash and cash equivalents		21,228	20,436
		<u>68,804</u>	<u>59,543</u>
Total current assets			
		<u>572,955</u>	<u>561,274</u>
Total assets			

		30 June	31 December
		2015	2014
	<i>Note</i>	RMB	RMB
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt		28,117	43,976
Current portion of long-term debt		75	82
Accounts payable	10	98,087	88,458
Accrued expenses and other payables		83,615	72,442
Income tax payable		1,163	307
Current portion of deferred revenues		<u>968</u>	<u>1,060</u>
Total current liabilities		<u>212,025</u>	<u>206,325</u>
Net current liabilities		<u>(143,221)</u>	<u>(146,782)</u>
Total assets less current liabilities		360,930	354,949
Non-current liabilities			
Long-term debt and payable		62,435	62,494
Deferred revenues		664	798
Deferred tax liabilities	8	1,617	1,125
Other non-current liabilities		<u>423</u>	<u>424</u>
Total non-current liabilities		<u>65,139</u>	<u>64,841</u>
Total liabilities		<u><u>277,164</u></u>	<u><u>271,166</u></u>
Equity			
Share capital		80,932	80,932
Reserves		<u>213,872</u>	<u>208,251</u>
Total equity attributable to equity holders of the Company		294,804	289,183
Non-controlling interests		<u>987</u>	<u>925</u>
Total equity		<u>295,791</u>	<u>290,108</u>
Total liabilities and equity		<u><u>572,955</u></u>	<u><u>561,274</u></u>

Notes:

1. 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. These interim financial statements, which were authorised for issuance by the Board of Directors on 19 August 2015, reflect the unaudited financial position of the Group as at 30 June 2015 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 2015.

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

Except as described below, these interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements of the Group.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are mandatorily effective for the current period:

Amendments to IAS 19, “Defined Benefit Plans: Employee Contributions”

Annual Improvements to IFRSs 2010–2012 Cycle

Annual Improvements to IFRSs 2011–2013 Cycle

The application of the above amendments to IFRSs has had no material effect on the Group’s interim financial statements.

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.

2. SEGMENTAL REPORTING

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

3. OPERATING REVENUES

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

	<i>Note</i>	Six-month period ended 30 June	
		2015	2014
		<i>RMB millions</i>	<i>RMB millions</i>
Wireline voice	(i)	15,268	17,561
Mobile voice	(ii)	24,889	30,148
Internet	(iii)	62,274	54,755
Value-added services	(iv)	20,128	18,996
Integrated information application services	(v)	13,966	14,538
Telecommunications network resource services and lease of network equipment	(vi)	8,667	9,209
Others	(vii)	19,761	20,766
		<u>164,953</u>	<u>165,973</u>

Note:

Before 1 June 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, and relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the VAT Reform (Caishui [2014] No.43) jointly issued by the Ministry of Finance and the State Administration of Taxation, from 1 June 2014, the pilot programme of replacing business tax with VAT is extended to cover the telecommunications industry. The VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 11% while the VAT rate for value-added telecommunications services (including Internet access services, short and multimedia messaging services, transmission and application service of electronic data and information) is 6%, and VAT is excluded from operating revenues. With effect from 1 June 2014, the Group is no longer required to pay business tax of 3% on telecommunications services.

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections fees and installation fees charged to customers for the provision of wireline telephony services.
- (ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.
- (iii) Represent amounts charged to customers for the provision of Internet access services.
- (iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Colour Ring Tone, Internet data centre and Virtual Private Network services and etc.
- (v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.

- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services (MVNO).

4. NET FINANCE COSTS

Net finance costs comprise:

	Six-month period ended 30 June	
	2015	2014
	<i>RMB millions</i>	<i>RMB millions</i>
Interest expense incurred	2,517	3,014
Less: Interest expense capitalised*	<u>(155)</u>	<u>(155)</u>
Net interest expense	2,362	2,859
Interest income	(164)	(130)
Foreign exchange losses	11	19
Foreign exchange gains	<u>(49)</u>	<u>(12)</u>
	<u>2,160</u>	<u>2,736</u>
* Interest expense was capitalised in construction in progress at the following rates per annum	<u>3.8%–5.7%</u>	<u>4.2%–6.0%</u>

5. INCOME TAX

Income tax in the profit or loss comprises:

	Six-month period ended 30 June	
	2015	2014
	<i>RMB millions</i>	<i>RMB millions</i>
Provision for PRC income tax	3,922	4,020
Provision for income tax in other tax jurisdictions	28	34
Deferred taxation	<u>(414)</u>	<u>(493)</u>
	<u>3,536</u>	<u>3,561</u>

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

	<i>Note</i>	Six-month period ended 30 June	
		2015	2014
		<i>RMB millions</i>	<i>RMB millions</i>
Profit before taxation		14,544	15,035
Expected income tax expense at statutory tax rate of 25%	(i)	3,636	3,759
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(185)	(159)
Differential tax rate on other subsidiaries' income	(ii)	(16)	(25)
Non-deductible expenses	(iii)	141	123
Non-taxable income	(iv)	(39)	(31)
Others	(v)	(1)	(106)
Actual income tax expense		3,536	3,561

Note:

- (i) Except for certain subsidiaries and branches which are mainly taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 38%.
- (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 tax deduction on prior year research and development expenses and losses on disposal of property, plant and equipment approved by tax authorities during the period.

6. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2015 and 2014 is based on the profit attributable to equity holders of the Company of RMB10,980 million and RMB11,436 million, respectively, divided by 80,932,368,321 shares.

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

7. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 27 May 2015, a final dividend of RMB0.076120 (equivalent to HK\$0.095) per share totaling RMB6,160 million in respect of the year ended 31 December 2014 was declared and paid on 17 July 2015.

Pursuant to the shareholders' approval at the Annual General Meeting held on 29 May 2014, a final dividend of RMB0.076583 (equivalent to HK\$0.095) per share totaling RMB6,198 million in respect of the year ended 31 December 2013 was declared and paid on 18 July 2014.

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

8. 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 2015 <i>RMB millions</i>	31 December 2014 <i>RMB millions</i>	30 June 2015 <i>RMB millions</i>	31 December 2014 <i>RMB millions</i>	30 June 2015 <i>RMB millions</i>	31 December 2014 <i>RMB millions</i>
Provisions and impairment losses, primarily for doubtful debts	1,503	1,156	—	—	1,503	1,156
Property, plant and equipment	2,155	1,788	(1,054)	(773)	1,101	1,015
Deferred revenues and installation costs	238	288	(158)	(189)	80	99
Available-for-sale equity securities	—	—	(405)	(163)	(405)	(163)
Deferred tax assets/(liabilities)	<u>3,896</u>	<u>3,232</u>	<u>(1,617)</u>	<u>(1,125)</u>	<u>2,279</u>	<u>2,107</u>

	Recognised in consolidated statement of		
	Balance at 1 January 2015 <i>RMB millions</i>	comprehensive income <i>RMB millions</i>	Balance at 30 June 2015 <i>RMB millions</i>
Provisions and impairment losses, primarily for doubtful debts	1,156	347	1,503
Property, plant and equipment	1,015	86	1,101
Deferred revenues and installation costs	99	(19)	80
Available-for-sale equity securities	(163)	(242)	(405)
Net deferred tax assets	<u>2,107</u>	<u>172</u>	<u>2,279</u>

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

		30 June	31 December
		2015	2014
	<i>Note</i>	<i>RMB millions</i>	<i>RMB millions</i>
Third parties		29,933	22,853
China Telecom Group	(i)	436	329
Other telecommunications operators in the PRC		1,198	858
		31,567	24,040
Less: Allowance for doubtful debts		(3,876)	(2,478)
		27,691	21,562

Note:

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

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

		30 June	31 December
		2015	2014
		<i>RMB millions</i>	<i>RMB millions</i>
Current, within 1 month		11,710	11,273
1 to 3 months		3,572	2,600
4 to 12 months		2,390	1,865
More than 12 months		1,422	660
		19,094	16,398
Less: Allowance for doubtful debts		(3,513)	(2,355)
		15,581	14,043

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

	30 June 2015	31 December 2014
	<i>RMB millions</i>	<i>RMB millions</i>
Current, within 1 month	4,117	3,012
1 to 3 months	3,143	1,679
4 to 12 months	3,534	1,924
More than 12 months	<u>1,679</u>	<u>1,027</u>
	12,473	7,642
Less: Allowance for doubtful debts	<u>(363)</u>	<u>(123)</u>
	<u>12,110</u>	<u>7,519</u>

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

10. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	30 June 2015	31 December 2014
	<i>RMB millions</i>	<i>RMB millions</i>
Third parties	78,290	71,934
China Telecom Group	18,933	15,667
Other telecommunications operators in the PRC	<u>864</u>	<u>857</u>
	<u>98,087</u>	<u>88,458</u>

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

Ageing analysis of accounts payable is as follows:

	30 June 2015	31 December 2014
	<i>RMB millions</i>	<i>RMB millions</i>
Due within 1 month or on demand	17,567	17,783
Due after 1 month but within 3 months	13,017	11,678
Due after 3 months but within 6 months	22,717	14,825
Due after 6 months	44,786	44,172
	98,087	88,458

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company’s 2014 Annual Report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six-month period ended 30 June 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

DIRECTORS’ AND SUPERVISORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2015, none of the Directors or Supervisors had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”).

As at 30 June 2015, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

CHANGE OF DIRECTORS AND SUPERVISORS SINCE THE DATE OF THE 2014 ANNUAL REPORT

The changes in the information relating to the Directors and Supervisors since the date of the Company’s 2014 Annual Report are set out below:

On 27 May 2015, Mr. Sui Yixun and Mr. Ye Zhong were approved to be appointed as supervisors of the Company respectively at the Annual General Meeting of the Company for year 2014.

Mr. Tse Hau Yin, Aloysius, the Independent Non-Executive Director of the Company, has been appointed as the Independent Non-Executive Director of China Huarong Asset Management Company, Limited. Meanwhile, Linmark Group Limited, in which Mr. Tse acts as an Independent Non-Executive Director, has now been renamed as Daohe Global Group Limited. Mr. Tang Qi, the Employee Representative Supervisor of the Supervisory Committee of the Company, has been appointed as the Senior President of the Shandong branch of the Company and has ceased to be the Vice Chairman of the Labour Union of China Telecommunications Corporation and the Company.

Save as stated above, there is no other information on the Directors or Supervisors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors and Supervisors are available on the website of the Company (www.chinatelecom-h.com)

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditor, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2015.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company attaches great importance to corporate governance. We continued to make efforts in improving the Company's internal control mechanisms, strengthening information disclosure and enhancing the Company's transparency, developing corporate governance practices and protecting shareholders' interests to the maximum degree.

The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, for the six months period ended 30 June 2015. In the Company's opinion, through supervision of the Board of Directors and Independent Non-Executive Directors, and effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and execution and effectively capture business opportunities. Many international leading corporations also have a similar arrangement.

Save as stated above, the Company has been in compliance with all the code provisions under the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2015.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors and Supervisors. Further to the specific enquiries made by the Company to Directors and Supervisors, they have confirmed their compliance with the Model Code throughout the period from 1 January 2015 to 30 June 2015.

INTERIM REPORT

The Interim Report for the six months ended 30 June 2015 will be despatched to shareholders and made available on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinatelecom-h.com) in due course.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this announcement may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

As at the date of this announcement, the Board of Directors of the Company consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Mr. Yang Jie as the president and chief operating officer, Mr. Zhang Jiping, Mr. Yang Xiaowei, Mr. Sun Kangmin and Mr. Ke Ruiwen as the executive vice presidents, Mr. Zhu Wei as the non-executive director and Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura, Mr. Xu Erming and Madam Wang Hsuehming as the independent non-executive directors.