

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

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

Organisation

As part of the reorganisation (the “Restructuring”) of China Telecommunications Corporation, the Company was incorporated in the PRC on 10 September 2002. In connection with the Restructuring, China Telecommunications Corporation transferred to the Company the wireline telecommunications business and related operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province together with the related assets and liabilities in consideration for 68,317 million ordinary domestic shares of the Company. The shares issued to China Telecommunications Corporation have a par value of RMB1.00 each and represented the entire registered and issued share capital of the Company at that date.

On 31 December 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (collectively the “First Acquired Group”) and certain network management and research and development facilities from China Telecommunications Corporation for a total purchase price of RMB46,000 million (hereinafter, referred to as the “First Acquisition”).

On 30 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the “Second Acquired Group”) from China Telecommunications Corporation for a total purchase price of RMB27,800 million (hereinafter, referred to as the “Second Acquisition”).

On 30 June 2007, the Company acquired the entire equity interests in China Telecom System Integration Co., Ltd. (“CTS1”), China Telecom Global Limited (“CT Global”) and China Telecom (Americas) Corporation (“CT Americas”) (collectively the “Third Acquired Group”) from China Telecommunications Corporation for a total purchase price of RMB1,408 million (hereinafter, referred to as the “Third Acquisition”).

On 30 June 2008, the Company acquired the entire equity interest in China Telecom Group Beijing Corporation (“Beijing Telecom” or the “Fourth Acquired Company”) from China Telecommunications Corporation for a total purchase price of RMB5,557 million (hereinafter, referred to as the “Fourth Acquisition”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (continued)

Organisation (continued)

On 1 August 2011 and 1 December 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd (“E-surfing Pay”) and E-surfing Media Co., Ltd. (“E-surfing Media”), acquired the e-commerce business and video media business (collectively the “Fifth Acquired Group”) from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 million (hereinafter, referred to as the “Fifth Acquisition”). The Company disposed the equity interest in E-surfing Media to China Telecommunications Corporation in 2013.

On 30 April 2012, the Company acquired the digital trunking business (the “Sixth Acquired Business”) from Besttone Holding Co., Ltd. (“Besttone Holding”), a subsidiary of China Telecommunications Corporation, at a purchase price of RMB48 million (hereinafter, referred to as the “Sixth Acquisition”).

On 31 December 2013, CT Global, a subsidiary of the Company, acquired 100% equity interest in China Telecom (Europe) Limited (“CT Europe” or the “Seventh Acquired Company”), a wholly owned subsidiary of China Telecommunications Corporation, from China Telecommunications Corporation for a total purchase price of RMB278 million (hereinafter, referred to as the “Seventh Acquisition”).

On 31 October 2017, the Company disposed of the 100% equity interest in Chengdu E-store Technology Co., Ltd (“E-store”), a subsidiary of the Company, to Besttone Holding. The final consideration for the disposal of the equity interest in E-store was arrived at RMB251 million, among which RMB249 million was received on 16 November 2017 and the remaining balance of RMB2 million was received in 2018.

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

Hereinafter, the First Acquired Group, the Second Acquired Group, the Third Acquired Group, the Fourth Acquired Company, the Fifth Acquired Group, the Sixth Acquired Business, the Seventh Acquired Company and the Eighth Acquired Group are collectively referred to as the “Acquired Groups”.

Basis of presentation

Since the Group and the Acquired Groups are under common control of China Telecommunications Corporation, the Group’s acquisitions of the Acquired Groups have been accounted for as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of these entities have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisitions are combined with the financial statements of the Acquired Groups. The considerations for the acquisition of the Acquired Groups are accounted for as an equity transaction in the consolidated statement of changes in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (continued)

Merger with subsidiaries

Pursuant to the resolution passed by the Company's shareholders at an extraordinary general meeting held on 25 February 2008, the Company entered into merger agreements with each of the following subsidiaries: Shanghai Telecom Company Limited, Guangdong Telecom Company Limited, Jiangsu Telecom Company Limited, Zhejiang Telecom Company Limited, Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited, Sichuan Telecom Company Limited, Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited. In addition, the Company entered into merger agreement with Beijing Telecom on 1 July 2008. Pursuant to these merger agreements, the Company merged with these subsidiaries and the assets, liabilities and business operations of these subsidiaries were transferred to the Company's branches in the respective regions.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") AND INTERPRETATION

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

IFRS 16, *"Leases"*

IFRIC 23, *"Uncertainty over Income Tax Treatments"*

Amendments to IFRS 9, *"Prepayment Features with Negative Compensation"*

Amendments to IAS 19, *"Plan Amendment, Curtailment or Settlement"*

Amendments to IAS 28, *"Long-term Interests in Associates and Joint Ventures"*

Amendments to IFRSs, *"Annual Improvements to IFRS Standards 2015-2017 Cycle"*

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

The Group has not yet applied any new and revised standard that is not yet effective for the current year (Note 48).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION (continued)

IFRS 16, “Leases”

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17, “Leases” (“IAS 17”), and the related interpretations.

Definition of a lease

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

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant lessees at the date of initial application by applying IFRS 16 transition provisions. Any cumulative effect at the date of initial application is recognised in the opening reserves and comparative information has not been restated.

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

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of telecommunications towers, buildings, equipment and other assets in mainland China was determined on a portfolio basis; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION (continued)

IFRS 16, “Leases” (continued)

As a lessee (continued)

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

	At 1 January 2019 RMB millions
Operating lease commitments disclosed as at 31 December 2018	65,805
Less: Recognition exemption – short-term leases	(684)
Recognition exemption – low-value assets	(85)
Variable lease payments not depending on an index or a rate	(12,265)
Reassessment on definition of a lease and change in allocation basis between lease and non-lease components	(2,852)
	49,919
Less: Total future interest expenses	(4,271)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	45,648
Add: Finance lease obligations recognised at 31 December 2018	216
Lease liabilities as at 1 January 2019	45,864
Analysed as	
Current	10,260
Non-current	35,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION (continued)

IFRS 16, “Leases” (continued)

As a lessee (continued)

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

	Note	Right-of-use assets RMB millions
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		43,956
Reclassified from lease prepayments	(a)	21,568
		65,524

Note:

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

As a lessor

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

Effective on 1 January 2019, the Group has applied IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

Interests in associates

The net effects arising from the initial application of IFRS 16 resulted in a decrease in the carrying amounts of interests in associates of RMB263 million with corresponding adjustments to opening reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION (continued)

IFRS 16, “Leases” (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with IFRSs as issued by IASB. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The consolidated financial statements of the Group have been prepared on a going concern basis.

The consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain financial instruments measured at fair value (Note 3(j)).

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 47.

(b) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interests in associates.

A subsidiary is an entity controlled by the Company. When fulfilling the following conditions, the Company has control over an entity: (a) has power over the investee, (b) has exposure, or rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power over the investee to affect the amount of the investor's returns.

When assessing whether the Company has power over that entity, only substantive rights (held by the Company and other parties) are considered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases, and the profit attributable to non-controlling interests is separately presented on the face of the consolidated statement of comprehensive income as an allocation of the profit or loss for the year between the non-controlling interests and the equity holders of the Company. Non-controlling interests represent the equity in subsidiaries not attributable directly or indirectly to the Company. For each business combination, other than business combination under common control, the Group measures the non-controlling interests at the proportionate share, of the acquisition date, of fair value of the subsidiary's net identifiable assets. Non-controlling interests at the end of the reporting period are presented in the consolidated statement of financial position within equity and consolidated statement of changes in equity, separately from the equity of the Company's equity holders. Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised. When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

An associate is an entity, not being a subsidiary, in which the Group exercises significant influence, but not control, over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's net identifiable assets over the cost of the investment (if any) after reassessment. Thereafter, the investment is adjusted for the Group's equity share of the post-acquisition changes in the associate's net assets and any impairment loss relating to the investment. When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

All significant intercompany balances and transactions and unrealised gains arising from intercompany transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currencies

The accompanying consolidated financial statements are presented in Renminbi (“RMB”). The functional currency of the Company and its subsidiaries in mainland China is RMB. The functional currency of the Group’s foreign operations is the currency of the primary economic environment in which the foreign operations operate. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those capitalised as construction in progress (Note 3(e)), are recognised as income or expense in profit or loss. For the periods presented, no exchange differences were capitalised.

When preparing the Group’s consolidated financial statements, the results of operations of the Group’s foreign operations are translated into RMB at average rate prevailing during the year. Assets and liabilities of the Group’s foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(d) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 3(h)). The cost of an asset comprises its purchase price, any costs directly attributable to bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Gains or losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the respective asset and are recognised as income or expense in the profit or loss on the date of disposal.

Depreciation is provided to write off the cost of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

	Depreciable lives primarily range from
Buildings and improvements	8 to 30 years
Telecommunications network plant and equipment	5 to 10 years
Furniture, fixture, motor vehicles and other equipment	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 3(h)). The cost of an item comprises direct costs of construction, capitalisation of interest charge, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(f) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 7) acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 3(h)). On disposal of a cash generating unit during the year, any attributable amount of the goodwill is included in the calculation of the profit or loss on disposal.

(g) Intangible assets

The Group's intangible assets are primarily software.

Software that is not an integral part of any tangible assets, is recorded at cost less subsequent accumulated amortisation and impairment losses (Note 3(h)). Amortisation of software is mainly calculated on a straight-line basis over the estimated useful lives, which range from 3 to 5 years.

(h) Impairment of goodwill and long-lived assets

The carrying amounts of the Group's long-lived assets, including property, plant and equipment, right-of-use assets, intangible assets with finite useful lives, construction in progress and contract costs included in other assets are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at each year end.

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of goodwill and long-lived assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs of disposal and value in use. The recoverable amount of a tangible and an intangible asset is estimated individually. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The goodwill arising from a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised as an expense in profit or loss. Impairment loss recognised in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down cease to exist, is recognised as an income in profit or loss. The reversal is reduced by the amount that would have been recognised as depreciation and amortisation had the write-down not occurred. An impairment loss in respect of goodwill is not reversed. For the years presented, no reversal of impairment loss was recognised in profit or loss.

(i) Inventories

Inventories consist of materials and supplies used in maintaining the telecommunications network and goods for resale. Inventories are valued at cost using the specific identification method or the weighted average cost method, less a provision for obsolescence.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs to make the sale and the related tax expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

(i) Financial assets measured subsequently at amortised cost

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

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

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

At the date of initial application of IFRS 9/initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income, and accumulate in other reserves, if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3, "Business Combinations" applies. These equity instruments are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividend from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "investment income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "investment income" line item.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

The Group always recognises lifetime ECL for accounts receivable and contract assets. The ECL on these assets are assessed individually for debtors with significant balances or credit-impaired debtors, and collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics, nature of services provided as well as type of customers, such as receivable from telephone and Internet subscribers and from enterprise customers.

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

(i) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. A write-off constitutes a derecognition event. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on the historical data adjusted by forward-looking information.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable and financial assets included in prepayments and other current assets are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments measured at amortised cost by adjusting their carrying amount, with the exception of accounts receivable and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in other reserves is not reclassified to profit or loss, but is transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities including short-term and long-term debt, accounts payable and financial liabilities included in accrued expenses and other payables are subsequently measured at amortised cost, using the effective interest method.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and time deposits with original maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates fair value. None of the Group's cash and cash equivalents is restricted as to withdrawal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Revenue from contract with customers

The Group recognises revenue when (or as) a performance obligation is satisfied. i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

As such, revenues from contracts with customers of telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, resale of mobile services (MVNO) and repair and maintenance of equipment are generally recognised over time during which the services are provided to customers.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenues from sales of equipment are recognised at a point in time when the equipment is delivered to the customers and when the control over the equipment have been transferred to the customers.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer but the right is conditioned on the Group’s future performance. A contract asset is transferred to accounts receivable when the right becomes unconditional. A contract asset is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to a contract liability, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Revenue from contract with customers (continued)

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

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

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is generally measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Revenue from contract with customers (continued)

Consideration payable to a customer

Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer, and also includes credit or other items that can be applied against amounts owed to the Group. The Group accounted for such consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group and the fair value of the good or service received from the customer can be reasonably estimated.

Certain subsidies payable to third party agent incurred by the Group in respect of customer contracts, which will be ultimately enjoyed by end customers, and other subsidies incurred by the Group directly payable to its customers, are qualified as consideration payable to a customer and accounted for as a reduction of operating revenues.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

Certain commissions incurred by the Group paid or payable to third party agents, whose selling activities resulted in customers entering into sale agreements for the Group's telecommunications service, are qualified as incremental costs. The Group recognises such costs as an asset, included in other assets, if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Costs to fulfil a contract

When the Group incurs costs to fulfil a contract, it first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

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

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

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

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

Allocation of consideration to components of a contract

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

Lease liabilities

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

The lease payments include:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Lease liabilities (continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of assessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

The Group as lessee (prior to 1 January 2019)

Assets acquired under finance leases are initially recorded at amounts equivalent to the lower of the fair value of the leased assets at the inception of the lease or the present value of the minimum lease payments (computed using the rate of interest implicit in the lease). The net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation.

Where the Group has the right to use the assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments represent land use rights paid. Land use rights are initially carried at cost or deemed cost and then charged to profit or loss on a straight-line basis over the respective periods of the rights which range from 20 years to 70 years.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Upon application of IFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

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

Sublease

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

Lease modification

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

(n) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, interest expense on lease liabilities and foreign exchange gains and losses. Interest income from bank deposits is recognised as it accrues using the effective interest method.

Interest costs incurred in connection with borrowings are calculated using the effective interest method and are expensed as incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Research and development expense

Research and development expenditure is expensed as incurred. For the year ended 31 December 2019, research and development expense was RMB2,105 million (2018: RMB1,341 million). In addition, research and development related personnel expenses and depreciation for the year ended 31 December 2019 amounted to RMB1,950 million (2018: RMB1,327 million) and RMB141 million (2018: RMB110 million), respectively.

(p) Employee benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government and defined contribution retirement plans administered by independent external parties are recognised in profit or loss as incurred. Further information is set out in Note 45.

Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the profit or loss over the applicable vesting period based on the fair value of the share appreciation rights. The liability of the accrued compensation expense is re-measured to fair value at the end of each reporting period with the effect of changes in the fair value of the liability charged or credited to profit or loss. Further details of the Group's share appreciation rights scheme are set out in Note 46.

(q) Government grants

The Group's government grants are mainly related to the government loans with below-market rate of interest.

Government grants shall only be recognised until there is reasonable assurance that:

- the Group will comply with all the conditions attaching to them; and
- the grants will be received.

Government grants that compensate expenses incurred are recognised in the consolidated statement of comprehensive income in the same periods in which the expenses are incurred.

Government grants relating to assets are recognised in deferred revenue and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Value-added tax ("VAT")

Output VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 9% since 1 April 2019, 10% between 1 May 2018 and 1 April 2019, or 11% before 1 May 2018, while the output 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 the output VAT for sales of telecommunications terminals and equipment is 13% since 1 April 2019, 16% between 1 May 2018 and 1 April 2019, or 17% before 1 May 2018. Input VAT rate depends on the type of services received and the assets purchased as well as the VAT rate applicable to a specific industry, and ranges from 3% to 13% since 1 April 2019, 3% to 16% between 1 May 2018 and 1 April 2019, or 3% to 17% before 1 May 2018.

Output VAT is excluded from operating revenues while input VAT is excluded from operating expenses or the original cost of equipment purchased and can be netted against the output VAT, arriving at the net amount of VAT recoverable or payable. As the VAT obligations are borne by branches and subsidiaries of the Company, input and output VAT are set off at branches and subsidiaries levels which are not offset at the consolidation level. Such net amount of VAT recoverable or payable is recorded in the line items of prepayments and other current assets and accrued expenses and other payables, respectively, on the face of consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax

Income tax for the year comprises current tax and movement in deferred tax assets and liabilities. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax is calculated on the basis of the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to profit or loss, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously recognised in other comprehensive income, in such case the effect of a change in tax rate is also recognised in other comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

(u) Dividends

Dividends are recognised as a liability in the period in which they are declared.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);
 - (iii) The entity and the Group are joint ventures of the same third party;
 - (iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;
 - (v) The entity is controlled or jointly controlled by a person identified in (a);
 - (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segmental reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

4. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and improvements RMB millions	Telecommunications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/Deemed cost:				
Balance at 1 January 2018	101,332	842,473	30,585	974,390
Additions	712	512	306	1,530
Transferred from construction in progress	1,454	71,704	1,721	74,879
Retirement and disposal	(860)	(59,822)	(1,636)	(62,318)
Reclassification	(97)	(485)	582	–
Balance at 31 December 2018	102,541	854,382	31,558	988,481
Additions	554	274	277	1,105
Transferred from construction in progress	2,060	74,157	1,644	77,861
Retirement and disposal	(751)	(62,560)	(2,419)	(65,730)
Reclassification	(39)	(536)	575	–
Balance at 31 December 2019	104,365	865,717	31,635	1,001,717
Accumulated depreciation and impairment:				
Balance at 1 January 2018	(54,706)	(491,066)	(22,361)	(568,133)
Depreciation charge for the year	(4,370)	(63,878)	(2,135)	(70,383)
Written back on retirement and disposal	750	55,519	1,561	57,830
Reclassification	26	439	(465)	–
Balance at 31 December 2018	(58,300)	(498,986)	(23,400)	(580,686)
Depreciation charge for the year	(4,185)	(64,672)	(2,101)	(70,958)
Written back on retirement and disposal	681	56,943	2,311	59,935
Reclassification	19	358	(377)	–
Balance at 31 December 2019	(61,785)	(506,357)	(23,567)	(591,709)
Net book value at 31 December 2019	42,580	359,360	8,068	410,008
Net book value at 31 December 2018	44,241	355,396	8,158	407,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

5. CONSTRUCTION IN PROGRESS

	RMB millions
Balance at 1 January 2018	73,106
Additions	74,457
Transferred to property, plant and equipment	(74,879)
Transferred to intangible assets	(6,040)
Balance at 31 December 2018	66,644
Additions	76,870
Transferred to property, plant and equipment	(77,861)
Transferred to intangible assets	(6,447)
Balance at 31 December 2019	59,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

6. RIGHT-OF-USE ASSETS

	Leasehold lands RMB millions	Buildings RMB millions	Telecommunications towers and related assets RMB millions	Equipment RMB millions	Others RMB millions	Total RMB millions
As at 1 January 2019						
Carrying amount	21,568	7,079	27,354	9,311	212	65,524
As at 31 December 2019						
Carrying amount	20,952	8,289	23,740	8,361	207	61,549
For the year ended 31 December 2019						
Depreciation charge	732	2,968	6,966	1,612	65	12,343

For the year ended 31 December 2019, expenses relating to short-term leases and other leases with lease terms ended within 12 months of the date of initial application of IFRS 16 amounting to RMB939 million, expenses relating to leases of low value assets (excluding short-term leases of low value assets) amounting to RMB45 million and variable lease payments not included in the measurement of lease liabilities amounting to RMB4,640 million, are recognized in profit or loss.

For the year ended 31 December 2019, total cash outflow for leases is RMB18,240 million, and additions to right-of-use assets are RMB9,172 million.

The Group leases telecommunications towers and related assets, land and buildings, equipment and other assets for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

7. GOODWILL

	31 December	
	2019	2018
	RMB millions	RMB millions
Cost:		
Goodwill arising from acquisition of CDMA business	29,923	29,922

On 1 October 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the "CDMA business") from China Unicom Limited and China Unicom Corporation Limited (collectively "China Unicom"). The purchase price of the business combination was RMB43,800 million, which was fully settled as at 31 December 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of CDMA business for a net settlement amount of RMB3,471 million due from China Unicom. This amount was subsequently settled by China Unicom in 2009. The business combination was accounted for using the purchase method.

The goodwill recognised in the business combination is attributable to the skills and technical talent of the acquired business's workforce, and the synergies expected to be achieved from integrating and combining the CDMA mobile communication business into the Group's telecommunications business.

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's telecommunications business. The recoverable amount of the Group's telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period and a pre-tax discount rate of 9.2% (2018: 9.4%). Cash flows beyond the five-year period are extrapolated using a steady 1.5% growth rate (2018: 1.5%). Management performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

Key assumptions used for the value in use calculation model are the number of subscribers, average revenue per subscriber and gross margin. Management determined the number of subscribers, average revenue per subscriber and gross margin based on historical trends and financial information and operational data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

8. INTANGIBLE ASSETS

	Software RMB millions
Cost:	
Balance at 1 January 2018	34,550
Additions	269
Transferred from construction in progress	6,040
Disposals	(3,545)
Balance at 31 December 2018	37,314
Additions	624
Transferred from construction in progress	6,447
Disposals	(591)
Balance at 31 December 2019	43,794
Accumulated amortisation and impairment:	
Balance at 1 January 2018	(22,159)
Amortisation charge for the year	(4,366)
Written back on disposals	3,372
Balance at 31 December 2018	(23,153)
Amortisation charge for the year	(4,844)
Written back on disposals	552
Balance at 31 December 2019	(27,445)
Net book value at 31 December 2019	16,349
Net book value at 31 December 2018	14,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

9. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2019 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/issued capital (in RMB million unless otherwise stated)	Principal activity
China Telecom System Integration Co., Limited	Limited Company	13 September 2001	PRC	542	Provision of system integration and consulting services
China Telecom Global Limited	Limited Company	25 February 2000	Hong Kong Special Administrative Region of the PRC	HK\$168 million	Provision of telecommunications services
China Telecom (Americas) Corporation	Limited Company	22 November 2001	The United States of America	US\$43 million	Provision of telecommunications services
China Telecom Best Tone Information Service Co., Limited	Limited Company	15 August 2007	PRC	350	Provision of Best Tone information services
China Telecom (Macau) Company Limited	Limited Company	15 October 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunications services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
China Telecom (Singapore) Pte. Limited	Limited Company	5 October 2006	Singapore	S\$1,000,001	Provision of international value-added network services
E-surfing Pay Co., Ltd	Limited Company	3 March 2011	PRC	635	Provision of e-commerce services
Shenzhen Shekou Telecommunications Company Limited	Limited Company	5 May 1984	PRC	91	Provision of telecommunications services
China Telecom (Australia) Pty Limited	Limited Company	10 January 2011	Australia	AUD1 million	Provision of international value-added network services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

9. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/issued capital (in RMB million unless otherwise stated)	Principal activity
China Telecom Korea Co., Ltd	Limited Company	16 May 2012	South Korea	KRW500 million	Provision of international value-added network services
China Telecom (Malaysia) SDN BHD	Limited Company	26 June 2012	Malaysia	MYR3,723,500	Provision of international value-added network services
China Telecom Information Technology (Vietnam) Co., Ltd	Limited Company	9 July 2012	Vietnam	VND10,500 million	Provision of international value-added network services
iMUSIC Culture & Technology Co., Ltd.	Limited Company	9 June 2013	PRC	250	Provision of music production and related information services
China Telecom (Europe) Limited	Limited Company	2 March 2006	The United Kingdom of Great Britain and Northern Ireland	GBP16.15 million	Provision of telecommunications services
Zhejiang Yixin Technology Co., Ltd.	Limited Company	19 August 2013	PRC	11	Provision of instant messenger service
Tianyi Capital Holding Co., Ltd.	Limited Company	30 November 2017	PRC	5,000	Capital investment and provision of consulting services
China Telecom Leasing Corporation Limited	Limited Company	30 November 2018	PRC	5,000	Provision of finance lease service
China Telecom Group Finance Co., Ltd ("Finance Company")	Limited Company	8 January 2019	PRC	5,000	Provision of capital and financial management services

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company, Zhejiang Yixin Technology Co., Ltd. which is 65% owned by the Company, E-surfing Pay Co., Ltd, which is 78.74% owned by the Company and Finance Company, which is 70% owned by the Company, all of the above subsidiaries are directly or indirectly wholly-owned by the Company. No subsidiaries of the Group have material non-controlling interest. None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

10. INTERESTS IN ASSOCIATES

	31 December	
	2019 RMB millions	2018 RMB millions
Cost of investment in associates	37,173	36,933
Share of post-acquisition changes in net assets	2,019	1,118
	39,192	38,051
Fair value of listed investments	55,601	46,797

The Group's interests in associates are accounted for under the equity method. Details of the Group's principal associates are as follows:

Name of company	Attributable equity interest	Principal activities
China Tower Corporation Limited (Note (i))	20.5%	Construction, maintenance and operation of telecommunications towers as well as ancillary facilities
Shanghai Information Investment Incorporation (Note (ii))	24.0%	Provision of information technology consultancy services

Notes:

- (i) *China Tower Corporation Limited ("China Tower") is established and operated in the PRC, and listed on the Main Board of The Stock Exchange of Hong Kong Limited on 8 August 2018. Income from investments in associates for the year ended 31 December 2018 includes: (a) a one-off gain amounting to RMB1,170 million arising from the dilution of the Company's share in China Tower in respect of China Tower's listing, including those released from the deferred gain from the disposal of telecommunications towers and related assets (the "Tower Assets Disposal"); and (b) share of profits of associates.*
- (ii) *Shanghai Information Investment Incorporation ("Shanghai Info-investment") is established and operated in the PRC and is not traded on any stock exchange.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

10. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of the Group's principal associates and reconciled to the carrying amounts of interests in associates in the Group's consolidated financial statements are disclosed below:

China Tower

	31 December	
	2019 RMB millions	2018 RMB millions
Current assets	40,995	31,799
Non-current assets	297,072	283,565
Current liabilities	128,364	114,759
Non-current liabilities	27,142	20,103
	2019 RMB millions	2018 RMB millions
Operating revenues	76,428	71,819
Profit for the year	5,221	2,650
Other comprehensive income for the year	–	–
Total comprehensive income for the year	5,221	2,650
Dividend received from the associate	81	–

Reconcile to the Group's interests in the associate:

	31 December	
	2019 RMB millions	2018 RMB millions
Net assets of the associate	182,561	180,502
Non-controlling interests of the associate	(2)	–
The Group's effective interest in the associate	20.5%	20.5%
The Group's share of net assets of the associate	37,425	37,003
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	(865)	(1,013)
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	36,560	35,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

10. INTERESTS IN ASSOCIATES (continued)

Shanghai Info-investment

	31 December	
	2019 RMB millions	2018 RMB millions
Current assets	4,292	7,181
Non-current assets	5,203	8,592
Current liabilities	2,494	6,615
Non-current liabilities	787	1,985
	2019 RMB millions	2018 RMB millions
Operating revenues	3,214	4,337
Profit for the year	1,158	586
Other comprehensive income for the year	(7)	(29)
Total comprehensive income for the year	1,151	557
Dividend received from the associate	9	9
Reconcile to the Group's interests in the associate:		
	31 December 2019 RMB millions	2018 RMB millions
Net assets of the associate	6,214	7,173
Non-controlling interests of the associate	(144)	(2,180)
The Group's effective interest in the associate	24.0%	24.0%
The Group's share of net assets of the associate	1,457	1,198
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	1,457	1,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

10. INTERESTS IN ASSOCIATES (continued)

Aggregate financial information of the Group's associates that are not individually material is disclosed below:

	2019	2018
	RMB millions	RMB millions
The Group's share of profit of these associates	85	14
The Group's share of total comprehensive income of these associates	85	14

	31 December	
	2019	2018
	RMB millions	RMB millions
Aggregate carrying amount of interests in these associates in the consolidated financial statements of the Group	1,175	863

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

		31 December	
	Notes	2019	2018
		RMB millions	RMB millions
Equity securities listed in the mainland China	(i)	1,228	638
Unlisted equity securities	(ii)	230	214
		1,458	852

Notes:

- (i) *The above listed equity instruments represent ordinary shares of entities listed in the mainland China. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.*
- (ii) *The above unlisted equity securities represent the Group's equity interests in various private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that the Group will hold these investments for long-term strategic purposes.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

12. 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	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Provisions and impairment losses, primarily for credit losses	1,953	1,925	-	-	1,953	1,925
Property, plant and equipment and others	4,862	4,580	(18,831)	(13,022)	(13,969)	(8,442)
Right-of-use assets and lease liabilities	744	-	-	-	744	-
Deferred revenues and installation costs	18	39	(13)	(29)	5	10
Equity instruments at fair value through other comprehensive income	-	-	(234)	(87)	(234)	(87)
Deferred tax assets/(liabilities)	7,577	6,544	(19,078)	(13,138)	(11,501)	(6,594)

	Balance at 31 December 2018 RMB millions	Recognised in consolidated statement of comprehensive income		Balance at 31 December 2019 RMB millions
		Change in accounting policy RMB millions	RMB millions	
Provisions and impairment losses, primarily for credit losses	1,925	-	28	1,953
Property, plant and equipment and others	(8,442)	-	(5,527)	(13,969)
Right-of-use assets and lease liabilities	-	676	68	744
Deferred revenues and installation costs	10	-	(5)	5
Equity instruments at fair value through other comprehensive income	(87)	-	(147)	(234)
Net deferred tax liabilities	(6,594)	676	(5,583)	(11,501)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

12. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	Balance at 1 January 2018 RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 31 December 2018 RMB millions
Provisions and impairment losses, primarily for credit losses	1,829	96	1,925
Property, plant and equipment and others	(5,073)	(3,369)	(8,442)
Deferred revenues and installation costs	19	(9)	10
Equity instruments at fair value through other comprehensive income	(169)	82	(87)
Net deferred tax liabilities	(3,394)	(3,200)	(6,594)

13. OTHER ASSETS

	Note	31 December	
		2019 RMB millions	2018 RMB millions
Contract costs	(i)	988	1,287
Installation fees		56	124
Other long-term prepaid expenses		3,643	3,429
		4,687	4,840

Note:

- (i) Contract costs capitalised as at 31 December 2019 mainly relate to the incremental sales commissions paid to third party agents whose selling activities resulted in subscribers entering into telecommunications service agreements with the Group. The amount of capitalised costs recognised in profit or loss during the year was RMB1,367 million. There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

14. INVENTORIES

	31 December	
	2019 RMB millions	2018 RMB millions
Materials and supplies	577	1,012
Goods for resale	2,303	3,820
	2,880	4,832

15. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	Note	31 December	
		2019 RMB millions	2018 RMB millions
Third parties		24,438	23,308
China Telecom Group	(i)	1,188	1,327
China Tower		5	10
Other telecommunications operators in the PRC		550	510
		26,181	25,155
Less: Allowance for credit losses		(4,692)	(4,680)
		21,489	20,475

Note:

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

As at 1 January 2018, the gross carrying amounts of accounts receivable from contracts with customers amounted to RMB25,342 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

15. ACCOUNTS RECEIVABLE, NET (continued)

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

	31 December	
	2019 RMB millions	2018 RMB millions
Current, within 1 month	7,545	8,376
1 to 3 months	1,777	2,117
4 to 12 months	1,822	1,932
More than 12 months	1,002	943
	12,146	13,368
Less: Allowance for credit losses	(2,803)	(2,898)
	9,343	10,470

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

	31 December	
	2019 RMB millions	2018 RMB millions
Current, within 1 month	4,701	3,318
1 to 3 months	2,964	2,300
4 to 12 months	3,768	3,994
More than 12 months	2,602	2,175
	14,035	11,787
Less: Allowance for credit losses	(1,889)	(1,782)
	12,146	10,005

As at 31 December 2019 and 2018, included in the net balance of the Group's accounts receivable are debtors with aggregate carrying amount of RMB1,936 million and RMB2,503 million, respectively, which are past due as at the reporting date.

Details of impairment assessment of accounts receivable for the year ended 31 December 2019 and 2018 are set out in Note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

16. CONTRACT ASSETS

	31 December	
	2019 RMB millions	2018 RMB millions
Third parties	447	454
China Telecom Group	27	24
	474	478

The Group's contracts for information and application services include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

17. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	31 December	
		2019 RMB millions	2018 RMB millions
Amounts due from China Telecom Group		1,233	1,035
Amounts due from China Tower		192	293
Amounts due from other telecommunications operators in the PRC		352	333
Prepayments in connection with construction work and equipment purchases		3,352	2,752
Prepaid expenses and deposits		2,993	3,628
Value-added tax recoverable		8,803	8,618
Other receivables	(i)	5,294	6,960
		22,219	23,619

Note:

- (i) Other receivables as at 31 December 2018 includes the unpaid remaining consideration of the contribution from non-controlling interest of a subsidiary of the Group amounting to RMB90 million, which was received in January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

18. CASH AND CASH EQUIVALENTS

	31 December	
	2019 RMB millions	2018 RMB millions
Cash at bank and in hand	20,006	14,937
Time deposits with original maturity within three months	785	1,729
	20,791	16,666

19. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	31 December	
	2019 RMB millions	2018 RMB millions
Loans from banks – unsecured	15,831	12,881
Super short-term commercial papers – unsecured	19,995	27,992
Other loans – unsecured	80	80
Loans from China Telecom Group – unsecured	6,621	8,584
Total short-term debt	42,527	49,537

The weighted average interest rate of the Group's total short-term debt as at 31 December 2019 was 2.9% (31 December 2018: 3.2%) per annum. As at 31 December 2019, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 4.4% (31 December 2018: 3.5% to 4.6%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 1.9% to 2.2% (31 December 2018: 2.1% to 3.3%) per annum, and will be repaid by 19 June 2020; the loans from China Telecom Group bear interest at rate of 3.5% (31 December 2018: 3.5%) per annum and are repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

19. SHORT-TERM AND LONG-TERM DEBT (continued)

Long-term debt comprises:

	Interest rates and final maturity	31 December	
		2019 RMB millions	2018 RMB millions
Bank loans – unsecured			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 1.20% per annum with maturities through 2036	7,738	8,455
US Dollars denominated	Interest rates ranging from 1.25% to 2.00% per annum with maturities through 2028	288	336
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	173	199
		8,199	8,990
Other loans — unsecured			
Renminbi denominated		1	1
Medium-term note — unsecured (Note(ii))		4,995	–
Loans from China Telecom Group — unsecured			
Renminbi denominated (Note (iii))		23,300	37,000
Total long-term debt		36,495	45,991
Less: current portion		(4,444)	(1,139)
Non-current portion		32,051	44,852

Notes:

- (i) The Group obtained long-term RMB denominated government loans with below-market interest rates ranging from 1.08% to 1.20% per annum through banks (the "Low-interest Loans"). The Group recognised the Low-interest Loans at their fair value on initial recognition, and accreted the discount to profit or loss using the effective interest rate method. The difference between the fair value and face value of the Low-interest Loans was recognised as government grants in deferred revenue (Note 24).
- (ii) On 22 January 2019, the Group issued three-year, RMB3,000 million denominated medium-term note with annual interest rate of 3.42% per annum, and incurred issuing costs of RMB3 million. The medium-term note is unsecured and is repayable on 21 January 2022. On 19 March 2019, the Group issued three-year, RMB2,000 million denominated medium-term note with annual interest rate of 3.41% per annum and incurred issuing costs of RMB3 million. The medium-term note is unsecured and is repayable on 18 March 2022.
- (iii) The Group obtained long-term RMB denominated loans with the interest rate of 3.8% per annum from China Telecommunications Corporation on 25 December 2017, which are repayable within 3 to 5 years. The Group partially repaid these loans amounting to RMB3,000 million and RMB13,700 million, respectively, in 2018 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

19. SHORT-TERM AND LONG-TERM DEBT (continued)

The aggregate maturities of the Group's long-term debt subsequent to 31 December 2019 are as follows:

	31 December	
	2019 RMB millions	2018 RMB millions
Within 1 year	4,444	1,139
Between 1 to 2 years	1,078	18,091
Between 2 to 3 years	26,032	1,029
Between 3 to 4 years	965	20,992
Between 4 to 5 years	940	923
Thereafter	3,036	3,817
	36,495	45,991

The Group's short-term and long-term debt do not contain any financial covenants. As at 31 December 2019, the Group had unutilised committed credit facilities amounting to RMB245,847 million (31 December 2018: RMB150,693 million).

20. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	31 December	
	2019 RMB millions	2018 RMB millions
Third parties	78,123	83,418
China Telecom Group	19,531	20,983
China Tower	4,312	2,850
Other telecommunications operators in the PRC	650	636
	102,616	107,887

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

20. ACCOUNTS PAYABLE (continued)

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

	31 December	
	2019 RMB millions	2018 RMB millions
Due within 1 month or on demand	17,546	20,619
Due after 1 month but within 3 months	17,273	14,568
Due after 3 months but within 6 months	33,237	36,067
Due after 6 months	34,560	36,633
	102,616	107,887

21. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December	
	2019 RMB millions	2018 RMB millions
Amounts due to China Telecom Group	6,069	2,171
Amounts due to China Tower	1,261	1,246
Amounts due to other telecommunications operators in the PRC	32	46
Accrued expenses	34,628	33,811
Value-added tax payable	564	484
Customer deposits and receipts in advance	5,962	5,739
	48,516	43,497

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

22. CONTRACT LIABILITIES

	31 December	
	2019 RMB millions	2018 RMB millions
Third parties	54,225	55,638
China Telecom Group	162	145
China Tower	1	–
	54,388	55,783

As at 1 January 2018, contract liabilities amounted to RMB62,175 million. Majority of contract liabilities as at 31 December 2018 was recognised as operating revenues for the year ended 31 December 2019.

23. LEASE LIABILITIES

	31 December 2019 RMB millions
Within one year	11,569
Within a period of more than one year but not more than two years	10,887
Within a period of more than two year but not more than five years	16,255
Within a period of more than five years	3,435
	42,146
Less: Current portion	11,569
Non-current portion	30,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

24. DEFERRED REVENUES

Deferred revenues as at 31 December 2019 mainly represent the unearned portion of installation fees for wireline services received from customers (Note 13), and the unamortised portion of government grants (Note 19).

	2019	2018
	RMB millions	RMB millions
Balance at beginning of the year	1,829	2,274
Reductions for the year:		
Amortisation of installation fees	(90)	(138)
Amortisation of government grants	(284)	(307)
Balance at end of year	1,455	1,829
Representing:		
Current portion	358	375
Non-current portion	1,097	1,454
	1,455	1,829

25. SHARE CAPITAL

	31 December	
	2019	2018
	RMB millions	RMB millions
Registered, issued and fully paid		
67,054,958,321 ordinary domestic shares of RMB1.00 each	67,055	67,055
13,877,410,000 overseas listed H shares of RMB1.00 each	13,877	13,877
	80,932	80,932

All ordinary domestic shares and H shares rank *pari passu* in all material respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

26. RESERVES

The Group

	Capital reserve	Share premium	Surplus reserves	General risk reserve	Other reserves	Exchange reserves	Retained earnings	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	millions	millions	millions	millions	millions	millions	millions	millions
	(Note (i))		(Note (iii))	(Note (v))	(Note (ii))			
Balance as at 1 January 2018	17,126	10,746	74,599	-	414	(881)	145,906	247,910
Total comprehensive income for the year	-	-	-	-	(249)	154	21,210	21,115
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(5)	-	5	-
Contribution from non-controlling interests	680	-	-	-	-	-	-	680
Dividends (Note 37)	-	-	-	-	-	-	(7,568)	(7,568)
Appropriations to statutory surplus reserve (Note (iii))	-	-	1,875	-	-	-	(1,875)	-
Balance as at 31 December 2018	17,806	10,746	76,474	-	160	(727)	157,678	262,137
Change in accounting policy (Note 2)	-	-	(243)	-	-	-	(2,197)	(2,440)
Balance as at 1 January 2019, as restated	17,806	10,746	76,231	-	160	(727)	155,481	259,697
Total comprehensive income for the year	-	-	-	-	455	102	20,517	21,074
Acquisition of non-controlling interests	3	-	-	-	-	-	-	3
Share of an associate's other changes in reserves	(305)	-	-	-	-	-	-	(305)
Dividends (Note 37)	-	-	-	-	-	-	(8,891)	(8,891)
Appropriations to statutory surplus reserve (Note (iii))	-	-	1,812	-	-	-	(1,812)	-
Appropriations to general risk reserve of Finance Company (Note (v))	-	-	-	23	-	-	(23)	-
Balance as at 31 December 2019	17,504	10,746	78,043	23	615	(625)	165,272	271,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

26. RESERVES (continued)

The Company

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Surplus reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Retained earnings RMB millions (Note (iv))	Total RMB millions
Balance as at 1 January 2018	29,144	10,746	74,599	245	122,987	237,721
Total comprehensive income for the year	-	-	-	(257)	19,532	19,275
Dividends (Note 37)	-	-	-	-	(7,568)	(7,568)
Appropriations to statutory surplus reserve (Note (iii))	-	-	1,875	-	(1,875)	-
Balance as at 31 December 2018	29,144	10,746	76,474	(12)	133,076	249,428
Change in accounting policy	-	-	(243)	-	(2,184)	(2,427)
Balance as at 1 January 2019, as restated	29,144	10,746	76,231	(12)	130,892	247,001
Total comprehensive income for the year	-	-	-	441	18,123	18,564
Share of an associate's other changes in reserves	(305)	-	-	-	-	(305)
Dividends (Note 37)	-	-	-	-	(8,891)	(8,891)
Appropriations to statutory surplus reserve (Note (iii))	-	-	1,812	-	(1,812)	-
Balance as at 31 December 2019	28,839	10,746	78,043	429	138,312	256,369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

26. RESERVES (continued)

Notes:

- (i) Capital reserve of the Group mainly represents the sum of (a) the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation; (b) the difference between the consideration paid by the Group for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation, which were accounted for as equity transactions as disclosed in Note 1, and the historical carrying amount of the net assets of these acquired entities; and (c) the difference between the consideration paid by the Group for the acquisition of non-controlling interests and the historical carrying amount of the non-controlling interests acquired.

The difference between the consideration paid by the Group and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.

Capital reserve of the Company represents the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation.

- (ii) Other reserves of the Group and the Company represent primarily the change in the fair value of investment in equity instruments at FVTOCI and the deferred tax liabilities recognised due to the change in fair value of those investment in equity instruments.
- (iii) The surplus reserves consist of statutory surplus reserve and discretionary surplus reserve.

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRSs, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2019, the Company transferred RMB1,812 million (the year ended 31 December 2018: RMB1,875 million), being 10% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to this reserve. As at 31 December 2019, the amount of statutory surplus reserve was RMB31,964 million (1 January 2019: RMB30,152 million; 31 December 2018: RMB30,395 million).

The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2019 and 2018. As at 31 December 2019 and 2018, the amount of discretionary surplus reserve was RMB46,079 million.

The statutory and discretionary surplus reserves are non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilised for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining statutory surplus reserve balance after such issue is not less than 25% of the registered capital.

- (iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount of the Company's retained earnings determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRSs. As at 31 December 2019, the amount of retained earnings available for distribution was RMB138,312 million (1 January 2019: RMB130,892 million; 31 December 2018: RMB133,076 million), being the amount determined in accordance with IFRSs. Final dividend of approximately RMB9,126 million in respect of the financial year 2019 proposed after the end of the reporting period has not been recognised as a liability in the consolidated financial statements at the end of the reporting period (Note 37).
- (v) Pursuant to "Requirements on Impairment Allowance for Financial Institutions" (Caijin [2012] No. 20) issued by the Ministry of Finance of the PRC effective on 1 July 2012 (the "Requirements"), Finance Company establishes a general risk reserve within equity, through appropriation of retained earnings, to address unidentified potential losses relating to risk assets. The general risk reserve balance should not be less than 1.5% of the ending balance of risk assets, as defined in the Requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

27. OPERATING REVENUES

Disaggregation of revenues

	Notes	2019 RMB millions	2018 RMB millions
Type of goods or services			
Revenue from contracts with customers			
Voice	(i)	45,146	50,811
Internet	(ii)	197,244	190,871
Information and application services	(iii)	87,623	83,478
Telecommunications network resource and equipment services	(iv)	21,978	20,211
Sales of goods and others	(v)	17,906	27,450
Subtotal		369,897	372,821
Revenue from other sources	(vi)	5,837	4,303
Total operating revenues		375,734	377,124
Timing of revenue recognition			
A point in time		14,591	24,496
Over time		361,143	352,628
Total operating revenues		375,734	377,124

Notes:

- (i) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.
- (ii) Represent amounts charged to customers for the provision of Internet access services.
- (iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet data centre service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.
- (iv) Represent amounts charged to other domestic telecommunications operators and enterprise customers for the provision of telecommunications network resource and equipment services.
- (v) Represent primarily revenues from sales, and repair and maintenance of telecommunications equipment as well as the resale of mobile services (MVNO).
- (vi) Represent primarily revenue from property rental and other revenues.

As at 31 December 2019 and 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts represents revenue expected to be recognised in the future when service is provided over the contract terms over the next 1 to 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

28. NETWORK OPERATIONS AND SUPPORT EXPENSES

	Note	2019 RMB millions	2018 RMB millions
Operating and maintenance		65,087	64,056
Utility		13,818	13,477
Network resources usage and related fee	(i)	20,976	29,434
Others		9,918	9,095
		109,799	116,062

Note:

- (i) Network resources usage and related fee for the year ended 31 December 2019 includes the variable lease payments and fee for non-lease components in relation to telecommunication towers and related assets lease and fee in relation to the short-term leases and leases of low-value assets, variable lease payments and fee for non-lease components in relation to the usage of network resources provided by third parties.

29. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	2019 RMB millions	2018 RMB millions
Network operations and support	42,214	40,388
Selling, general and administrative	21,353	19,348
	63,567	59,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

30. OTHER OPERATING EXPENSES

	Notes	2019 RMB millions	2018 RMB millions
Interconnection charges	(i)	12,683	12,878
Cost of goods sold	(ii)	13,413	23,185
Donations		1	20
Others	(iii)	1,695	1,614
		27,792	37,697

Notes:

- (i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.
- (ii) Cost of goods sold primarily represents cost of telecommunications equipment sold.
- (iii) Others mainly include tax and surcharges other than value-added tax and income tax.

31. TOTAL OPERATING EXPENSES

Total operating expenses for the year ended 31 December 2019 were RMB346,664 million (2018: RMB348,410 million) which include auditor's remuneration in relation to audit and non-audit services (excluding value-added tax) of RMB77 million and RMB3 million respectively (2018: RMB72 million and RMB3 million).

32. NET FINANCE COSTS

	2019 RMB millions	2018 RMB millions
Interest expense on short-term and long-term debts	2,623	3,278
Interest expense on lease liabilities	1,607	–
Less: Interest expense capitalised*	(140)	(185)
Net interest expense	4,090	3,093
Interest income	(492)	(306)
Foreign exchange losses	680	423
Foreign exchange gains	(639)	(502)
	3,639	2,708
*Interest expense was capitalised in construction in progress at the following rates per annum	3.5%-4.4%	3.8%-4.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

33. INCOME TAX

Income tax in the profit or loss comprises:

	2019	2018
	RMB millions	RMB millions
Provision for PRC income tax	781	3,408
Provision for income tax in other tax jurisdictions	105	120
Deferred taxation	5,436	3,282
	6,322	6,810

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

	Notes	2019	2018
		RMB millions	RMB millions
Profit before taxation		27,034	28,148
Expected income tax expense at statutory tax rate of 25%	(i)	6,759	7,037
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(315)	(291)
Differential tax rate on other subsidiaries' income	(ii)	(129)	(58)
Non-deductible expenses	(iii)	979	537
Non-taxable income	(iv)	(460)	(319)
Others	(v)	(512)	(96)
Actual income tax expense		6,322	6,810

Notes:

- (i) Except for certain subsidiaries and branches which are mainly taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 8% to 35%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts represent miscellaneous income which are not subject to income tax.
- (v) Amounts primarily represent settlement of tax filing differences of prior year annual tax return and other tax benefits such as additional tax deduction on research and development expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

34. DIRECTORS' AND SUPERVISORS' REMUNERATION

The following table sets out the remuneration of the Company's directors and supervisors:

2019	Directors'/	Salaries,	Discretionary	Retirement	Share-	Total
	supervisors'	allowances		scheme	based	
	fees	and benefits	bonuses ⁶	contributions	payments	RMB
	RMB	in kind	RMB	RMB	RMB	RMB
	thousands	thousands	thousands	thousands	thousands	thousands
Executive directors						
Ke Ruiwen	-	221	648	113	-	982
Chen Zhongyue	-	199	603	111	-	913
Liu Guiqing ¹	-	66	399	43	-	508
Zhu Min	-	197	458	106	-	761
Wang Guoquan ²	-	66	98	41	-	205
Yang Jie ³	-	37	399	32	-	468
Gao Tongqing ⁴	-	199	603	112	-	914
Non-executive director						
Chen Shengguang	-	-	-	-	-	-
Independent non-executive directors⁵						
Tse Hau Yin, Aloysius	487	-	-	-	-	487
Xu Erming	250	-	-	-	-	250
Wang Hsuehming	266	-	-	-	-	266
Yeung Chi Wai, Jason	266	-	-	-	-	266
Supervisors						
Sui Yixun	-	265	494	107	-	866
Zhang Jianbin	-	253	494	107	-	854
Yang Jianqing	-	309	458	111	-	878
Xu Shiguang	-	145	356	84	-	585
Ye Zhong	-	-	-	-	-	-
	1,269	1,957	5,010	967	-	9,203

1 Mr Liu Guiqing was appointed as an executive director of the Company on 19 August 2019.

2 Mr Wang Guoquan was appointed as an executive director of the Company on 19 August 2019.

3 Mr Yang Jie resigned as an executive director of the Company on 4 March 2019.

4 Mr Gao Tongqing resigned as an executive director of the Company on 17 January 2020.

5 The independent non-executive directors' remuneration were for their services as directors of the Company.

6 The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance for the year. In addition, according to the respective provision of the State-owned Assets Supervision and Administration Commission of the State Council, certain directors were also entitled to deferred bonuses in relation to 2016 and 2018. The deferred bonuses paid to Mr Ke Ruiwen, Mr Chen Zhongyue, Mr Liu Guiqing, Madam Zhu Min, Mr Yang Jie and Mr Gao Tongqing in the current year were RMB583 thousand, RMB578 thousand, RMB206 thousand, RMB111 thousand, RMB642 thousand and RMB578 thousand, respectively.

7 The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year. None of the directors or supervisors received any inducements for joining the Company or compensation for loss of office, or waived or agreed to waive any emoluments during this year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

34. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

2018	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses ⁹ RMB thousands	Retirement scheme contributions RMB thousands	Share- based payments RMB thousands	Total RMB thousands
Executive directors						
Yang Jie	–	207	536	89	–	832
Liu Aili ¹	–	121	178	52	–	351
Ke Ruiwen	–	197	497	85	–	779
Sun Kangmin ²	–	–	–	–	–	–
Gao Tongqing	–	192	489	84	–	765
Chen Zhongyue	–	192	489	82	–	763
Zhu Min ³	–	37	53	14	–	104
Non-executive director						
Chen Shengguang	–	–	–	–	–	–
Independent non-executive directors⁸						
Tse Hau Yin, Aloysius	471	–	–	–	–	471
Cha May Lung, Laura ⁴	108	–	–	–	–	108
Xu Erming	250	–	–	–	–	250
Wang Hsuehming	257	–	–	–	–	257
Yeung Chi Wai, Jason ⁵	44	–	–	–	–	44
Supervisors						
Sui Yixun	–	216	485	84	–	785
Zhang Jianbin	–	209	485	84	–	778
Yang Jianqing	–	268	494	86	–	848
Hu Jing ⁶	–	15	83	12	–	110
Xu Shiguang ⁷	–	18	40	13	–	71
Ye Zhong	–	–	–	–	–	–
	1,130	1,672	3,829	685	–	7,316

1 Mr Liu Aili resigned as an executive director of the Company on 19 July 2018.

2 Mr Sun Kangmin retired as an executive director of the Company on 29 January 2018.

3 Madam Zhu Min was appointed as an executive director of the Company on 26 October 2018.

4 Madam Cha May Lung, Laura resigned as an independent non-executive director of the Company on 28 May 2018.

5 Mr Yeung Chi Wai, Jason was appointed as an independent non-executive director of the Company on 26 October 2018.

6 Mr Hu Jing resigned as a supervisor of the Company on 27 February 2018.

7 Mr Xu Shiguang was appointed as a supervisor of the Company on 26 October 2018.

8 The independent non-executive directors' remuneration were for their services as directors of the Company.

9 The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance for the year. In addition, according to the respective provision of the State-owned Assets Supervision and Administration Commission of the State Council, certain directors were also entitled to deferred bonuses in relation to 2013 and 2015. The deferred bonuses paid to Mr Yang Jie, Mr Ke Ruiwen, Mr Gao Tongqing and Mr Chen Zhongyue in the current year were RMB189 thousand, RMB167 thousand, RMB167 thousand and RMB167 thousand, respectively.

10 The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year. None of the directors or supervisors received any inducements for joining the Company or compensation for loss of office, or waived or agreed to waive any emoluments during this year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

35. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION

(a) Five highest paid individuals

None of the five highest paid individuals of the Group for the years ended 31 December 2019 and 2018 were directors of the Company.

The aggregate of the emoluments in respect of the five (2018: five) individuals (non-directors) are as follows:

	2019 RMB thousands	2018 RMB thousands
Salaries, allowances and benefits in kind	7,054	5,850
Discretionary bonuses	3,456	2,382
Retirement scheme contributions	48	45
	10,558	8,277

The emoluments of the five (2018: five) individuals (non-directors) with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
RMB0 – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	–	2
RMB1,500,001 – RMB2,000,000	4	2
More than RMB2,000,001	1	1

None of these employees received any inducements for joining the Company or compensation for loss of office, or waived any emoluments during the periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

35. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION (continued)

(b) Senior management remuneration

The emoluments of the Group's senior management are within the following bands:

	2019 Number of individuals	2018 Number of individuals
RMB0 – RMB1,000,000	12	20
RMB1,000,001 – RMB1,500,000	5	1
RMB1,500,001 – RMB2,000,000	1	–

36. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2019, the consolidated profit attributable to equity holders of the Company includes a profit of RMB18,123 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2018, the consolidated profit attributable to equity holders of the Company includes a profit of RMB19,532 million which has been dealt with in the stand-alone financial statements of the Company.

37. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on 24 March 2020, a final dividend of equivalent to HK\$0.125 per share totaling approximately RMB9,126 million for the year ended 31 December 2019 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2019.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

38. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2019 and 2018 is based on the profit attributable to equity holders of the Company of RMB20,517 million and RMB21,210 million respectively, divided by 80,932,368,321 shares.

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

39. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing.

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2018 RMB millions
Within 1 year	15,658
Between 1 to 2 years	14,466
Between 2 to 3 years	13,440
Between 3 to 4 years	12,682
Between 4 to 5 years	3,461
Thereafter	6,098
Total minimum lease payments	65,805

Operating lease commitment as set out above includes the lease commitment to China Tower for the tower assets lease fee. The amount was calculated based on the current lease condition and did not take into consideration the contingent adjustment to the lease charges resulting from the change in sharing of certain towers amongst the telecommunications operators.

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2018 was RMB27,810 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

39. COMMITMENTS AND CONTINGENCIES (continued)

Capital commitments

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

	31 December	
	2019 RMB millions	2018 RMB millions
Contracted for but not provided		
Property	1,810	1,103
Telecommunications network plant and equipment	19,131	14,200
	20,941	15,303

Contingent liabilities

- (a) The Group was advised by their PRC lawyers that no material contingent liabilities were assumed by the Group.
- (b) As at 31 December 2019 and 2018, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and based on such assessment, believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instruments, accounts receivable, financial assets at FVTPL and financial assets included in prepayments and other current assets. Financial liabilities of the Group include short-term and long-term debt, accounts payable and financial liabilities included in accrued expenses and other payables.

(a) Fair Value Measurements

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

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

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

The listed equity securities investment included in Group's equity instruments at fair value through other comprehensive income are categorised as level 1 financial instruments. As at 31 December 2019, the fair value of the Group's listed equity securities investment are RMB1,228 million (31 December 2018: RMB638 million) based on quoted market price on PRC stock exchanges.

The fair value of long-term debt is estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The fair value measurement of long-term debt is categorised as level 2. The interest rates used by the Group in estimating the fair values of long-term debt, having considered the foreign currency denomination of the debt, ranged from 3.7% to 4.9% (31 December 2018: 1.0% to 4.9%). As at 31 December 2019 and 2018, the carrying amounts and fair value of the Group's long-term debt were as follows:

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB millions	RMB millions	RMB millions	RMB millions
Long-term debt	36,495	35,780	45,991	44,968

During the year, there were no transfers among instruments in level 1, level 2 or level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks

The Group's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which mainly comprises of interest rate risk and foreign currency exchange rate risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, credit risk, and market risk. The Board regularly reviews these policies and authorises changes if necessary based on operating and market conditions and other relevant risks. The following summarises the qualitative and quantitative disclosures for each of the three main types of risks:

(i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. For the Group, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunications services.

Cash and cash equivalents and short-term bank deposits

To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. The credit risks on bank balances are limited because the counterparties are banks with high credit ratings.

Accounts receivable and contract assets arising from contracts with customers

For accounts receivable and contract assets, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable and contract assets. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances individually or based on provision matrix. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(i) Credit risk (continued)

Accounts receivable and contract assets arising from contracts with customers (continued)

The Group measures loss allowances for accounts receivable and contract assets at an amount equal to lifetime ECL, which is calculated using a provision matrix, or individually assessed for those debtors with significant balances or credit impaired debtors. As different loss patterns were indicated during the analysis of the Group's historical credit loss experience between telephone and Internet subscribers and enterprise customers, the following tables provide information about the Group's exposure to credit risk and ECL for accounts receivable and contract assets from telephone and Internet subscribers and enterprise customers, respectively, as at 31 December 2019 and 2018:

Accounts receivable from telephone and Internet subscribers:

	31 December 2019		
	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
Current, within 1 month	2%	7,545	141
1 to 3 months	20%	1,777	349
4 to 6 months	60%	739	444
7 to 12 months	80%	1,083	867
Over 12 months	100%	1,002	1,002
		12,146	2,803

	31 December 2018		
	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
Current, within 1 month	2%	8,376	158
1 to 3 months	20%	2,117	420
4 to 6 months	60%	839	502
7 to 12 months	80%	1,093	875
Over 12 months	100%	943	943
		13,368	2,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(i) Credit risk (continued)

Accounts receivable and contract assets arising from contracts with customers (continued)

Accounts receivable and contract assets from enterprise customers:

	31 December 2019		
	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
1 to 6 months	2%	5,452	102
7 to 12 months	20%	1,428	239
1 to 2 years	60%	621	353
2 to 3 years	90%	258	224
Over 3 years	100%	371	364
		8,130	1,282

	31 December 2018		
	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
1 to 6 months	2%	4,478	109
7 to 12 months	20%	800	157
1 to 2 years	60%	479	290
2 to 3 years	90%	225	202
Over 3 years	100%	298	298
		6,280	1,056

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(i) Credit risk (continued)

Accounts receivable and contract assets arising from contracts with customers (continued)

Accounts receivable and contract assets from enterprise customers: (continued)

As at 31 December 2019, the loss allowance for accounts receivable and contract assets was RMB4,692 million and RMB8 million (2018: RMB4,680 million and RMB8 million), respectively. Loss allowance of RMB615 million as at 31 December 2019 (2018: RMB734 million), which was not calculated collectively in the above tables, was made individually on debtors with significant balances or credit impaired debtors.

Expected loss rates are based on actual loss experience over the past 1 to 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of accounts receivable is as follows:

	2019 RMB millions	2018 RMB millions
At beginning of year	4,680	4,761
Impairment losses for ECL	1,653	2,008
Amounts written off	(1,641)	(2,089)
At end of year	4,692	4,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(ii) Liquidity risk

Liquidity risk refers to the risk that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group manages liquidity risk by maintaining sufficient cash balances and adequate amount of committed banking facilities to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments, capital expenditures and new investments for a set minimum period of between 3 to 6 months.

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities and lease liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates at the end of the reporting period) and the earliest date the Group would be required to repay:

	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	31 December 2019			
			Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	42,527	43,697	43,697	-	-	-
Long-term debt	36,495	40,791	4,625	1,184	30,824	4,158
Accounts payable	102,616	102,616	102,616	-	-	-
Accrued expenses and other payables	48,516	48,516	48,516	-	-	-
Lease liabilities	42,146	45,535	12,846	11,794	17,266	3,629
	272,300	281,155	212,300	12,978	48,090	7,787

	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	31 December 2018			
			Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	49,537	51,091	51,091	-	-	-
Long-term debt	45,991	52,625	2,602	19,604	25,061	5,358
Accounts payable	107,887	107,887	107,887	-	-	-
Accrued expenses and other payables	43,497	43,497	43,497	-	-	-
Finance lease obligations	216	241	112	40	82	7
	247,128	255,341	205,189	19,644	25,143	5,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 19) will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

(iii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term debt and long-term debt. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The following table sets out the interest rate profile of the Group's debt at the end of the reporting period:

	31 December 2019		31 December 2018	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	2.5	29,022	3.2	49,347
Long-term debt	3.1	36,495	3.3	45,991
		65,517		95,338
Variable rate debt:				
Short-term debt	3.8	13,505	4.2	190
		13,505		190
Total debt		79,022		95,528
Fixed rate debt as a percentage of total debt		82.9%		99.8%

Management does not expect the increase or decrease in interest rate will materially affect the Group's financial position and result of operations because the interest rates of 82.9% (31 December 2018: 99.8%) of the Group's short-term and long-term debt as at 31 December 2019 are fixed as set out above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

40. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(iv) Foreign currency exchange rate risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to bank deposits and borrowings denominated primarily in US dollars, Euros and Hong Kong dollars.

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 78.0% (31 December 2018: 64.0%) of the Group's cash and cash equivalents and 99.4% (31 December 2018: 99.4%) of the Group's short-term and long-term debt as at 31 December 2019 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 19.

41. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of total debt-to-total assets ratio. For this purpose the Group defines total debt as the sum of short-term debt and long-term debt. Total debts do not include balance of deposits received by Finance Company from China Telecom Group amounting to RMB4,098 million and lease liabilities amounting to RMB42,146 million as at 31 December 2019 (31 December 2018: Nil). As at 31 December 2019, the Group's total debt-to-total assets ratio was 11.2% (31 December 2018: 14.4%), which is within the range of management's expectation.

Except Finance Company is subject to certain capital requirements imposed by China Banking and Insurance Regulatory Commission, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Short-term debt	Long-term debt	Lease liabilities/ finance lease obligations	Dividend payable	Deposits with Finance Company	Other payables in respect of certain equity transactions	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance as at 1 January 2018	54,558	49,742	77	–	–	206	104,583
Financing cash flows	(5,021)	(4,073)	(73)	(7,745)	–	(226)	(17,138)
New finance leases	–	–	200	–	–	–	200
Interest expenses	–	304	12	–	–	–	316
Foreign exchange loss	–	18	–	–	–	–	18
Reduction of capital by non-controlling interests	–	–	–	–	–	20	20
Distribution to non-controlling interests	–	–	–	177	–	–	177
Dividends declared	–	–	–	7,568	–	–	7,568
Balance as at 31 December 2018	49,537	45,991	216	–	–	–	95,744
Change in accounting policy	–	–	45,648	–	–	–	45,648
Balance as at 1 January 2019	49,537	45,991	45,864	–	–	–	141,392
Financing cash flows	(7,010)	(9,782)	(10,699)	(9,072)	4,098	(8)	(32,473)
New leases	–	–	8,856	–	–	–	8,856
Lease modifications	–	–	(589)	–	–	–	(589)
Transferred to accounts payable	–	–	(2,900)	–	–	–	(2,900)
Interest expenses	–	284	1,607	–	–	–	1,891
Foreign exchange loss	–	2	7	–	–	–	9
Acquisition of non-controlling interests	–	–	–	–	–	8	8
Distribution to non-controlling interests	–	–	–	181	–	–	181
Dividends declared	–	–	–	8,891	–	–	8,891
Balance as at 31 December 2019	42,527	36,495	42,146	–	4,098	–	125,266

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

Notes:

- (i) As at 31 December 2019, the balance of deposits with Finance Company amounting to RMB4,098 million (31 December 2018: nil) were included in amounts due to China Telecom Group in accrued expenses and other payables (Note 21).
- (ii) For the year ended 31 December 2019, other than the net financing cash outflows totalling RMB32,473 million as presented above: E-surfing Pay, a subsidiary of the Company, received RMB90 million as part of the total consideration amounting to RMB945 million in respect of contribution from non-controlling interests (Note 17); Finance Company, a subsidiary of the Company, received RMB1,500 million in respect of contribution from non-controlling interests (Note 26), and placed statutory reserve deposits amounting to RMB405 million at the People's Bank of China which is included in the balance of short-term bank deposits as at 31 December 2019.

43. RELATED PARTY TRANSACTIONS

(a) Transactions with China Telecom Group

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

The principal transactions with China Telecom Group are as follows. These transactions constitute continuing connected transactions under the Listing Rules and the Company has complied with the relevant disclosure requirements under Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Continuing Connected Transactions" in the Report of Directors.

	Notes	2019 RMB millions	2018 RMB millions
Construction and engineering services	(i)	14,014	16,396
Receiving ancillary services	(ii)	18,571	16,744
Interconnection revenues	(iii)	97	80
Interconnection charges	(iii)	183	204
Receiving community services	(iv)	3,464	3,296
Net transaction amount of centralised services	(v)	133	519
Property lease income	(vi)	57	48
Property lease related expenses	(vii)	577	713
Addition to right-of-use assets	(vii)	284	–
Interest expense on lease liabilities	(vii)	11	–
Provision of IT services	(viii)	464	531
Receiving IT services	(viii)	2,175	1,895
Purchases of telecommunications equipment and materials	(ix)	3,538	3,760
Sales of telecommunications equipment and materials	(ix)	1,444	2,760
Internet applications channel services	(x)	108	298
Interest on loans from China Telecom Group*	(xi)	1,485	2,099
Others*	(xii)	189	186
Net deposit by China Telecom Group with Finance Company*	(xiii)	4,098	–
Interest expense on the deposit by China Telecom Group with Finance Company*	(xiii)	7	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

43. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

Notes:

- (i) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (ii) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (iii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
- (v) Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.
- (vi) Represent amounts of property lease fee received and receivable from China Telecom Group for leasing of properties.
- (vii) Represent amounts in relation to the leasing of properties from China Telecom Group. Property lease related expenses for the year ended 31 December 2019 include the fee for short-term leases, leases of low-value assets, variable lease payments not depending on an index or a rate and fee for non-lease components. Property lease related expenses for the year ended 31 December 2018 represents lease fee paid and payable to China Telecom Group.
- (viii) Represent IT services provided to and received from China Telecom Group.
- (ix) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (x) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.
- (xi) Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 19).
- (xii) Represent amounts paid and payable to China Telecom Group primarily for usage of certain CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region, certain inter-provincial transmission optic fibres within its service regions and certain land use rights.
- (xiii) Represent amounts related to financial services provided by Finance Company to China Telecom Group, including lending services, deposit services and other financial services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

43. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

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

	31 December	
	2019 RMB millions	2018 RMB millions
Accounts receivable	1,188	1,327
Contract assets	27	24
Prepayments and other current assets	1,233	1,035
Total amounts due from China Telecom Group	2,448	2,386
Accounts payable	19,531	20,983
Accrued expenses and other payables	6,069	2,171
Contract liabilities	162	145
Lease liabilities	389	–
Short-term debt	6,621	8,584
Long-term debt	23,300	37,000
Total amounts due to China Telecom Group	56,072	68,883

Amounts due from/to China Telecom Group, other than short-term debt, long-term debt, deposit with Finance Company included in accrued expenses and other payables (Note 42(i)), bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt due to China Telecom Group are set out in Note 19.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

43. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with China Tower

The principal transactions with China Tower are as follows. These transactions do not constitute connected transactions under the Listing Rules.

	Notes	2019 RMB millions	2018 RMB millions
Tower assets lease related expenses	(i)	10,543	16,063
Additions of right-of-use assets	(i)	3,735	–
Interest expense on lease liabilities	(i)	938	–
Provision of IT services	(ii)	31	32

Notes:

(i) Represent amounts in relation to the lease of tower assets. Tower assets lease related expenses for the year ended 31 December 2019 includes the variable lease payments not depending on an index or a rate and fee for non-lease components. Tower assets lease related expenses for the year ended 31 December 2018 represents tower assets lease and related fee paid and payable to China Tower.

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

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

	31 December	
	2019 RMB millions	2018 RMB millions
Accounts receivable	5	10
Prepayments and other current assets	192	293
Total amounts due from China Tower	197	303
Accounts payable	4,312	2,850
Accrued expenses and other payables	1,261	1,246
Contract liabilities	1	–
Lease liabilities	24,474	–
Total amounts due to China Tower	30,048	4,096

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

43. RELATED PARTY TRANSACTIONS (continued)

(c) Key management personnel compensation

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

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

	2019	2018
	RMB	RMB
	thousands	thousands
Short-term employee benefits	9,604	7,942
Post-employment benefits	1,199	799
	10,803	8,741

The above remuneration is included in personnel expenses.

(d) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal, autonomous regional and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 45.

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

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

Apart from transactions with parent company and its fellow subsidiaries (Note 43(a)), the Group has transactions that are collectively but not individually significant with other government-related entities, which include but not limited to the following:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

44. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	31 December	
		2019 RMB millions	2018 RMB millions
ASSETS			
Non-current assets			
Property, plant and equipment, net		406,749	404,622
Construction in progress		58,042	65,701
Right-of-use assets		60,839	–
Lease prepayments		–	21,554
Goodwill		29,877	29,877
Intangible assets		14,882	12,851
Investments in subsidiaries	9	16,044	11,377
Interests in associates		38,814	37,927
Equity instruments at fair value through other comprehensive income		1,255	665
Deferred tax assets		7,251	6,087
Other assets		3,918	7,928
Total non-current assets		637,671	598,589
Current assets			
Inventories		1,500	1,562
Income tax recoverable		1,534	39
Accounts receivable, net		19,161	18,758
Contract assets		370	367
Prepayments and other current assets		16,616	16,556
Short-term bank deposits		2,780	2,526
Cash and cash equivalents		6,382	6,183
Total current assets		48,343	45,991
Total assets		686,014	644,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

44. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December	
	2019 RMB millions	2018 RMB millions
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt	63,394	60,532
Current portion of long-term debt	4,444	1,139
Accounts payable	101,280	105,124
Accrued expenses and other payables	35,060	34,456
Contract liabilities	50,119	52,039
Income tax payable	53	471
Current portion of lease liabilities/finance lease obligations	11,300	101
Current portion of deferred revenues	358	375
Total current liabilities	266,008	254,237
Net current liabilities	(217,665)	(208,246)
Total assets less current liabilities	420,006	390,343
Non-current liabilities		
Long-term debt	32,051	44,852
Lease liabilities/finance lease obligations	30,137	101
Deferred revenues	1,097	1,454
Deferred tax liabilities	18,820	12,908
Other non-current liabilities	600	668
Total non-current liabilities	82,705	59,983
Total liabilities	348,713	314,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

44. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	Note	31 December	
		2019 RMB millions	2018 RMB millions
Equity			
Share capital		80,932	80,932
Reserves	26	256,369	249,428
Total equity		337,301	330,360
Total liabilities and equity		686,014	644,580

Note: The Company has applied IFRS 16 since 1 January 2019 in accordance with transitional provision stated in Note 2. Lease liabilities amounted to RMB45,292 million and right-of-use assets amounted to RMB64,947 million were recognised on initial application of IFRS 16, respectively.

45. POST-EMPLOYMENT BENEFITS PLANS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the above plans for the year ended 31 December 2019 were RMB8,616 million (31 December 2018: RMB7,256 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2019 was RMB755 million (31 December 2018: RMB675 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

46. SHARE APPRECIATION RIGHTS

The Group implemented a share appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, share appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable period.

In November 2018, the Company approved the granting of 2,394 million share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$3.81 per unit. A recipient of share appreciation rights may exercise the rights in stages commencing November 2020. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total share appreciation rights granted to such person.

During the year ended 31 December 2019 and 2018, no share appreciation right units were exercised. For the year ended 31 December 2019, compensation expense of RMB136 million was recognised by the Group in respect of share appreciation rights (2018: RMB30 million).

As at 31 December 2019, the carrying amount of the liability arising from share appreciation rights was RMB166 million (2018: RMB30 million).

47. ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 3. Management believes the following significant accounting policies involve the most significant judgments and estimates used in the preparation of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

47. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Provision of ECL for accounts receivable

The Group uses provision matrix to calculate ECL for the accounts receivable. The provision rates are based on customer's past history of making payments when due and current ability to pay by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. The historical observed default rates are reassessed annually, and changes in the forward-looking information are considered. In addition, accounts receivable with significant balances or credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable are disclosed in Notes 40 and 15.

Impairment of goodwill and long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 3(h). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, construction in progress, right-of-use assets and contract costs are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at the end of each reporting period. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs of disposal. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate fair value of the Group's long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

For the year ended 31 December 2019, no provision for impairment loss was made against the carrying value of long-lived assets (2018: Nil). In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

47. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Depreciation and amortisation

Property, plant and equipment and intangible assets with finite useful lives are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

48. POSSIBLE IMPACT OF NEW AND AMENDMENTS TO STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2019

Up to the date of issue of the consolidated financial statements, the IASB has issued the following new and amendments to standards which are not yet effective and not early adopted by the Group for the annual accounting period ended 31 December 2019:

	Effective for accounting period beginning on or after
Amendments to IFRS 3, <i>"Definition of a Business"</i>	1 January 2020
Amendments to IAS 1 and IAS 8, <i>"Definition of Material"</i>	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, <i>"Interest Rate Benchmark Reform"</i>	1 January 2020
IFRS 17, <i>"Insurance Contracts"</i>	1 January 2021
Amendments to IAS 1 <i>"Classification of Liabilities as Current or Non-current"</i>	1 January 2022
Amendments to IFRS 10 and IAS 28, <i>"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"</i>	To be determined

In addition to the above new and amendments to standards, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The Group is in the process of making an assessment of the impact that will result from adopting the new and amendments to standards issued by the IASB which are not yet effective for the accounting period ended on 31 December 2019. So far the Group believes that the adoption of these new and amendments to standards is unlikely to have a significant impact on its financial position and the results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

49. EVENTS AFTER THE REPORTING PERIOD

(a) Issue of corporate bonds

On 10 March 2020, the Group issued three-year, RMB2,000 million corporate bonds to qualified investors in Shanghai Securities Exchange with annual interest rate of 2.90%.

(b) The impact of the Novel Coronavirus (COVID-19) Epidemic

Following the outbreak of the novel coronavirus (COVID-19) epidemic in early 2020, related prevention and control measures across China and other part of the world have been implemented. In addition, the Group has taken a series of measures to ensure smooth and reliable communications. The continuous pandemic has impacted business development and network construction of the Group. The Group will keep continuous attention on the developments of and changes in this situation, timely assess and actively respond to its impacts on the financial position, operating results and other aspects of the Group.

50. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Company as at 31 December 2019 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.