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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 2016**

#### **HIGHLIGHTS**

- Operating revenues amounted to RMB176,828 million, increased by 7.2% over the same period last year and achieved industry-leading growth. Service revenues amounted to RMB155,222 million, up by 5.6% over the same period last year
- EBITDA was RMB50,555 million, declined by 0.4% over the same period last year. EBITDA margin was 32.6%
- Profit attributable to equity holders of the Company was RMB11,673 million, increased by 6.3% over the same period last year. Basic earnings per share were RMB0.14
- The number of mobile subscribers reached 207 million, representing a net addition of 9.04 million from the end of last year, of which: the number of 4G terminal users reached 90.10 million, with a net addition of 31.64 million from the end of last year. Handset Internet data traffic increased by 135% over the same period last year
- The number of wireline broadband subscribers reached 118 million, representing a net addition of 4.94 million from the end of last year. Of which, total Fibre-to-the-Home (FTTH) subscribers was 88.34 million, representing a net addition of 17.35 million from the end of last year while the average bandwidth of wireline broadband subscribers reached 37 Mbps
- e-Surfing HD (IPTV) subscribers reached 50.16 million, representing a net addition of 9.78 million from the end of last year

## CHAIRMAN'S STATEMENT

In the first half of 2016, with a unitary goal cohering as a whole, the Company adhered to the established development strategy to persist in excellent execution. Firmly seizing opportunities and taking steps in reform and innovation, the Company accomplished brilliant results. With accelerated expansion of operation scale, our business structure was continually optimised while our competitive capabilities were remarkably strengthened. The vitality of our employees was fully demonstrated. Through proactively grasping the arising opportunities and adapting to the changing trends in a timely manner, the Company firmly established a new strategy on transformation and upgrades, aimed at providing superb customer experience in an era of intellectual services and facilitating the Company's evolution into a leading integrated intelligent information services operator.

## OVERALL RESULTS

In the first half of 2016, the Company had excellent performance in its overall results. Operating revenues amounted to RMB176.8 billion, representing an increase of 7.2% over the same period last year, achieving industry-leading growth. Service revenues<sup>1</sup> amounted to RMB155.2 billion, representing an increase of 5.6% over the same period last year with continual rapid optimisation in revenue structure. EBITDA<sup>2</sup> was RMB50.6 billion while EBITDA margin<sup>2</sup> was 33%. Profit attributable to the equity holders of the Company was RMB11.7 billion, representing an increase of 6.3% over the same period last year. Basic earnings per share were RMB0.14. Capital expenditure was RMB40.7 billion while free cash flow<sup>3</sup> was RMB6.1 billion.

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 the expectation of shareholders' return and evaluate the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

### *Scale Breakthrough with Favourable Trends*

In the first half of the year, the Company comprehensively implemented aggressive marketing strategy and emphasised the operating focuses, "2+5"<sup>4</sup>. With persistent promotion of in-depth integration and enhancement in efficiently-centralised operation, the Company expanded open cooperation and fully leveraged the differentiated edges, resulting in notable improvements in competitive strengths.

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

<sup>2</sup> EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation while EBITDA margin was calculated based on EBITDA divided by service revenues.

<sup>3</sup> Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

<sup>4</sup> "2+5" refers to two fundamental businesses namely 4G and fibre broadband plus five emerging areas namely e-Surfing HD, BestPay, Internet of Things, cloud and Big Data and "Internet+".

**Comprehensive upgrade in 4G capabilities to drive industry-leading growth in mobile business.** By fully leveraging the competitive advantages in 4G network and “multi-mode” handsets, the Company increased efforts in integration and the effect of 4G driving the scale development of mobile business was evident. The net increase of 4G terminal users was 31.64 million, accounting for 18% market share in industry’s net additions. The total number of 4G terminal users reached 90.10 million, accounting for 15.2% market share. The net increase of mobile subscribers was 9.04 million, accounting for 32% market share in industry’s net additions. The total number of mobile subscribers reached approximately 210 million, representing 15.9% market share. 4G users accounted for 44% of total mobile subscribers, representing an increase of 14 percentage points from the end of last year. The monthly average data traffic per 4G user reached 889 MB while the aggregate handset Internet data traffic increased by 135% compared to the same period last year. The mobile handset Internet access revenue increased by 42% over the same period last year, accounting for 47% of the mobile service revenues. The mobile service revenues increased by 8.3% over the same period last year, outperforming the industry growth.

**Sustained expansion of fibre broadband edges to further strengthen our leading position in broadband service.** The Company proactively implemented the national strategy of “Broadband China” and insisted on expediting bandwidth upgrade in broadband. Persistently driven by 100 Mbps products with trial run of 1,000 Mbps products, the Company comprehensively integrated and optimised our services quality, resulting in remarkable achievements in development. The wireline broadband service revenue increased by 3.3% over the same period last year, driving the wireline service revenues achieved healthy growth. The net addition of Fibre-to-the-Home (FTTH) subscribers was 17.35 million, reaching a total of 88.34 million. The net addition of wireline broadband subscribers was 4.94 million, reaching a total of approximately 120 million. FTTH subscribers accounted for 75% of the total wireline broadband subscribers, an increase of 12 percentage points from the end of last year. The market share of wireline broadband business within the service area of the Company’s wireline operations was 62% whereas the market share of FTTH subscribers was approximately 66%, continuing to maintain the leading position in wireline broadband market.

**Rapid expansion in emerging areas and accelerated cultivation of new growth engines.** Leveraging the e-Surfing HD platform and smart home gateway, and riding on our competitive advantages in subscribers scale, the Company endeavoured to build a “Smart Family” system. The net addition of e-Surfing HD subscribers was 9.78 million, representing an increase of 129% as compared with the subscriber growth number recorded in the same period last year. The total number of e-Surfing HD subscribers exceeded 50 million while the revenue increased by 33% over the same period last year. The number of active “BestPay” subscribers exceeded 8 million and “BestPay” positioned the second in third-party ranking of mobile payment industry apps<sup>5</sup>, while total transaction amount was approximately RMB380 billion. The whole-network efficient-centralisation of Internet of Things (IoT) business was launched in April with a focus on key breakthroughs in areas such as smart transport, smart logistics, wearable devices and Internet of vehicles. In the first half of the year, the net addition of IoT connections exceeded

<sup>5</sup> Data source: Top 20 mobile payment apps in June 2016 by Analysys.cn.

3 million. The Company will expedite the construction of an advanced IoT platform through self-R&D and cooperation. Fully leveraging the integration of cloud and network together with the existing data resources advantages, the Company accelerated efficiently-centralised development of cloud and Big Data businesses. The revenues from cloud services increased by 41% over the same period last year while the revenues from Big Data increased by nearly 3 times. We actively explored and developed the “Internet+” market with a focus on three key areas including government administration, education and healthcare and hence the quantity of orders from key government and enterprise customers increased by nearly 30% over the second half of last year. The development trend of emerging areas progressed well with vast potentials in the future prospect.

### ***Excellent execution with notable advantages***

In the first half of the year, the Company examined and assessed the market trends, planned meticulously and executed efficiently to establish new and all-rounded competitive advantages while striving to promote changes towards a more favourable direction for the Company in the competitive landscape.

**Extensive in-depth integration.** Exploiting the competitive strengths in full-service operation, the Company promoted in-depth integration and innovative development in various areas including business, network, platform and services, resulting in mutual promotion and interactions amongst respective businesses while effectively driving concurrent enhancements in scale and value. The high-value users subscribing to 4G, fibre broadband and e-Surfing HD services accounted for 45%<sup>6</sup> of total subscribers, facilitating the steady growth in operating revenues. Integration has become the Company’s strong and powerful competitive edge.

**Leading superior network.** 4G and fibre broadband formed and shaped competitive network advantages featuring broad coverage, fast network speed and high stability. In highly profitable 4G service areas, the Company fully leveraged the strengths of international mainstream FDD technology, spectrum resources and co-sharing of telecommunications towers as well as appropriately utilised carrier aggregation technologies. The integrated experience of the Company’s 4G network has become users’ preferred choice. Meanwhile, the Company has been approved to refarm the 800 MHz frequency bandwidth and planned to build a nationwide high quality 800 MHz LTE network in year 2017 at low costs to achieve 4G network coverage in rural areas and in-depth coverage in cities. We will lay down the foundations for the VoLTE and NB-IoT networks so as to foster rapid accomplishment of industry-leading 4G network quality. Through the acceleration of fibre network coverage, end-to-end bandwidth upgrade and interconnection of data centres, the Company effectively secured a high speed and high quality network browsing experience for our customers. In the first half of the year, the average bandwidth of wireline broadband subscribers reached 37 Mbps, representing 20% higher than the industry average. This further strengthened the Company’s leading market position in the fibre broadband industry, where we led the high-bandwidth development trends.

<sup>6</sup> Up to the first half of 2016, the total number of users subscribing to access lines in service, mobile, wireline broadband and e-Surfing HD of the Company reached approximately 510 million.

**Flexible and innovative marketing strategies.** The Company endeavoured to promote “multi-mode” handsets as market mainstream, effectively expanding our sales radius and significantly improving our terminal competitiveness. Data traffic operations were further promoted and the cooperation with heavy data usage products such as video content was further reinforced, continuously enhancing data traffic scale and value. The Company continuously implemented the “Speed Upgrade and Tariff Reduction”, gradually cancelled the long-distance and roaming charges, proactively innovated the billing model and became the pioneer in China to explore and introduce on trial basis the “All-charge-as-data” billing, which effectively simplified customers’ choices and profoundly enhanced service attractiveness. The Company actively implemented Internet-orientation of channels, enhancing high collaborative operations of online and physical channels. The coverage and sales capabilities of physical channels were significantly improved while online channels have become the main sales channel for services such as data traffic packages and online top-up. The proportion of users derived from online channels continued to increase.

**Remarkable achievements in cooperation.** The Company took the initiative in innovation of development model, extensively consolidated competitive resources, cooperated with strong partners, resulting in a win-win outcome. Fully leveraging the co-sharing of telecommunications towers resources, the Company has been at the forefront of offering a superior 4G network experience rapidly. With the promotion of in-depth cooperation with other parties in the industry and enhancements in the co-building and co-sharing of networks, the Company successfully promoted “multi-mode” handsets as a national standard. In the first half of the year, the proportion of “multi-mode” handsets sold in the industry reached 34%, enabling the Company to swiftly achieve the decisive breakthrough in developmental bottleneck. In emerging areas such as “Smart Family”, mobile payment, “Internet+”, cloud and Big Data, and IoT, the Company proactively carried out crossover cooperation and cultivated a highly efficient and synergetic industrial ecosystem by focusing on product services, network platforms, sales channels and resource integration. Our differentiated competitive strengths were effectively enhanced.

**Convenient and highly-efficient services.** The Company has always persisted in consumer-oriented focus with continual enhancement of customer experience. In order to achieve the integration of marketing and maintenance as a whole, the Company introduced service modes such as “instant installation process at sales” and “pay after installation”. The online and physical channels were well coordinated, effectively expanding service channels. The Company comprehensively promoted premier services and the capabilities of the entire process service were continuously improved. In the first half of the year, the Company was ranked first in the industry in customer satisfaction for both mobile Internet and wireline Internet services.

**Persistent and unwavering reform.** The Company adhered to the reforms of mechanism and system, and continued the in-depth promotion of subdivision of performance evaluation units. The Company increased efforts in promoting frontline entrepreneurial platform to persistently stimulate the vitality of employees, resulting in continual enhancement in the morale of development. The results of frontline performance contract units remarkably improved. By strengthening the market-oriented corporate resources allocation, together with the establishment and gradual optimisation of “top-down” integrated service support system and effective collaboration of front-end and back-end operations, the efficiency and effectiveness of the Company’s overall operation was significantly improved. The “Internet+” talent development programme was established with a focus on nurturing a team of new talents including both professional and technical personnel, hence strengthening the Company’s ability to attract talents. Vigorously promoting the transformation of achievements in innovation, the Company became the first batch of the state’s model in mass entrepreneurship and innovation.

**Continual optimisation of operation management.** Through precision management and efficiently-centralised operations, the quality and efficiency of our operations were significantly improved. The Company persistently promoted automation of network maintenance and further improved IT operational efficiency by leveraging support systems such as MSS, resulting in continuous enhancement in efficient centralisation of networks and IT operations. Through proactively deploying the co-building and co-sharing of networks, continually improving the financial management, strengthening the scope and depth of centralised procurement, and improvement in investment and cost efficiency, our corporate value was continually enhanced.

### **Comprehensive transformation and upgrades**

Starting from the end of 2004, the Company unwaveringly persisted in pursuing strategic transformation and upgrades, and has surmounted tough difficulties to pave a new path for promoting China Telecom's development through transformation. At the end of 2004, the Company first put forth strategic transformation (Transformation 1.0)<sup>7</sup>, achieving a change from telecommunications to information services. By the end of 2010, the Company proposed in-depth transformation (Transformation 2.0)<sup>8</sup> and explicitly defined the clear positioning of "Three New Roles" in order to adapt to the latest trend of mobile Internet and to proactively explore emerging business areas. The history has proved and confirmed that each and every transformation and upgrade in more than ten years in the past represented China Telecom always accurately grasps the prevailing development trends as every transformation and upgrade resulted in remarkable achievements. This also demonstrated that forward-looking strategic planning and trend-leading role are both vital to overall corporate development.

At present, we are about to enter into an advanced stage of information civilisation of mankind, the era of intellectual service. The Company officially established a comprehensive transformation and upgrades plan (Transformation 3.0) at the end of June 2016 and positioned itself as a leading integrated intelligent information services operator. Intelligent information services built on digitalisation and networkisation as fundamentals; widely used intellectualisation technologies such as cloud computing, Big Data, Mobile Internet, IoT, artificial intelligence as main drivers; in-depth integration between cloud and network including Software-Defined Networking (SDN), Network Functions Virtualisation (NFV), hardware generalisation and platform-based capabilities development as the priority; deepened exploration and value realisation of corporate internal and external data resources as the norm; and diversified intelligent terminals as the carrier, altogether enables the Company to accomplish crossover development in different areas.

<sup>7</sup> Transformation 1.0 defined the corporate as Telecom Full Service Provider, Internet Applications Aggregator and Leading Enterprise ICT Service Provider.

<sup>8</sup> Transformation 2.0 adjusted the corporate's positioning as the Leader of Intelligent Pipeline, the Provider of Integrated Platforms and the Participant of Content & Application Development.



The Company will focus and link through the main theme of intelligence and will promote the reconstitution of network, business, operations and management based on the three main directions namely network intelligentisation, service ecologicalisation and operation intellectualisation. Integrated intelligent information services featuring connection on demand, automatic response, realistic virtual experience and high price-to-performance ratio will be provided to customers. **Network intelligentisation:** Being guided by CTNet2025<sup>9</sup>, the Company will promote network reconstitution, deepen open-source technology applications to accomplish the open integration of network and IT, moving forward towards the combination of development and operations as a whole. The Company will be able to provide customers with state-of-the-art network experience with embedded visible, self-selective and self-served characteristics. **Service ecologicalisation:** The Company will further emphasise the key operating focus, “2+5”. Through open cooperation, integrated innovation and promotion of business reconstitution, the Company will endeavour to build up the five key business ecosystems, namely Intelligent Connection, Smart Family, Internet Finance, new style ICT applications, and IoT in order to achieve co-existence, co-innovation and “win-win” outcomes. **Operation intellectualisation:** Being driven by Big Data applications, through enhancement of six key capabilities in network fundamentals, network operations, data operation, channel sales, customer service and talent development in order to promote the reconstitution of operations and management to support smart operations.

Recently, the Company has commenced the implementation of Transformation 3.0. With the completion of the top-level design on network reconstitution, the Company published the CTNet2025 white paper and launched the first series of network reconstitution projects encompassing various areas such as network framework, fundamental scientific R&D, network engineering and product development. Surrounding the prevailing “2+5” operating focuses, ecological alliances in the industry comprising “Smart Family”, IoT and Big Data, etc. have been gradually formed. The Company launched the system and evaluation performance index of “Smart Family”. With “BestPay” payment system as the core, the Company accelerated the development of emerging areas including consumer finance and proactively nurtured the industry ecosystem. Through an in-depth exploration and extensive applications coverage of Big Data, the Company will pragmatically promote operation intellectualisation through precision marketing, precision management, dedicated services and lean operations.

### **As an excellent corporate citizen**

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 being voted as the “Most Honoured Companies in Asia” by *Institutional Investor* for six consecutive years. The Company was also awarded the Platinum Award – “Best Telecommunications Company in Asia” by *FinanceAsia* which honoured institutions and corporations in Asia consistently providing quality, excellent and innovative services to their customers over the past 20 years.

<sup>9</sup> CTNet2025 refers to *China Telecom’s CTNet2025 Network Structure White Paper*.

We persisted in operating with integrity and proactively fulfilled our corporate social responsibility while maintaining a fair and orderly environment for market competition and facilitating the healthy development of the entire value chain. Meanwhile, we actively promoted green operations, through further strengthening energy conservation and emissions reduction to improve the efficiency of resource utilisation. We vigorously promoted broadband penetration in rural areas in order to bridge the information gap between urban and rural areas. We received high recognition and appreciation from society through our efforts in combating catastrophic flooding in Southern China.

### **Endeavour to become bigger, better and stronger**

Currently, the implementation of the national strategy of “Cyberpower” coupled with the promotion of supply-side structural reform will foster an advanced level equilibrium of supply and demand. This positive policy environment creates favourable conditions for the sustainable and healthy development of the industry. The Company will seize new development opportunities for transformation and upgrades.

In the second half of the year, the Company will proactively respond to the increasingly intensified market competition and changes in external environment. Oriented by market share dominance, the Company will expedite the scale development of two fundamental businesses, effectively collaborate on the operations of five major emerging areas while also endeavouring to enhance the six key capabilities in order to accelerate the transformation of our resource edges and capabilities into competitive strengths. With reform and innovation as the driving force, the Company will promote the development strategy with talent development as the priority, optimise the market-oriented incentive mechanism, bolster vitality and improve efficiency in order to lay down a solid foundation for accelerated transformation and upgrades. At the same time, the Company will comprehensively promote reconstitution of four major areas including business, network, operations and management in order to accelerate the implementation of the new strategy on transformation and upgrades. The Company will strive to become a leading integrated intelligent information services operator, facilitate development towards the national strategy of “Cyberpower” and also serve society and the general public as a whole, while 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 contributions. Furthermore, I would like to extend my sincere gratitude towards Mr. Zhang Jiping and Mr. Zhu Wei for their excellent contributions during their tenure of office as the Directors of the Company.

**Yang Jie**

*Chairman and Chief Executive Officer*

Beijing, China

23 August 2016



## 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 2016 extracted from the unaudited interim financial statements of the Group as set out in its 2016 Interim Report.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the six-month period ended 30 June 2016

(Amounts in millions, except per share data)

		Six-month period ended	
		30 June	
		2016	2015
	Note	RMB	RMB
<b>Operating revenues</b>	3	<b>176,828</b>	164,953
<b>Operating expenses</b>			
Depreciation and amortisation		(33,447)	(33,585)
Network operations and support		(43,951)	(37,224)
Selling, general and administrative		(27,319)	(25,062)
Personnel expenses		(28,909)	(28,079)
Other operating expenses		(26,094)	(23,849)
<b>Total operating expenses</b>		<b>(159,720)</b>	(147,799)
<b>Operating profit</b>		<b>17,108</b>	17,154
Net finance costs	4	(1,728)	(2,160)
Investment income		9	6
Share of profits/(losses) of associates		80	(456)
<b>Profit before taxation</b>		<b>15,469</b>	14,544
Income tax	5	(3,747)	(3,536)
<b>Profit for the period</b>		<b>11,722</b>	11,008

		<b>Six-month period ended</b>	
		<b>30 June</b>	
		<b>2016</b>	2015
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
<b>Other comprehensive income for the period:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of available-for-sale equity securities		(342)	967
Deferred tax on change in fair value of available-for-sale equity securities		86	(242)
Exchange difference on translation of financial statements of subsidiaries outside mainland China		37	(11)
Share of other comprehensive income of associates		<u>6</u>	<u>1</u>
<b>Other comprehensive income for the period, net of tax</b>		<u>(213)</u>	<u>715</u>
<b>Total comprehensive income for the period</b>		<u><b>11,509</b></u>	<u><b>11,723</b></u>
<b>Profit attributable to:</b>			
Equity holders of the Company		11,673	10,980
Non-controlling interests		<u>49</u>	<u>28</u>
<b>Profit for the period</b>		<u><b>11,722</b></u>	<u><b>11,008</b></u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		11,460	11,695
Non-controlling interests		<u>49</u>	<u>28</u>
<b>Total comprehensive income for the period</b>		<u><b>11,509</b></u>	<u><b>11,723</b></u>
<b>Basic earnings per share</b>	6	<u><b>0.14</b></u>	<u>0.14</u>
<b>Number of shares (in millions)</b>		<u><b>80,932</b></u>	<u>80,932</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

at 30 June 2016

(Amounts in millions)

		<b>30 June</b>	31 December
		<b>2016</b>	2015
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net		<b>365,571</b>	373,981
Construction in progress		<b>84,206</b>	69,103
Lease prepayments		<b>23,252</b>	23,609
Goodwill		<b>29,921</b>	29,920
Intangible assets		<b>10,337</b>	10,739
Interests in associates		<b>34,559</b>	34,473
Investments		<b>1,415</b>	1,624
Deferred tax assets	8	<b>4,701</b>	4,655
Other assets		<b>3,250</b>	3,349
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>557,212</b>	551,453
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		<b>5,166</b>	6,281
Income tax recoverable		<b>18</b>	105
Accounts receivable, net	9	<b>29,077</b>	21,105
Prepayments and other current assets		<b>18,524</b>	16,229
Short-term bank deposits		<b>2,836</b>	2,519
Cash and cash equivalents		<b>30,076</b>	31,869
		<hr/>	<hr/>
<b>Total current assets</b>		<b>85,697</b>	78,108
		<hr/>	<hr/>
<b>Total assets</b>		<b>642,909</b>	629,561
		<hr/>	<hr/>

		<b>30 June</b>	31 December
		<b>2016</b>	2015
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term debt		<b>35,312</b>	51,636
Current portion of long-term debt		<b>153</b>	84
Accounts payable	<i>10</i>	<b>126,112</b>	118,055
Accrued expenses and other payables		<b>92,172</b>	82,934
Income tax payable		<b>955</b>	2,154
Current portion of finance lease obligations		<b>23</b>	38
Current portion of deferred revenues		<b>1,158</b>	1,028
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>255,885</b>	255,929
		<hr/>	<hr/>
<b>Net current liabilities</b>		<b>(170,188)</b>	(177,821)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>387,024</b>	373,632
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Long-term debt and payable		<b>70,570</b>	64,830
Finance lease obligations		<b>99</b>	81
Deferred revenues		<b>2,345</b>	1,454
Deferred tax liabilities	<i>8</i>	<b>3,741</b>	2,061
Other non-current liabilities		<b>469</b>	455
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>77,224</b>	68,881
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>333,109</b>	324,810
		<hr/>	<hr/>
<b>Equity</b>			
Share capital		<b>80,932</b>	80,932
Reserves		<b>227,857</b>	222,852
		<hr/>	<hr/>
<b>Total equity attributable to equity holders of the Company</b>		<b>308,789</b>	303,784
<b>Non-controlling interests</b>		<b>1,011</b>	967
		<hr/>	<hr/>
<b>Total equity</b>		<b>309,800</b>	304,751
		<hr/>	<hr/>
<b>Total liabilities and equity</b>		<b>642,909</b>	629,561
		<hr/>	<hr/>

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 23 August 2016, reflect the unaudited financial position of the Group as at 30 June 2016 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 2016.

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 2015 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 IFRS 11, “Accounting for Acquisitions of Interests in Joint Operations”

Amendments to IAS 1, “Disclosure Initiative”

Amendments to IAS 16 and IAS 38, “Clarification of Acceptable Methods of Depreciation and Amortisation”

Amendments to IFRSs, “Annual Improvements to IFRSs 2012-2014 Cycle”

Amendments to IAS 16 and IAS 41, “Agriculture: Bearer Plants”

Amendments to IFRS 10, IFRS 12 and IAS 28, “Investment Entities: Applying the Consolidation Exception”

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 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 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>	<b>Six-month period ended</b>	
		<b>2016</b>	<b>2015</b>
		<b><i>RMB millions</i></b>	<b><i>RMB millions</i></b>
Wireline voice	<i>(i)</i>	<b>13,580</b>	15,268
Mobile voice	<i>(ii)</i>	<b>22,839</b>	24,889
Internet	<i>(iii)</i>	<b>73,017</b>	62,274
Value-added services	<i>(iv)</i>	<b>20,839</b>	20,128
Integrated information application services	<i>(v)</i>	<b>13,987</b>	13,966
Telecommunications network resource services and lease of network equipment	<i>(vi)</i>	<b>8,928</b>	8,667
Others	<i>(vii)</i>	<b>23,638</b>	19,761
		<b><u>176,828</u></b>	<b><u>164,953</u></b>

*Note:*

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, 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:

	<b>Six-month period ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<i><b>RMB millions</b></i>	<i>RMB millions</i>
Interest expense incurred	<b>2,110</b>	2,517
Less: Interest expense capitalised*	<b>(211)</b>	(155)
	<hr/>	<hr/>
Net interest expense	<b>1,899</b>	2,362
Interest income	<b>(170)</b>	(164)
Foreign exchange losses	<b>38</b>	11
Foreign exchange gains	<b>(39)</b>	(49)
	<hr/>	<hr/>
	<b>1,728</b>	2,160
	<hr/>	<hr/>
* Interest expense was capitalised in construction in progress at the following rates per annum	<b>3.3%-5.0%</b>	3.8%-5.7%
	<hr/>	<hr/>

#### 5. INCOME TAX

Income tax in the profit or loss comprises:

	<b>Six-month period ended 30 June</b>	
	<b>2016</b>	2015
	<i><b>RMB millions</b></i>	<i>RMB millions</i>
Provision for PRC income tax	<b>1,967</b>	3,922
Provision for income tax in other tax jurisdictions	<b>60</b>	28
Deferred taxation	<b>1,720</b>	(414)
	<hr/>	<hr/>
	<b>3,747</b>	3,536
	<hr/>	<hr/>

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

	<i>Note</i>	<b>Six-month period ended</b>	
		<b>30 June</b>	
		<b>2016</b>	2015
		<b><i>RMB millions</i></b>	<i>RMB millions</i>
Profit before taxation		<u><b>15,469</b></u>	<u>14,544</u>
Expected income tax expense at statutory tax rate of 25%	<i>(i)</i>	<b>3,867</b>	3,636
Differential tax rate on PRC subsidiaries' and branches' income	<i>(i)</i>	<b>(211)</b>	(185)
Differential tax rate on other subsidiaries' income	<i>(ii)</i>	<b>(20)</b>	(16)
Non-deductible expenses	<i>(iii)</i>	<b>182</b>	141
Non-taxable income	<i>(iv)</i>	<b>(36)</b>	(39)
Others	<i>(v)</i>	<u><b>(35)</b></u>	<u>(1)</u>
Actual income tax expense		<u><b>3,747</b></u>	<u>3,536</u>

*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, losses on disposal of property, plant and equipment approved by tax authorities and other tax benefits.

## **6. BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share for the six-month period ended 30 June 2016 and 2015 is based on the profit attributable to equity holders of the Company of RMB11,673 million and RMB10,980 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 25 May 2016, a final dividend of RMB0.080182 (equivalent to HK\$0.095) per share totaling RMB6,489 million in respect of the year ended 31 December 2015 was declared and paid on 15 July 2016.

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.

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 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>
Provisions and impairment losses, primarily for doubtful debts	1,590	1,291	-	-	1,590	1,291
Property, plant and equipment and others	2,957	3,174	(3,394)	(1,605)	(437)	1,569
Deferred revenues and installation costs	154	190	(107)	(130)	47	60
Available-for-sale equity securities	-	-	(240)	(326)	(240)	(326)
Deferred tax assets/(liabilities)	<b>4,701</b>	<b>4,655</b>	<b>(3,741)</b>	<b>(2,061)</b>	<b>960</b>	<b>2,594</b>
				<b>Recognised in consolidated statement of comprehensive income</b>		<b>Balance at 30 June 2016</b>
			<b>Balance at 1 January 2016</b>	<b>RMB millions</b>	<b>RMB millions</b>	<b>RMB millions</b>
Provisions and impairment losses, primarily for doubtful debts			1,291	299		1,590
Property, plant and equipment and others			1,569	(2,006)		(437)
Deferred revenues and installation costs			60	(13)		47
Available-for-sale equity securities			(326)	86		(240)
Net deferred tax assets			<b>2,594</b>	<b>(1,634)</b>		<b>960</b>

## 9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	<i>Note</i>	<b>30 June 2016</b> <i>RMB millions</i>	31 December 2015 <i>RMB millions</i>
Third parties		<b>31,161</b>	22,766
China Telecom Group	(i)	<b>905</b>	492
China Tower Corporation Limited		<b>6</b>	–
Other telecommunications operators in the PRC		<b>1,204</b>	782
		<b>33,276</b>	24,040
Less: Allowance for doubtful debts		<b>(4,199)</b>	(2,935)
		<b>29,077</b>	21,105

*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 based on the billing dates is as follows:

	<b>30 June 2016</b> <i>RMB millions</i>	31 December 2015 <i>RMB millions</i>
Current, within 1 month	<b>10,818</b>	10,001
1 to 3 months	<b>3,273</b>	2,181
4 to 12 months	<b>2,279</b>	1,821
More than 12 months	<b>1,574</b>	731
	<b>17,944</b>	14,734
Less: Allowance for doubtful debts	<b>(3,548)</b>	(2,393)
	<b>14,396</b>	12,341

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

	<b>30 June 2016</b> <i>RMB millions</i>	31 December 2015 <i>RMB millions</i>
Current, within 1 month	5,191	3,648
1 to 3 months	3,962	1,618
4 to 12 months	4,063	2,199
More than 12 months	2,116	1,841
	<u>15,332</u>	<u>9,306</u>
Less: Allowance for doubtful debts	(651)	(542)
	<u><b>14,681</b></u>	<u>8,764</u>

## 10. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	<b>30 June 2016</b> <i>RMB millions</i>	31 December 2015 <i>RMB millions</i>
Third parties	95,753	95,305
China Telecom Group	19,576	18,702
China Tower Corporation Limited	9,915	3,272
Other telecommunications operators in the PRC	868	776
	<u>126,112</u>	<u>118,055</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 based on the due dates is as follows:

	<b>30 June 2016</b> <i>RMB millions</i>	31 December 2015 <i>RMB millions</i>
Due within 1 month or on demand	26,964	21,486
Due after 1 month but within 3 months	19,991	18,624
Due after 3 months but within 6 months	22,667	19,430
Due after 6 months	56,490	58,515
	<u>126,112</u>	<u>118,055</u>

## **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 2015 Annual Report.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six-month period ended 30 June 2016, 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 2016, none of the Directors or Supervisors of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (as defined in 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 maintained 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 2016, 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 2015 ANNUAL REPORT**

The changes in the information relating to the Directors and Supervisors since the date of the Company’s 2015 Annual Report are set out below:

On 25 April 2016, the Executive Director of the Company, Mr. Yang Jie was appointed as the Chairman and Chief Executive Officer of the Company. On the same day, he no longer held the offices of the President and Chief Operating Officer of the Company.



On 25 April 2016, the Executive Director of the Company, Mr. Yang Xiaowei was appointed as the President and Chief Operating Officer of the Company. On the same day, he no longer held the office of the Executive Vice President of the Company.

On 10 May 2016, Mr. Zhu Wei resigned from his position as a Non-Executive Director of the Company due to change in work arrangement.

On 19 August 2016, Mr. Zhang Jiping retired from his positions as an Executive Director and Executive Vice President of the Company due to his age.

Save as stated above, there is no other information of 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](http://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 2016.

## **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-month period ended 30 June 2016. 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-month period ended 30 June 2016.

## **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 2016 to 30 June 2016.

## **INTERIM REPORT**

The Interim Report for the six months ended 30 June 2016 will be despatched to shareholders and made available on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.chinatelecom-h.com](http://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. Yang Jie (as the chairman and chief executive officer); Mr. Yang Xiaowei (as the president and chief operating officer); Mr. Sun Kangmin and Mr. Ke Ruiwen (all as the executive vice presidents); Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura, Mr. Xu Erming and Madam Wang Hsuehming (all as the independent non-executive directors).*