CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020 (Amounts in millions)

	Notes	31 December 2020 RMB	31 December 2019 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net	4	418,605	410,008
Construction in progress	5	48,425	59,206
Right-of-use assets	6	59,457	61,549
Goodwill	7	29,920	29,923
Intangible assets	8	18,508	16,349
Interests in associates	10	40,303	39,192
Financial assets at fair value through profit or loss		73	–
Equity instruments at fair value through other comprehensive income	11	1,073	1,458
Deferred tax assets	12	8,164	7,577
Other assets	13	6,552	4,687
Total non-current assets		631,080	629,949
Current assets			
Inventories	15	3,317	2,880
Income tax recoverable		334	1,662
Accounts receivable, net	16	21,502	21,489
Contract assets	17	604	474
Prepayments and other current assets	18	25,167	22,219
Financial assets at fair value through profit or loss		–	39
Short-term bank deposits and restricted cash		9,408	3,628
Cash and cash equivalents	19	23,684	20,791
Total current assets		84,016	73,182
Total assets		715,096	703,131

The notes on pages 171 to 244 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020 (Amounts in millions)

	Notes	31 December 2020 RMB	31 December 2019 RMB
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	20	**27,994**	42,527
Current portion of long-term debt	20	**1,126**	4,444
Accounts payable	21	**107,578**	102,616
Accrued expenses and other payables	22	**56,775**	48,516
Contract liabilities	23	**63,849**	54,388
Income tax payable		**350**	243
Current portion of lease liabilities	24	**13,192**	11,569
Current portion of deferred revenues	25	**278**	358
Total current liabilities		**271,142**	264,661
Net current liabilities		**(187,126)**	(191,479)
Total assets less current liabilities		**443,954**	438,470
Non-current liabilities			
Long-term debt	20	**24,222**	32,051
Lease liabilities	24	**27,455**	30,577
Deferred revenues	25	**861**	1,097
Deferred tax liabilities	12	**24,208**	19,078
Other non-current liabilities		**1,033**	627
Total non-current liabilities		**77,779**	83,430
Total liabilities		**348,921**	348,091
Equity			
Share capital	26	**80,932**	80,932
Reserves	27	**282,524**	271,578
Total equity attributable to equity holders of the Company		**363,456**	352,510
Non-controlling interests		**2,719**	2,530
Total equity		**366,175**	355,040
Total liabilities and equity		**715,096**	703,131

Approved and authorised for issue by the Board of Directors on 9 March 2021 and are signed on its behalf by:

Ke Ruiwen
Chairman and
Chief Executive Officer

Zhu Min
Executive Director,
Executive Vice President and Chief Financial Officer

The notes on pages 171 to 244 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020 (Amounts in millions except for per share data)

	Notes	2020 RMB	2019 RMB
Operating revenues	28	**393,561**	375,734
Operating expenses			
Depreciation and amortisation		**(90,240)**	(88,145)
Network operations and support	29	**(119,517)**	(109,799)
Selling, general and administrative		**(55,059)**	(57,361)
Personnel expenses	30	**(65,989)**	(63,567)
Other operating expenses	31	**(29,074)**	(27,792)
Impairment loss on property, plant and equipment	4	**(5,042)**	–
Total operating expenses	32	**(364,921)**	(346,664)
Operating profit		**28,640**	29,070
Net finance costs	33	**(3,014)**	(3,639)
Investment income		**60**	30
Share of profits of associates		**1,701**	1,573
Profit before taxation		**27,387**	27,034
Income tax	34	**(6,307)**	(6,322)
Profit for the year		**21,080**	20,712
Other comprehensive income for the year			
Items that will not be reclassified subsequently to profit or loss:			
Change in fair value of investments in equity instruments at fair value through other comprehensive income		**(385)**	604
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income		**97**	(147)
		(288)	457
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of subsidiaries outside mainland China		**(312)**	102
Share of other comprehensive income of associates		**(4)**	(2)
		(316)	100
Other comprehensive income for the year, net of tax		**(604)**	557
Total comprehensive income for the year		**20,476**	21,269

The notes on pages 171 to 244 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020 (Amounts in millions except for per share data)

	Note	2020 RMB	2019 RMB
Profit attributable to			
Equity holders of the Company		**20,850**	20,517
Non-controlling interests		**230**	195
Profit for the year		**21,080**	20,712
Total comprehensive income attributable to			
Equity holders of the Company		**20,244**	21,074
Non-controlling interests		**232**	195
Total comprehensive income for the year		**20,476**	21,269
Basic earnings per share	39	**0.26**	0.25
Number of shares (in millions)	39	**80,932**	80,932

The notes on pages 171 to 244 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020 (Amounts in millions)

		Attributable to equity holders of the Company										
	Notes	Share capital RMB	Capital reserve RMB	Share premium RMB	Surplus reserves RMB	General risk reserve RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance as at 1 January 2019		80,932	17,806	10,746	76,231	–	160	(727)	155,481	340,629	1,027	341,656
Profit for the year		–	–	–	–	–	–	–	20,517	20,517	195	20,712
Other comprehensive income for the year		–	–	–	–	–	455	102	–	557	–	557
Total comprehensive income for the year		–	–	–	–	–	455	102	20,517	21,074	195	21,269
Contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	1,500	1,500
Acquisition of non-controlling interests		–	3	–	–	–	–	–	–	3	(11)	(8)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	(181)	(181)
Share of an associate's other changes in reserves		–	(305)	–	–	–	–	–	–	(305)	–	(305)
Dividends	38	–	–	–	–	–	–	–	(8,891)	(8,891)	–	(8,891)
Appropriations to statutory surplus reserve	27	–	–	–	1,812	–	–	–	(1,812)	–	–	–
Appropriations to general risk reserve	27	–	–	–	–	23	–	–	(23)	–	–	–
Balance as at 31 December 2019		80,932	17,504	10,746	78,043	23	615	(625)	165,272	352,510	2,530	355,040
Profit for the year		–	–	–	–	–	–	–	20,850	20,850	230	21,080
Other comprehensive income for the year		–	–	–	–	–	(294)	(312)	–	(606)	2	(604)
Total comprehensive income for the year		–	–	–	–	–	(294)	(312)	20,850	20,244	232	20,476
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	(1)	(1)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	(42)	(42)
Share of associates' other changes in reserves		–	(36)	–	–	–	–	–	–	(36)	–	(36)
Dividends	38	–	–	–	–	–	–	–	(9,262)	(9,262)	–	(9,262)
Appropriations to statutory surplus reserve	27	–	–	–	1,811	–	–	–	(1,811)	–	–	–
Appropriations to general risk reserve	27	–	–	–	–	33	–	–	(33)	–	–	–
Balance as at 31 December 2020		80,932	17,468	10,746	79,854	56	321	(937)	175,016	363,456	2,719	366,175

The notes on pages 171 to 244 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020 (Amounts in millions)

	Notes	2020 RMB	2019 RMB
Net cash from operating activities	(a)	**132,260**	112,600
Cash flows used in investing activities			
Capital expenditure		**(88,748)**	(82,853)
Purchase of investments		**(74)**	(478)
Payments for right-of-use assets		**(220)**	(310)
Proceeds from disposal of property, plant and equipment		**863**	2,514
Proceeds from disposal of right-of-use assets		**24**	115
Proceeds from disposal of investments		**47**	296
Purchase of short-term bank deposits		**(4,664)**	(5,119)
Maturity of short-term bank deposits		**5,695**	8,621
Net cash used in investing activities		**(87,077)**	(77,214)
Cash flows used in financing activities			
Repayments of principal of lease liabilities		**(12,738)**	(10,699)
Proceeds from bank and other loans		**81,049**	103,315
Repayments of bank and other loans		**(106,982)**	(120,107)
Payment of dividends		**(9,262)**	(8,891)
Distribution to non-controlling interests		**(42)**	(181)
Payment for the acquisition of non-controlling interests		**(1)**	(8)
Contribution from non-controlling interests		**–**	1,590
Advanced payment received in respect of contribution from non-controlling interest		**978**	–
Net deposits with Finance Company	(b)	**5,728**	4,098
Increase in statutory reserve deposits placed by Finance Company	(b)	**(837)**	(405)
Net cash used in financing activities		**(42,107)**	(31,288)
Net increase in cash and cash equivalents		**3,076**	4,098
Cash and cash equivalents at 1 January		**20,791**	16,666
Effect of changes in foreign exchange rate		**(183)**	27
Cash and cash equivalents at 31 December		**23,684**	20,791

The notes on pages 171 to 244 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020 (Amounts in millions)

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH FROM OPERATING ACTIVITIES

	2020 RMB	2019 RMB
Profit before taxation	**27,387**	27,034
Adjustment for:		
Depreciation and amortisation	**90,240**	88,145
Impairment loss on property, plant and equipment	**5,042**	–
Impairment losses for financial assets and other items, net of reversal	**1,512**	1,695
Write down of inventories, net of reversal	**35**	61
Investment income	**(60)**	(30)
Share of profits of associates	**(1,701)**	(1,573)
Interest income	**(582)**	(492)
Interest expense	**3,433**	4,090
Net foreign exchange loss	**163**	41
Net loss on retirement and disposal of long-lived assets	**3,827**	2,710
Operating profit before changes in working capital	**129,296**	121,681
Increase in accounts receivable	**(1,771)**	(2,601)
(Increase)/decrease in contract assets	**(132)**	4
(Increase)/decrease in inventories	**(474)**	1,891
(Increase)/decrease in prepayments and other current assets	**(116)**	1,045
(Increase)/decrease in restricted cash	**(6,097)**	89
(Increase)/decrease in other assets	**(2,971)**	414
Increase/(decrease) in accounts payable	**5,689**	(2,657)
Increase in accrued expenses and other payables	**1,934**	614
Increase/(decrease) in contract liabilities	**9,516**	(1,412)
Decrease in deferred revenues	**(55)**	(90)
Cash generated from operations	**134,819**	118,978
Interest received	**594**	474
Interest paid	**(3,524)**	(4,200)
Investment income received	**603**	133
Income tax paid	**(232)**	(2,785)
Net cash from operating activities	**132,260**	112,600

(b) "Finance Company" refers to China Telecom Group Finance Co., Ltd., a subsidiary of the Company established on 8 January 2019, providing capital and financial management services to the member units of China Telecommunications Corporation.

The notes on pages 171 to 244 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

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. ("CTSI"), 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").

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.

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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") that are mandatorily effective for the current year:

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

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

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

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

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

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

2.1 Impacts on early application of Amendment to IFRS 16, "*Covid-19-Related Rent Concessions*"

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

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

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

The application has no impact to the opening reserves as at 1 January 2020. The amounts related to changes in lease payments that resulted from rent concessions in the profit or loss for the current year was not material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with IFRSs as issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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(k)).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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 48.

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, "*Revenue from Contracts with Customers*" ("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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets, and obligation for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

(j) 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.

(k) 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 trade 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

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.

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

At 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9, "*Financial Instruments*" ("IFRS 9")

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including accounts receivable, financial assets included in prepayments and other current assets, short-term bank deposits and restricted cash, cash and cash equivalents) and other item (contract assets) which are subject to impairment assessment 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9, "*Financial Instruments*" ("IFRS 9") (continued)

(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).

(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. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. 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 and forward-looking information. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9, "*Financial Instruments*" ("IFRS 9") (continued)

(v) Measurement and recognition of ECL (continued)

Lifetime ECL for accounts receivable and contract assets are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

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 Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial liabilities and equity (continued)

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 consolidated 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.

(l) 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.

(m) 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 or enhances an asset that the customer controls as the Groups 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 recognise 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue from contract with customers (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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 telecommunications service agreements with the Group, 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 asset is subject to impairment review.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases

Definition of a lease

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

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

The Group as a lessee

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated 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 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.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

The Group as a lessee (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

The Group as a lessee (continued)

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, 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.

Covid-19-related rent concessions

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

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

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. 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.

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 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

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(p) Research and development expense

Research and development expenditure is expensed as incurred if the criteria of recognition as intangible assets were not met. For the year ended 31 December 2020, research and development expense, other than those related personnel expenses and depreciation was RMB2,215 million (2019: RMB2,105 million). Research and development related personnel expenses and depreciation for the year ended 31 December 2020 amounted to RMB2,392 million (2019: RMB1,950 million) and RMB130 million (2019: RMB141 million), respectively.

(q) 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 46.

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 47.

(r) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

(t) 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.

(u) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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.

(v) Dividends

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

(w) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties (continued)

(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.

(x) 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.

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 2019	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
Additions	425	139	253	817
Transferred from construction in progress	2,249	84,567	1,791	88,607
Retirement and disposal	(1,435)	(53,500)	(3,039)	(57,974)
Reclassification	(10)	(512)	522	–
Balance at 31 December 2020	105,594	896,411	31,162	1,033,167
Accumulated depreciation and impairment:				
Balance at 1 January 2019	(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)
Depreciation charge for the year	(4,196)	(64,208)	(2,038)	(70,442)
Provision for impairment loss	–	(5,027)	(15)	(5,042)
Written back on retirement and disposal	1,324	48,451	2,856	52,631
Reclassification	8	401	(409)	–
Balance at 31 December 2020	(64,649)	(526,740)	(23,173)	(614,562)
Net book value at 31 December 2020	40,945	369,671	7,989	418,605
Net book value at 31 December 2019	42,580	359,360	8,068	410,008

As a result of the continuing optimisation of the Group's 4G mobile network coverage and the scale deployment of the Group's 5G mobile network, the utilisation of the Group's 3G mobile network have been decreasing rapidly. For the year ended 31 December 2020, 3G handset data traffic only accounted for a low proportion of the Group's total handset data traffic. As a result, the Group has identified an impairment indicator on the 3G specific mobile network assets (the "3G Assets"). Given the Group has made a commitment in the year to gradually terminate its use of 3G Assets in the near future, the Group performed an impairment test on the 3G Assets on the basis of each individual asset as at 31 December 2020. The recoverable amount of the 3G Assets was determined based on their fair value less costs of disposal, which was nominal. As a result, for the year ended 31 December 2020, an impairment loss on property, plant and equipment of RMB5,042 million (2019: nil) was recognised.

5. CONSTRUCTION IN PROGRESS

	RMB millions
Balance at 1 January 2019	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
Additions	**84,145**
Transferred to property, plant and equipment	**(88,607)**
Transferred to intangible assets	**(6,319)**
Balance at 31 December 2020	**48,425**

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 31 December 2020						
Carrying amount	20,441	8,672	18,866	11,230	248	59,457
As at 31 December 2019						
Carrying amount	20,952	8,289	23,740	8,361	207	61,549
For the year ended 31 December 2020						
Depreciation charge	745	3,626	7,642	2,151	78	14,242
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 2020, expenses relating to short-term leases amounting to RMB1,077 million (2019: RMB939 million, including those relating to other leases with lease terms ended within 12 months of the date of initial application of IFRS 16), expenses relating to leases of low value assets (excluding short-term leases of low value assets) amounting to RMB46 million (2019: RMB45 million) and variable lease payments not included in the measurement of lease liabilities amounting to RMB5,151 million (2019: RMB4,640 million), are recognized in profit or loss.

For the year ended 31 December 2020, total cash outflow for leases is RMB20,798 million (2019: RMB18,240 million), and additions to right-of-use assets are RMB13,561 million (2019: 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.

The Group regularly entered into short-term leases for buildings and other assets. As at 31 December 2020 and 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.

7. GOODWILL

	31 December 2020 RMB millions	2019 RMB millions
Cost:		
Goodwill arising from acquisition of CDMA business	**29,920**	29,923

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 “Unicom Group”). 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 Unicom Group. This amount was subsequently settled by Unicom Group 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 9.6% (2019: 9.2%). Cash flows beyond the five-year period are extrapolated using a steady 1.5% growth rate (2019: 1.5%). The financial budgets, growth rate and discount rate have been reassessed as at 31 December 2020 taking into consideration higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets. 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, the average revenue per subscriber and the amount of operating cost. Management determined the number of subscribers, the average revenue per subscriber and the amount of operating cost based on historical trends and financial information and operational data.

8. INTANGIBLE ASSETS

	Software RMB millions
Cost:	
Balance at 1 January 2019	37,314
Additions	624
Transferred from construction in progress	6,447
Disposals	(591)
Balance at 31 December 2019	43,794
Additions	**1,489**
Transferred from construction in progress	**6,319**
Disposals	**(748)**
Balance at 31 December 2020	**50,854**
Accumulated amortisation and impairment:	
Balance at 1 January 2019	(23,153)
Amortisation charge for the year	(4,844)
Written back on disposals	552
Balance at 31 December 2019	(27,445)
Amortisation charge for the year	**(5,556)**
Written back on disposals	**655**
Balance at 31 December 2020	**(32,346)**
Net book value at 31 December 2020	**18,508**
Net book value at 31 December 2019	16,349

9. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2020 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
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

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
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.

10. INTERESTS IN ASSOCIATES

	31 December 2020 RMB millions	2019 RMB millions
Cost of investment in associates	**37,168**	37,173
Share of post-acquisition changes in net assets	**3,135**	2,019
	40,303	39,192
Fair value of listed investments	**34,625**	55,601

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.

(ii) Shanghai Information Investment Incorporation ("Shanghai Info-investment") is established and operated in the PRC and is not traded on any stock exchange.

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 2020 RMB millions	2019 RMB millions
Current assets	**43,204**	40,995
Non-current assets	**294,176**	297,072
Current liabilities	**106,635**	128,364
Non-current liabilities	**44,499**	27,142

	2020 RMB millions	2019 RMB millions
Operating revenues	**81,099**	76,428
Profit for the year	**6,427**	5,221
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**6,427**	5,221
Dividend received from China Tower	**525**	81

Reconcile to the Group's interests in the associate:

	31 December 2020 RMB millions	2019 RMB millions
Net assets of China Tower	**186,246**	182,561
Non-controlling interests of China Tower	**(1)**	(2)
The Group's effective interest in China Tower	**20.5%**	20.5%
The Group's share of net assets of China Tower	**38,180**	37,425
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	**(717)**	(865)
Carrying amount of the interest in China Tower in the consolidated financial statements of the Group	**37,463**	36,560

10. INTERESTS IN ASSOCIATES (continued)

Shanghai Info-investment

	31 December 2020 RMB millions	2019 RMB millions
Current assets	**4,752**	4,292
Non-current assets	**5,878**	5,203
Current liabilities	**2,124**	2,494
Non-current liabilities	**1,803**	787

	2020 RMB millions	2019 RMB millions
Operating revenues	**982**	3,214
Profit for the year	**641**	1,158
Other comprehensive income for the year	**(17)**	(7)
Total comprehensive income for the year	**624**	1,151
Dividend received from Shanghai Info-investment	**14**	9

Reconcile to the Group's interests in the associate:

	31 December 2020 RMB millions	2019 RMB millions
Net assets of the Shanghai Info-investment	**6,703**	6,214
Non-controlling interests of Shanghai Info-investment	**(83)**	(144)
The Group's effective interest in Shanghai Info-investment	**24.0%**	24.0%
The Group's share of net assets of Shanghai Info-investment	**1,589**	1,457
Carrying amount of the interest in Shanghai Info-investment in the consolidated financial statements of the Group	**1,589**	1,457

10. INTERESTS IN ASSOCIATES (continued)

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

	2020 RMB millions	2019 RMB millions
The Group's share of profit of these associates	**86**	85
The Group's share of total comprehensive income of these associates	**86**	85

	31 December 2020 RMB millions	 2019 RMB millions
Aggregate carrying amount of interests in these associates in the consolidated financial statements of the Group	**1,251**	1,175

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	31 December 2020 RMB millions	 2019 RMB millions
Equity securities listed in the mainland China	(i)	**838**	1,228
Unlisted equity securities	(ii)	**235**	230
		1,073	1,458

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.

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 2020 RMB millions	31 December 2019 RMB millions	**31 December 2020 RMB millions**	31 December 2019 RMB millions	**31 December 2020 RMB millions**	31 December 2019 RMB millions
Provisions and impairment losses, primarily for credit losses	**2,069**	1,953	**–**	–	**2,069**	1,953
Property, plant and equipment and others	**5,299**	4,862	**(24,067)**	(18,831)	**(18,768)**	(13,969)
Right-of-use assets and lease liabilities	**791**	744	**–**	–	**791**	744
Deferred revenues and installation costs	**5**	18	**(4)**	(13)	**1**	5
Equity instruments at fair value through other comprehensive income	**–**	–	**(137)**	(234)	**(137)**	(234)
Deferred tax assets/(liabilities)	**8,164**	7,577	**(24,208)**	(19,078)	**(16,044)**	(11,501)

	Balance at 1 January 2020 RMB millions	**Recognised in consolidated statement of comprehensive income RMB millions**	**Balance at 31 December 2020 RMB millions**
Provisions and impairment losses, primarily for credit losses	**1,953**	**116**	**2,069**
Property, plant and equipment and others	**(13,969)**	**(4,799)**	**(18,768)**
Right-of-use assets and lease liabilities	**744**	**47**	**791**
Deferred revenues and installation costs	**5**	**(4)**	**1**
Equity instruments at fair value through other comprehensive income	**(234)**	**97**	**(137)**
Net deferred tax liabilities	**(11,501)**	**(4,543)**	**(16,044)**

12. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	Balance at 1 January 2019 RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 31 December 2019 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	(5,918)	(5,583)	(11,501)

13. OTHER ASSETS

	Note	31 December **2020** **RMB millions**	2019 RMB millions
Contract costs	(i)	**1,151**	988
Installation fees		**16**	56
Other long-term prepaid expenses and receivables		**5,385**	3,643
		6,552	4,687

Note:

(i) Contract costs capitalised as at 31 December 2020 and 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 and the cost of installing terminal equipment at subscribers' homes for the provision of Smart Family services of the Group. The amount of capitalised costs recognised in profit or loss during the year ended 31 December 2020 was RMB1,234 million (2019: RMB1,367 million). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the years.

14. JOINT OPERATION

On 9 September 2019, the Group entered into a framework cooperation agreement (the "Cooperation Agreement") with China United Network Communications Corporation Limited ("China Unicom") to co-build and co-share 5G access network. Pursuant to the Cooperation Agreement, the Group and China Unicom delineate and designate the regions to jointly construct and operate one 5G access network nationwide. In certain regions in which the 5G access network is constructed, operated and maintained by China Unicom, the Group operates its 5G business relying on China Unicom's network, while in other regions in which the 5G access network is constructed, operated and maintained by the Group, China Unicom operates its 5G business relying on the Group's network.

Pursuant to the Cooperation Agreement, the Group and China Unicom co-share 5G spectrum resources while the 5G core network is respectively constructed, operated and maintained by each party. Both parties jointly ensure an unified standard on network planning, construction, operation, maintenance and service quality in the 5G network co-build and co-share regions, and assure the same service level.

The 5G network co-build and co-share arrangement is agreed by the Group and China Unicom through coordination and promotion institution jointly established by both parties, in order to set up relevant mechanism, system and rules with unanimous consensus from both parties. The main function of such joint coordination and promotion institution is to carry out joint network planning and investment decision, project initiation and acceptance and other related works, such as the determination of the location of 5G base stations and types of equipment, and coordinate the operation and maintenance of 5G co-build and co-share network in order to ensure the effective implementation of the Cooperation Agreement. For example, the timing, scale and location of the 5G base station construction, selection of equipment and appointment of maintenance suppliers across all regions are all negotiated and agreed by both parties with unanimous consensus.

Under the joint operation, the business and branding of each party continue to operate independently and the subscribers belong to each party respectively. Revenues from each party's subscribers are recognised by each party, cost and expenses are assumed by each party respectively, while assets constructed by each party and the relevant liabilities are recognised and assumed by each respective party.

15. INVENTORIES

	31 December 2020 RMB millions	2019 RMB millions
Materials and supplies	**484**	577
Goods for resale	**2,833**	2,303
	3,317	2,880

16. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	Note	31 December 2020 RMB millions	2019 RMB millions
Third parties		**23,688**	24,438
China Telecom Group	(i)	**1,784**	1,188
China Tower		**23**	5
Other telecommunications operators in the PRC		**441**	550
		25,936	26,181
Less: Allowance for credit losses		**(4,434)**	(4,692)
		21,502	21,489

Note:

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

As at 1 January 2019, 31 December 2019 and 2020, the gross carrying amounts of accounts receivable from contracts with customers amounted to RMB25,155 million, RMB26,087 million and RMB25,836 million.

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

	31 December 2020 RMB millions	2019 RMB millions
Current, within 1 month	**7,068**	7,545
1 to 3 months	**1,601**	1,777
4 to 12 months	**1,481**	1,822
More than 12 months	**921**	1,002
	11,071	12,146
Less: Allowance for credit losses	**(2,438)**	(2,803)
	8,633	9,343

16. ACCOUNTS RECEIVABLE, NET (continued)

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

	31 December 2020 RMB millions	2019 RMB millions
Current, within 1 month	**5,331**	4,701
1 to 3 months	**2,785**	2,964
4 to 12 months	**3,801**	3,768
More than 12 months	**2,948**	2,602
	14,865	14,035
Less: Allowance for credit losses	**(1,996)**	(1,889)
	12,869	12,146

As at 31 December 2020 and 2019, included in the net balance of the Group's accounts receivable are debtors with aggregate carrying amount of RMB1,694 million and RMB1,936 million, respectively, which are past due as at the reporting date.

Details of impairment assessment of accounts receivable for the year ended 31 December 2020 and 2019 are set out in Note 41.

17. CONTRACT ASSETS

	31 December 2020 RMB millions	2019 RMB millions
Third parties	**555**	447
China Telecom Group	**49**	27
	604	474

As at 1 January 2019, contract assets amounted to RMB478 million.

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.

18. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2020 RMB millions	2019 RMB millions
Amounts due from China Telecom Group	**1,189**	1,233
Amounts due from China Tower	**138**	192
Amounts due from other telecommunications operators in the PRC	**204**	352
Prepayments in connection with construction work and equipment purchases	**6,080**	3,352
Prepaid expenses and deposits	**2,994**	2,993
Value-added tax recoverable	**8,501**	8,803
Other receivables	**6,061**	5,294
	25,167	22,219

19. CASH AND CASH EQUIVALENTS

	31 December 2020 RMB millions	2019 RMB millions
Cash at bank and in hand	**23,193**	20,006
Time deposits with original maturity within three months	**491**	785
	23,684	20,791

20. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	31 December 2020 RMB millions	2019 RMB millions
Loans from banks – unsecured	**4,831**	15,831
Super short-term commercial papers – unsecured	**11,999**	19,995
Other loans – unsecured	**–**	80
Loans from China Telecom Group – unsecured	**11,164**	6,621
Total short-term debt	**27,994**	42,527

The weighted average interest rate of the Group's total short-term debt as at 31 December 2020 was 2.8% (31 December 2019: 2.9%) per annum. As at 31 December 2020, the Group's loans from banks and other loans bear interest at rates ranging from 3.3% to 4.4% (31 December 2019: 3.5% to 4.4%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 1.6% to 2.5% (31 December 2019: 1.9% to 2.2%) per annum, of which RMB8,999 million was repaid in January 2021 while the remaining balance will be repaid by 12 March 2021; the loans from China Telecom Group bear interest at rate of 3.1% (31 December 2019: 3.5%) per annum and are repayable within one year.

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

Long-term debt comprises:

	Interest rates and final maturity	31 December 2020 RMB millions	2019 RMB millions
Bank loans – unsecured			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 1.20% per annum with maturities through 2036	**6,975**	7,738
US Dollars denominated	Interest rates ranging from 1.25% to 2.00% per annum with maturities through 2028	**224**	288
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	**152**	173
		7,351	8,199
Other loans – unsecured			
Renminbi denominated		**1**	1
Medium-term note – unsecured (Note (ii))		**4,996**	4,995
Company bonds – unsecured (Note (iii))		**2,000**	–
Loans from China Telecom Group – unsecured			
Renminbi denominated (Note (iv))		**11,000**	23,300
Total long-term debt		**25,348**	36,495
Less: current portion		**(1,126)**	(4,444)
Non-current portion		**24,222**	32,051

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 25).

(ii) On 22 January 2019, the Group issued three-year RMB denominated medium-term note, amounting to RMB3,000 million, with interest rate of 3.42% per annum, and incurred issuing costs of RMB3 million. The medium-term note is unsecured and is repayable on 21 January 2022.

On 19 March 2019, the Group issued three-year RMB denominated medium-term note, amounting to RMB2,000 million, with interest rate of 3.41% per annum and incurred issuing costs of RMB3 million. The medium-term note is unsecured and is repayable on 18 March 2022.

(iii) On 10 March 2020, the Group issued three-year RMB denominated company bonds, amounting to RMB2,000 million, to qualified investors in Shanghai Stock Exchange, with interest rate of 2.90% per annum. The company bonds are unsecured and are payable on 9 March 2023.

(iv) On 25 December 2017, the Group obtained long-term RMB denominated loans, amounting to RMB40,000 million, from China Telecommunications Corporation, with interest rate of 3.8% per annum, which are repayable within 3 to 5 years. The Group partially repaid these loans amounting to RMB3,000 million, RMB13,700 million and RMB12,300 million, respectively, in 2018, 2019 and 2020.

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

The aggregate maturities of the Group's long-term debt subsequent to 31 December 2020 are as follows:

	31 December 2020 RMB millions	2019 RMB millions
Within 1 year	**1,126**	4,444
Between 1 to 2 years	**17,081**	1,078
Between 2 to 3 years	**3,009**	26,032
Between 3 to 4 years	**984**	965
Between 4 to 5 years	**952**	940
Thereafter	**2,196**	3,036
	25,348	36,495

The Group's short-term and long-term debt do not contain any financial covenants. As at 31 December 2020, the Group had unutilised committed credit facilities amounting to RMB244,326 million (31 December 2019: RMB245,847 million).

21. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	31 December 2020 RMB millions	2019 RMB millions
Third parties	**83,254**	78,123
China Telecom Group	**19,272**	19,531
China Tower	**4,344**	4,312
Other telecommunications operators in the PRC	**708**	650
	107,578	102,616

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

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

	31 December 2020 RMB millions	2019 RMB millions
Due within 1 month or on demand	**17,261**	17,546
Due after 1 month but within 3 months	**24,451**	17,273
Due after 3 months but within 6 months	**30,965**	33,237
Due after 6 months	**34,901**	34,560
	107,578	102,616

22. ACCRUED EXPENSES AND OTHER PAYABLES

	Note	31 December 2020 RMB millions	2019 RMB millions
Amounts due to China Telecom Group		**11,279**	6,069
Amounts due to China Tower		**1,192**	1,261
Amounts due to other telecommunications operators in the PRC		**34**	32
Accrued expenses		**36,885**	34,628
Advanced payment received in respect of contribution from non-controlling interests	(i)	**978**	–
Value-added tax payable		**600**	564
Customer deposits and receipts in advance		**5,807**	5,962
		56,775	48,516

Note:

(i) For the year ended 31 December 2020, E-surfing Pay, a subsidiary of the Company, received RMB978 million advanced payment in respect of contribution from non-controlling interests.

23. CONTRACT LIABILITIES

	31 December 2020 RMB millions	2019 RMB millions
Third parties	**63,629**	54,225
China Telecom Group	**217**	162
China Tower	**3**	1
	63,849	54,388

As at 1 January 2019, contract liabilities amounted to RMB55,783 million. Majority of contract liabilities as at 31 December 2019 was recognised as operating revenues for the year ended 31 December 2020.

24. LEASE LIABILITIES

	31 December 2020 RMB millions	2019 RMB millions
Within one year	**13,192**	11,569
Within a period of more than one year but not more than two years	**12,585**	10,887
Within a period of more than two year but not more than five years	**11,138**	16,255
Within a period of more than five years	**3,732**	3,435
	40,647	42,146
Less: Current portion	**(13,192)**	(11,569)
Non-current portion	**27,455**	30,577

25. DEFERRED REVENUES

Deferred revenues as at 31 December 2020 and 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 20).

	2020 RMB millions	2019 RMB millions
Balance at beginning of the year	**1,455**	1,829
Reductions for the year:		
Amortisation of installation fees	**(55)**	(90)
Amortisation of government grants	**(261)**	(284)
Balance at end of year	**1,139**	1,455
Representing:		
Current portion	**278**	358
Non-current portion	**861**	1,097
	1,139	1,455

26. SHARE CAPITAL

	31 December 2020 RMB millions	2019 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.

27. RESERVES

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Surplus reserves RMB millions (Note (iii))	General risk reserve RMB millions (Note (v))	Other reserves RMB millions (Note (ii))	Exchange reserves RMB millions	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2019	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 38)	–	–	–	–	–	–	(8,891)	(8,891)
Appropriations to statutory surplus reserve (Note (iii))	–	–	1,812	–	–	–	(1,812)	–
Appropriations to general risk reserve (Note (v))	–	–	–	23	–	–	(23)	–
Balance as at 31 December 2019	17,504	10,746	78,043	23	615	(625)	165,272	271,578
Total comprehensive income for the year	–	–	–	–	(294)	(312)	20,850	20,244
Share of associates' other changes in reserves	(36)	–	–	–	–	–	–	(36)
Dividends (Note 38)	–	–	–	–	–	–	(9,262)	(9,262)
Appropriations to statutory surplus reserve (Note (iii))	–	–	1,811	–	–	–	(1,811)	–
Appropriations to general risk reserve (Note (v))	–	–	–	33	–	–	(33)	–
Balance as at 31 December 2020	17,468	10,746	79,854	56	321	(937)	175,016	282,524

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 2019	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 38)	–	–	–	–	(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
Total comprehensive income for the year	–	–	–	(297)	18,112	17,815
Share of associates' other changes in reserves	(36)	–	–	–	–	(36)
Dividends (Note 38)	–	–	–	–	(9,262)	(9,262)
Appropriations to statutory surplus reserve (Note (iii))	–	–	1,811	–	(1,811)	–
Balance as at 31 December 2020	28,803	10,746	79,854	132	145,351	264,886

27. 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 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 years ended 31 December 2020 and 2019, the net profit of the Company determined in accordance with the PRC Accounting Standards for Business Enterprises and IFRSs are the same. For the year ended 31 December 2020, the Company transferred RMB1,811 million (2019: RMB1,812 million), being 10% of the year's net profit, to this reserve. As at 31 December 2020, the amount of statutory surplus reserve was RMB33,775 million (31 December 2019: RMB31,964 million).

The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2020 and 2019. As at 31 December 2020 and 2019, 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 2020, the amount of retained earnings available for distribution was RMB145,351 million (31 December 2019: RMB138,312 million), being the amount determined in accordance with IFRSs. Final dividend of approximately RMB8,403 million in respect of the financial year 2020 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 38).*

(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"), the Group's subsidiaries, mainly Finance Company, establish 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.*

28. OPERATING REVENUES

Disaggregation of revenues

	Notes	2020 RMB millions	2019 RMB millions
Type of goods or services			
Revenue from contracts with customers			
Voice	(i)	40,866	45,146
Internet	(ii)	208,019	197,244
Information and application services	(iii)	96,885	87,623
Telecommunications network resource and equipment services	(iv)	22,623	21,978
Sales of goods and others	(v)	19,598	17,906
Subtotal		387,991	369,897
Revenue from other sources	(vi)	5,570	5,837
Total operating revenues		393,561	375,734
Timing of revenue recognition			
A point in time		16,141	14,591
Over time		377,420	361,143
Total operating revenues		393,561	375,734

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, Smart Family, 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 2020 and 2019, 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.

29. NETWORK OPERATIONS AND SUPPORT EXPENSES

	Note	**2020 RMB millions**	2019 RMB millions
Operating and maintenance		**70,943**	65,087
Utility		**14,637**	13,818
Network resources usage and related fee	(i)	**22,766**	20,976
Others		**11,171**	9,918
		119,517	109,799

Note:

(i) Network resources usage and related fee includes the variable lease payments not depending on an index or a rate and fee for non-lease components in respect of telecommunication towers and related assets lease and fee in respect of the short-term leases and leases of low-value assets, variable lease payments and fee for non-lease components in respect of the usage of network resources provided by third parties.

30. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	2020 RMB millions	2019 RMB millions
Network operations and support	**43,260**	42,214
Selling, general and administrative	**22,729**	21,353
	65,989	63,567

31. OTHER OPERATING EXPENSES

	Notes	**2020 RMB millions**	2019 RMB millions
Interconnection charges	(i)	**12,050**	12,683
Cost of goods sold	(ii)	**15,440**	13,413
Donations		**13**	1
Others	(iii)	**1,571**	1,695
		29,074	27,792

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.

32. TOTAL OPERATING EXPENSES

Total operating expenses for the year ended 31 December 2020 were RMB364,921 million (2019: RMB346,664 million) which include auditor's remuneration in relation to audit and non-audit services (excluding value-added tax) of RMB72 million and RMB3 million respectively (2019: RMB77 million and RMB3 million).

33. NET FINANCE COSTS

	2020 RMB millions	2019 RMB millions
Interest expense on short-term and long-term debts	1,981	2,623
Interest expense on lease liabilities	1,566	1,607
Less: Interest expense capitalised*	(114)	(140)
Net interest expense	3,433	4,090
Interest income	(582)	(492)
Foreign exchange losses	1,018	680
Foreign exchange gains	(855)	(639)
	3,014	3,639
*Interest expense was capitalised in construction in progress at the following rates per annum	3.0%-4.4%	3.5%-4.4%

34. INCOME TAX

Income tax in the profit or loss comprises:

	2020 RMB millions	2019 RMB millions
Provision for PRC income tax	1,532	781
Provision for income tax in other tax jurisdictions	135	105
Deferred taxation	4,640	5,436
	6,307	6,322

34. INCOME TAX (continued)

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

	Notes	**2020** **RMB millions**	2019 RMB millions
Profit before taxation		**27,387**	27,034
Expected income tax expense at statutory tax rate of 25%	(i)	**6,847**	6,759
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(306)**	(315)
Differential tax rate on other subsidiaries' income	(ii)	**(47)**	(129)
Non-deductible expenses	(iii)	**915**	979
Non-taxable income	(iv)	**(576)**	(460)
Effect of change in tax rate	(v)	**(29)**	–
Others	(vi)	**(497)**	(512)
Actual income tax expense		**6,307**	6,322

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) *Hainan branch of the Company obtained approval from tax authority to adopt the preferential income tax rate of 15% during the current year. Accordingly, deferred tax assets and deferred tax liabilities that were expected to be recovered or settled after 31 December 2019 were adjusted to reflect the change in tax rate. The overall effect of change in tax rate amounting to RMB29 million was credited to the consolidated statement of comprehensive income.*

(vi) *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.*

35. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

2020	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses[8] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Ke Ruiwen	–	221	527	73	–	821
Li Zhengmao[1]	–	129	434	48	–	611
Shao Guanglu[1]	–	116	436	46	–	598
Liu Guiqing	–	197	464	59	–	720
Zhu Min	–	197	464	52	–	713
Chen Zhongyue[2]	–	199	468	71	–	738
Wang Guoquan[3]	–	181	447	42	–	670
Gao Tongqing[4]	–	17	16	8	–	41
Non-executive director						
Chen Shengguang	–	–	–	–	–	–
Independent non-executive directors[7]						
Tse Hau Yin, Aloysius	477	–	–	–	–	477
Xu Erming	250	–	–	–	–	250
Wang Hsuehming	261	–	–	–	–	261
Yeung Chi Wai, Jason	261	–	–	–	–	261
Supervisors						
Sui Yixun	–	227	494	49	–	770
Zhang Jianbin	–	214	494	49	–	757
Dai Bin[5]	–	110	202	26	–	338
Xu Shiguang	–	118	335	33	–	486
You Minqiang[5]	–	–	–	–	–	–
Yang Jianqing[6]	–	–	–	–	–	–
Ye Zhong[6]	–	–	–	–	–	–
	1,249	1,926	4,781	556	–	8,512

1 *Mr Li Zhengmao and Mr Shao Guanglu was appointed as executive directors of the Company on 26 May 2020.*

2 *Mr Chen Zhongyue resigned as an executive director of the Company on 19 January 2021.*

3 *Mr Wang Guoquan resigned as an executive director of the Company on 4 December 2020.*

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

5 *Mr Dai Bin and Mr You Minqiang was appointed as supervisors of the Company on 26 May 2020.*

6 *Mr Yang Jianqing and Mr Ye Zhong retired as supervisors of the Company on 26 May 2020.*

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

8 *The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance for the year.*

9 *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.*

35. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

2019	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses[6] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB 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 directors[5]						
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 of China ("SASAC"), 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.*

36. 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 2020 and 2019 were directors of the Company.

The aggregate of the emoluments in respect of the five (2019: five) individuals (non-directors) are as follows:

	2020 **RMB thousands**	2019 RMB thousands
Salaries, allowances and benefits in kind	**8,248**	7,054
Discretionary bonuses	**2,423**	3,456
Retirement scheme contributions	**46**	48
	10,717	10,558

The emoluments of the five (2019: five) individuals (non-directors) with the highest emoluments are within the following bands:

	2020 **Number of individuals**	2019 Number of individuals
RMB0 – RMB1,000,000	**–**	–
RMB1,000,001 – RMB1,500,000	**–**	–
RMB1,500,001 – RMB2,000,000	**4**	4
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.

(b) Senior management remuneration

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

	2020 **Number of individuals**	2019 Number of individuals
RMB0 – RMB1,000,000	**21**	12
RMB1,000,001 – RMB1,500,000	**–**	5
RMB1,500,001 – RMB2,000,000	**–**	1

37. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2020, the consolidated profit attributable to equity holders of the Company includes a profit of RMB18,112 million which has been dealt with in the stand-alone financial statements 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.

38. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on 9 March 2021, a final dividend of equivalent to HK$0.125 per share totaling approximately RMB8,403 million for the year ended 31 December 2020 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 2020.

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

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

39. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2020 and 2019 is based on the profit attributable to equity holders of the Company of RMB20,850 million and RMB20,517 million respectively, divided by 80,932,368,321 shares.

Diluted earnings per share were equivalent to basic earnings per share, as there were no potential ordinary shares in existence for the periods presented.

40. COMMITMENTS AND CONTINGENCIES

Capital commitments

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

	31 December 2020 RMB millions	2019 RMB millions
Contracted for but not provided		
Property	**1,202**	1,810
Telecommunications network plant and equipment	**18,997**	19,131
	20,199	20,941

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 2020 and 2019, 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.

41. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bank deposits and restricted cash, 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

41. FINANCIAL INSTRUMENTS (continued)

(a) Fair Value Measurements (continued)

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 2020, the fair value of the Group's listed equity securities investment are RMB838 million (31 December 2019: RMB1,228 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 2.9% to 4.9% (31 December 2019: 3.7% to 4.9%). As at 31 December 2020 and 2019, the carrying amounts and fair value of the Group's long-term debt were as follows:

	31 December 2020		31 December 2019	
	Carrying amount RMB millions	Fair value RMB millions	Carrying amount RMB millions	Fair value RMB millions
Long-term debt	25,348	25,294	36,495	35,780

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

(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, short-term bank deposits and restricted cash

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.

41. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(i) Credit risk (continued)

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 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.

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 2020 and 2019:

Accounts receivable from telephone and Internet subscribers:

	31 December 2020		
	Expected loss rate %	Gross carrying amount RMB millions	Loss allowance RMB millions
Current, within 1 month	2%	7,068	132
1 to 3 months	20%	1,601	317
4 to 6 months	60%	561	333
7 to 12 months	80%	920	735
Over 12 months	100%	921	921
		11,071	2,438

41. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(i) Credit risk (continued)

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

Accounts receivable from telephone and Internet subscribers: (continued)

		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

Accounts receivable and contract assets from enterprise customers:

Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates on accounts receivable and contract assets from enterprise customers in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates.

		31 December 2020	
	Expected loss rate %	**Gross carrying amount RMB millions**	**Loss allowance RMB millions**
1 to 6 months	**2%**	**6,031**	**124**
7 to 12 months	**22%**	**1,120**	**232**
1 to 2 years	**67%**	**685**	**445**
2 to 3 years	**100%**	**347**	**333**
Over 3 years	**100%**	**324**	**324**
		8,507	**1,458**

41. 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)

	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

As at 31 December 2020, the loss allowance for accounts receivable and contract assets was RMB4,434 million and RMB9 million (2019: RMB4,692 million and RMB8 million), respectively. Loss allowance of RMB547 million as at 31 December 2020 (2019: RMB615 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:

	2020 RMB millions	2019 RMB millions
At beginning of year	**4,692**	4,680
Impairment losses for ECL	**1,382**	1,653
Amounts written off	**(1,640)**	(1,641)
At end of year	**4,434**	4,692

41. 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:

	31 December 2020					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	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	27,994	28,417	28,417	–	–	–
Long-term debt	25,348	27,805	1,410	17,838	5,609	2,948
Accounts payable	107,578	107,578	107,578	–	–	–
Accrued expenses and other payables	56,775	56,775	56,775	–	–	–
Lease liabilities	40,647	43,896	14,449	13,363	12,110	3,974
	258,342	264,471	208,629	31,201	17,719	6,922

	31 December 2019					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	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

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 20) will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

41. FINANCIAL INSTRUMENTS (continued)

(b) Risks (continued)

(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 2020		31 December 2019	
	Effective interest rate %	RMB millions	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	2.7	22,719	2.5	29,022
Long-term debt	2.7	25,348	3.1	36,495
		48,067		65,517
Variable rate debt:				
Short-term debt	3.3	5,275	3.8	13,505
		5,275		13,505
Total debt		53,342		79,022
Fixed rate debt as a percentage of total debt		90.1%		82.9%

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 90.1% (31 December 2019: 82.9%) of the Group's short-term and long-term debt as at 31 December 2020 are fixed as set out above.

(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 mainly 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 73.0% (31 December 2019: 78.0%) of the Group's cash and cash equivalents and 99.3% (31 December 2019: 99.4%) of the Group's short-term and long-term debt as at 31 December 2020 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 20.

42. 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 RMB9,826 million and lease liabilities amounting to RMB40,647 million as at 31 December 2020 (31 December 2019: RMB4,098 million and RMB42,146 million). As at 31 December 2020, the Group's total debt-to-total assets ratio was 7.5% (31 December 2019: 11.2%), 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.

43. 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 RMB millions	Long-term debt RMB millions	Lease liabilities RMB millions	Dividend payable RMB millions	Deposits with Finance Company RMB millions (Note (i))	Other payables in respect of certain equity transactions RMB millions	Total RMB millions
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
Financing cash flows	**(14,533)**	**(11,400)**	**(12,738)**	**(9,304)**	**5,728**	**977**	**(41,270)**
New leases	**–**	**–**	**13,561**	**–**	**–**	**–**	**13,561**
Lease modifications	**–**	**–**	**(1,254)**	**–**	**–**	**–**	**(1,254)**
Transferred to accounts payable	**–**	**–**	**(2,618)**	**–**	**–**	**–**	**(2,618)**
Interest expenses	**–**	**266**	**1,566**	**–**	**–**	**–**	**1,832**
Foreign exchange loss	**–**	**(13)**	**(16)**	**–**	**–**	**–**	**(29)**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Distribution to non-controlling interests	**–**	**–**	**–**	**42**	**–**	**–**	**42**
Dividends declared	**–**	**–**	**–**	**9,262**	**–**	**–**	**9,262**
Balance as at 31 December 2020	**27,994**	**25,348**	**40,647**	**–**	**9,826**	**978**	**104,793**

Notes:

(i) As at 31 December 2020, the balance of deposits with Finance Company amounting to RMB9,826 million (31 December 2019: RMB4,098 million) were included in amounts due to China Telecom Group in accrued expenses and other payables (Note 22).

(ii) For the year ended 31 December 2020, other than the net financing cash outflows totalling RMB41,270 million as presented above: Finance Company, a subsidiary of the Company, placed statutory reserve deposits amounting to RMB837 million at the People's Bank of China which was included in the balance of short-term bank deposits and restricted cash as at 31 December 2020.

For the year ended 31 December 2019, other than the net financing cash outflows totalling RMB32,473 million as presented above: E-surfing Pay received RMB90 million as part of the total consideration amounting to RMB945 million in respect of contribution from non-controlling interests; Finance Company received RMB1,500 million in respect of contribution from non-controlling interests, and placed statutory reserve deposits amounting to RMB405 million at the People's Bank of China which was included in the balance of short-term bank deposits and restricted cash as at 31 December 2019.

44. 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	2020 RMB millions	2019 RMB millions
Construction and engineering services	(i)	**15,046**	14,014
Receiving ancillary services	(ii)	**18,903**	18,571
Interconnection revenues	(iii)	**54**	97
Interconnection charges	(iii)	**123**	183
Receiving community services	(iv)	**3,682**	3,464
Net transaction amount of centralised services	(v)	**268**	133
Property lease income	(vi)	**45**	57
Property lease related expenses	(vii)	**581**	577
Addition to right-of-use assets	(vii)	**335**	284
Interest expense on lease liabilities	(vii)	**16**	11
Provision of IT services	(viii)	**556**	464
Receiving IT services	(viii)	**2,653**	2,175
Purchases of telecommunications equipment and materials	(ix)	**3,567**	3,538
Sales of telecommunications equipment and materials	(ix)	**2,070**	1,444
Internet applications channel services	(x)	**73**	108
Interest on loans from China Telecom Group*	(xi)	**975**	1,485
Others*	(xii)	**243**	189
Net deposit by China Telecom Group with Finance Company	(xiii)	**5,728**	4,098
Interest expense on the deposit by China Telecom Group with Finance Company	(xiii)	**82**	7

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

44. 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, including the fee for short-term leases, leases of low-value assets, variable lease payments not depending on an index or a rate and fee for non-lease components.*

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

(ix) *Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.*

(x) *Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.*

(xi) *Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 20).*

(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.*

44. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

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

	31 December	
	2020	2019
	RMB millions	RMB millions
Accounts receivable	1,784	1,188
Contract assets	49	27
Prepayments and other current assets	1,189	1,233
Total amounts due from China Telecom Group	3,022	2,448
Accounts payable	19,272	19,531
Accrued expenses and other payables	11,279	6,069
Contract liabilities	217	162
Lease liabilities	489	389
Short-term debt	11,164	6,621
Long-term debt	11,000	23,300
Total amounts due to China Telecom Group	53,421	56,072

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 43(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 20.

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

(b) Transactions with China Tower

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

		2020	2019
	Note	RMB millions	RMB millions
Tower assets lease related expenses	(i)	10,746	10,543
Additions of right-of-use assets	(i)	3,645	3,735
Interest expense on lease liabilities	(i)	805	938
Provision of IT services	(ii)	31	31

Notes:

(i) Represent amounts in relation to the lease of tower assets, including the variable lease payments not depending on an index or a rate and fee for non-lease components.

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

44. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with China Tower (continued)

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

	31 December 2020 RMB millions	2019 RMB millions
Accounts receivable	**23**	5
Prepayments and other current assets	**138**	192
Total amounts due from China Tower	**161**	197
Accounts payable	**4,344**	4,312
Accrued expenses and other payables	**1,192**	1,261
Contract liabilities	**3**	1
Lease liabilities	**19,798**	24,474
Total amounts due to China Tower	**25,337**	30,048

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

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

(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:

	2020 RMB thousands	2019 RMB thousands
Short-term employee benefits	**8,727**	9,604
Post-employment benefits	**628**	1,199
	9,355	10,803

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 46.

44. RELATED PARTY TRANSACTIONS (continued)

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

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

Apart from transactions with parent company and its fellow subsidiaries (Note 44(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.

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

	Note	31 December 2020 RMB millions	2019 RMB millions
ASSETS			
Non-current assets			
Property, plant and equipment, net		**415,515**	406,749
Construction in progress		**47,319**	58,042
Right-of-use assets		**58,702**	60,839
Goodwill		**29,877**	29,877
Intangible assets		**16,810**	14,882
Investments in subsidiaries	9	**16,045**	16,044
Interests in associates		**39,873**	38,814
Equity instruments at fair value through other comprehensive income		**865**	1,255
Deferred tax assets		**7,802**	7,251
Other assets		**4,569**	3,918
Total non-current assets		**637,377**	637,671
Current assets			
Inventories		**1,431**	1,500
Income tax recoverable		**232**	1,534
Accounts receivable, net		**18,614**	19,161
Contract assets		**443**	370
Prepayments and other current assets		**17,546**	16,616
Short-term bank deposits and restricted cash		**1,617**	2,780
Cash and cash equivalents		**12,104**	6,382
Total current assets		**51,987**	48,343
Total assets		**689,364**	686,014
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt		**56,403**	63,394
Current portion of long-term debt		**1,126**	4,444
Accounts payable		**102,528**	101,280
Accrued expenses and other payables		**36,014**	35,060
Contract liabilities		**57,506**	50,119
Income tax payable		**87**	53
Current portion of lease liabilities		**12,896**	11,300
Current portion of deferred revenues		**278**	358
Total current liabilities		**266,838**	266,008
Net current liabilities		**(214,851)**	(217,665)
Total assets less current liabilities		**422,526**	420,006
Non-current liabilities			
Long-term debt		**24,222**	32,051
Lease liabilities		**27,010**	30,137
Deferred revenues		**861**	1,097
Deferred tax liabilities		**23,915**	18,820
Other non-current liabilities		**700**	600
Total non-current liabilities		**76,708**	82,705
Total liabilities		**343,546**	348,713

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

		31 December	
		2020	2019
	Note	**RMB millions**	RMB millions
Equity			
Share capital		**80,932**	80,932
Reserves	27	**264,886**	256,369
Total equity		**345,818**	337,301
Total liabilities and equity		**689,364**	686,014

46. 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, while the PRC government resolved to waive certain proportion of such contributions during the specific period affected by Covid-19 in order to help enterprises withstand the pandemic and stabilise employment. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. During the reporting period, no forfeited contributions may be used by the Group to reduce the existing level of contributions.

The Group's contributions for the above plans for the year ended 31 December 2020 were RMB6,599 million (31 December 2019: RMB8,616 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2020 was RMB746 million (31 December 2019: RMB755 million).

47. 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.

47. SHARE APPRECIATION RIGHTS (continued)

During the year ended 31 December 2020 and 2019, no share appreciation right units were exercised. For the year ended 31 December 2020, compensation expense of RMB101 million was reversed by the Group in respect of share appreciation rights. For the year ended 31 December 2019, compensation expense of RMB136 million was recognised by the Group in respect of share appreciation rights.

As at 31 December 2020, the carrying amount of the liability arising from share appreciation rights was RMB65 million (2019: RMB166 million).

48. 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.

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 credit loss experience taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. The historical loss 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. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rate. The information about the ECL and the Group's accounts receivable are disclosed in Notes 41 and 16.

48. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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.

For the year ended 31 December 2020, provision for impairment loss of RMB5,042 million was made against the carrying value of property, plant and equipment (Note 4), mainly based on the impairment test on the 3G Assets on the basis of each individual asset. For the year ended 31 December 2019, no provision for impairment loss was made against the carrying value of long-lived assets.

In determining the recoverable amount of the assets within the cash-generating unit, 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. Furthermore, the financial budgets, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets.

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.

49. POSSIBLE IMPACT OF NEW AND AMENDMENTS TO STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2020

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 2020:

	Effective for accounting period beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "*Interest Rate Benchmark Reform – Phase 2*"	1 January 2021
Amendments to IFRS 3, "*Reference to the Conceptual Framework*"	1 January 2022
Amendments to IAS 16, "*Property, Plant and Equipment: Proceeds before Intended Use*"	1 January 2022
Amendments to IAS 37, "*Onerous Contracts – Cost of Fulfilling a Contract*"	1 January 2022
Amendments to IFRS Standards, "*Annual Improvements to IFRS Standards 2018-2020*"	1 January 2022
IFRS 17, "*Insurance Contracts and the related Amendments*"	1 January 2023
Amendments to IAS 1, "*Classification of Liabilities as Current or Non-current*"	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, "*Disclosure of Accounting Policies*"	1 January 2023
Amendments to IAS 8, "*Definition of Accounting Estimates*"	1 January 2023
Amendments to IFRS 10 and IAS 28, "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*"	To be determined

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 2020. 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.

50. EVENTS AFTER THE REPORTING PERIOD

(i) NYSE determination to delist American Depositary Shares of the Company

The New York Stock Exchange LLC (the "NYSE") announced on 31 December 2020 (US Eastern standard time) that the staff of NYSE Regulation had determined to commence proceedings to delist the securities of three issuers, including the American Depositary Shares (the "ADSs") of the Company, on the basis that the Company is no longer suitable for listing pursuant to the NYSE Listed Company Manual Section 802.01D in light of the Executive Order issued on 12 November 2020 (as amended on 13 January 2021 (US Eastern standard time)) by the then President of the United States. On 4 January 2021(US Eastern standard time), NYSE announced that NYSE Regulation no longer intended to move forward with the delisting action in relation to the ADSs, and then on 6 January 2021 (US Eastern standard time), NYSE announced that NYSE Regulation determined to re-commence delisting proceedings of the ADSs (the "Determination"), following which trading of the ADSs was suspended at 4:00 a.m. (US Eastern standard time) on 11 January 2021. In addition, on 8 January 2021 (US Eastern standard time), the US Department of the Treasury's Office of Foreign Assets Control ("OFAC") added the Company to the "Issuer Name" column of a list of companies identified as a Restricted Company (the "Restricted List").

50. EVENTS AFTER THE REPORTING PERIOD (continued)

(i) NYSE determination to delist American Depositary Shares of the Company (continued)

In order to protect the legitimate interests of the Company and its shareholders, on 20 January 2021 (US Eastern standard time), the Company filed with the NYSE a written request for a review of the Determination by a Committee of the Board of Directors of the NYSE (the "Committee") and stay of the trading suspension of the ADSs pending review of the Determination. On 27 January 2021 (US Eastern standard time), OFAC published General License No. 1A in relation to the Executive Order ("GL 1A"), dated 26 January 2021 (US Eastern standard time), and guidance relating to two related frequently asked questions (respectively, "FAQ 878" and "FAQ 879"). GL 1A and FAQ 879 provide, among others, that, pursuant to the Executive Order, the Prohibitions with respect to the Company take effect on the date that is 60 days after the Company was added to the Restricted List, or 9 March 2021 (US Eastern standard time) (instead of 11 January 2021 (US Eastern standard time)).

The Company will continue to pay close attention to the development of related matters and also seek professional advice and reserve all rights to protect the legitimate interests of the Company.

(ii) Proposal of share appreciation rights grant for key personnel

On 9 February 2021, the Board of Directors of the Company has considered and approved the resolution in relation to the "2021 Share Appreciation Rights Grant Proposal for Key Personnel of China Telecom Corporation Limited" (now renamed as "The Phase II Incentive Scheme for Share Appreciation Rights of China Telecom Corporation Limited" as instructed by the SASAC) (the "Proposal"). According to the Proposal, the Company proposed to grant a maximum of approximately 2,412 million share appreciation rights to a maximum of approximately 8,300 Key Personnel (excluding the Executive Directors, Non-Executive Director, Independent Directors, Supervisors and senior management of the Company). The Proposal has been approved by SASAC on 3 March 2021.

(iii) Proposed A share offering

On 9 March 2021, the Company announced it plans to apply for the offering and listing of A shares on the Main Board of the Shanghai Stock Exchange.

51. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Company as at 31 December 2020 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.

FINANCIAL SUMMARY

(Amounts in millions, except per share data)

	Year ended 31 December				
	2020	2019	2018	2017	2016
	RMB	RMB	RMB	RMB	RMB
Results of operation					
Operating revenues	393,561	375,734	377,124	366,229	352,534
Depreciation and amortisation	(90,240)	(88,145)	(75,493)	(74,951)	(67,942)
Network operations and support	(119,517)	(109,799)	(116,062)	(103,969)	(94,156)
Selling, general and administrative	(55,059)	(57,361)	(59,422)	(58,434)	(56,426)
Personnel expenses	(65,989)	(63,567)	(59,736)	(56,043)	(54,504)
Other operating expenses	(29,074)	(27,792)	(37,697)	(45,612)	(52,286)
Impairment loss on property, plant and equipment	(5,042)	–	–	–	–
Operating expenses	(364,921)	(346,664)	(348,410)	(339,009)	(325,314)
Operating profit	28,640	29,070	28,714	27,220	27,220
Net finance costs	(3,014)	(3,639)	(2,708)	(3,291)	(3,235)
Investment income	60	30	38	147	40
Income from investments in associates	1,701	1,573	2,104	877	91
Profit before taxation	27,387	27,034	28,148	24,953	24,116
Income tax	(6,307)	(6,322)	(6,810)	(6,192)	(5,993)
Profit for the year	21,080	20,712	21,338	18,761	18,123
Other comprehensive income for the year					
Items that will not be reclassified subsequently to profit or loss:					
Change in fair value of investments in equity instruments at fair value through other comprehensive income	(385)	604	(324)	–	–
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income	97	(147)	82	–	–
Items that may be reclassified subsequently to profit or loss:					
Change in fair value of available-for-sale equity securities	–	–	–	(400)	(228)
Deferred tax on change in fair value of available-for-sale equity securities	–	–	–	100	57
Exchange difference on translation of financial statements of subsidiaries outside mainland China	(312)	102	154	(259)	190
Share of other comprehensive income of associates	(4)	(2)	(7)	7	6
Other comprehensive income for the year, net of tax	(604)	557	(95)	(552)	25
Total comprehensive income for the year	20,476	21,269	21,243	18,209	18,148
Profit attributable to					
Equity holders of the Company	20,850	20,517	21,210	18,617	18,018
Non-controlling interests	230	195	128	144	105
Profit for the year	21,080	20,712	21,338	18,761	18,123
Total comprehensive income attributable to					
Equity holders of the Company	20,244	21,074	21,115	18,065	18,043
Non-controlling interests	232	195	128	144	105
Total comprehensive income for the year	20,476	21,269	21,243	18,209	18,148
Basic earnings per share	0.26	0.25	0.26	0.23	0.22

FINANCIAL SUMMARY

(Amounts in millions, except per share data)

	As at 31 December of the year				
	2020	2019	2018	2017	2016
	RMB	RMB	RMB	RMB	RMB
Financial condition					
Property, plant and equipment, net	**418,605**	410,008	407,795	406,257	389,671
Construction in progress	**48,425**	59,206	66,644	73,106	80,386
Other non-current assets	**164,050**	160,735	115,938	110,281	108,367
Cash and bank deposits	**33,092**	24,419	23,480	22,510	27,948
Other current assets	**50,924**	48,763	49,525	49,040	46,186
Total assets	**715,096**	703,131	663,382	661,194	652,558
Current liabilities	**271,142**	264,661	258,920	275,408	319,133
Non-current liabilities	**77,779**	83,430	60,363	59,089	17,077
Total liabilities	**348,921**	348,091	319,283	334,497	336,210
Total equity attributable to equity holders of the Company	**363,456**	352,510	343,069	325,867	315,377
Non-controlling interests	**2,719**	2,530	1,030	830	971
Total equity	**366,175**	355,040	344,099	326,697	316,348
Total liabilities and equity	**715,096**	703,131	663,382	661,194	652,558

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA TELECOM CORPORATION LIMITED
(Incorporated in The People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Telecom Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 164 to 244, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified revenue recognition as a key audit matter because there is an inherent industry risk around the accuracy of revenue recorded by the IT billing systems given the complexity of the systems and the significance of volumes of data processed by the systems. Revenues from the provision of telecommunications services are, in general, recognised as performance obligations are satisfied. Fees for telecommunications packages are recognised for each service type in the packages. The data records are captured and the revenue transactions are recorded by the IT billing systems. Details of the accounting policies for revenue recognition and an analysis of revenues are disclosed in Notes 3(m) and 28, respectively, to the consolidated financial statements.	Our procedures in relation to revenue recognition comprising both control testing and substantive procedures on a sample basis, included involving our internal IT specialists to assist with: • Testing the IT environment in which the billing systems reside, including interface controls between different IT applications. • Testing the key controls over the calculation of the amounts billed to customers and the capturing and recording of the revenue transactions. • Testing the key controls over the authorisation of the rate changes and the input of such rates to the billing systems. • Testing the end-to-end reconciliations from data records to the billing systems and to the general ledger. • Testing material journals processed between the billing systems and the general ledger. • Testing the accuracy of customer bill calculations and the respective revenue transactions recorded.
Impairment of goodwill and long-lived assets within the cash-generating unit	
We identified the impairment of goodwill and long-lived assets within the cash-generating unit as a key audit matter because the impairment assessment of cash-generating unit requires the management to exercise significant judgments relating to the estimation of level of revenue, amount of operating costs and applicable discount rate. Details of the accounting policies for impairment of goodwill and long-lived assets and the related accounting estimates are disclosed in Notes 3(h) and 48, respectively, to the consolidated financial statements. Details of goodwill impairment assessment are disclosed in Note 7 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill and long-lived assets within the cash-generating unit included: • With the assistance of our internal valuation specialists, assessing the discount rate and assumptions used by the management in the value in use model and comparing the discount rate used by the management to externally derived data and our own assessments of key inputs used in deriving the discount rate. • With the assistance of our internal valuation specialists, comparing the key inputs to the projected cash flows, such as the number of subscribers, the average revenue per subscriber and amount of operating costs, with corresponding historical data to evaluate the reasonableness of the management's projections. • Assessing and challenging the significant judgments and estimates used in the management's impairment assessment and evaluating the sensitivity analysis performed by the management.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Ip Kan Wah.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9 March 2021