Consolidated Statement of Financial Position

at 31 December 2018 (Amounts in millions)

	Notes	**31 December 2018 RMB**	31 December 2017 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net	4	**407,795**	406,257
Construction in progress	5	**66,644**	73,106
Lease prepayments		**21,568**	22,262
Goodwill	6	**29,922**	29,920
Intangible assets	7	**14,161**	12,391
Interests in associates	9	**38,051**	35,726
Investments	10	**–**	1,154
Equity instruments at fair value through other comprehensive income	11	**852**	–
Deferred tax assets	12	**6,544**	5,479
Other assets	13	**4,840**	3,349
Total non-current assets		**590,377**	589,644
Current assets			
Inventories	14	**4,832**	4,123
Income tax recoverable		**121**	693
Accounts receivable, net	15	**20,475**	22,096
Contract assets	16	**478**	–
Prepayments and other current assets	17	**23,619**	22,128
Short-term bank deposits		**6,814**	3,100
Cash and cash equivalents	18	**16,666**	19,410
Total current assets		**73,005**	71,550
Total assets		**663,382**	661,194

The notes on pages 169 to 261 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

at 31 December 2018 (Amounts in millions)

	Notes	**31 December 2018 RMB**	31 December 2017 RMB
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	19	**49,537**	54,558
Current portion of long-term debt	19	**1,139**	1,146
Accounts payable	20	**107,887**	119,321
Accrued expenses and other payables	21	**43,497**	98,695
Contract liabilities	22	**55,783**	–
Income tax payable		**601**	404
Current portion of finance lease obligations		**101**	51
Current portion of deferred revenues	23	**375**	1,233
Total current liabilities		**258,920**	275,408
Net current liabilities		**(185,915)**	(203,858)
Total assets less current liabilities		**404,462**	385,786
Non-current liabilities			
Long-term debt	19	**44,852**	48,596
Finance lease obligations		**115**	26
Deferred revenues	23	**1,454**	1,828
Deferred tax liabilities	12	**13,138**	8,010
Other non-current liabilities		**804**	629
Total non-current liabilities		**60,363**	59,089
Total liabilities		**319,283**	334,497
Equity			
Share capital	24	**80,932**	80,932
Reserves	25	**262,137**	244,935
Total equity attributable to equity holders of the Company		**343,069**	325,867
Non-controlling interests		**1,030**	830
Total equity		**344,099**	326,697
Total liabilities and equity		**663,382**	661,194

Approved and authorised for issue by the Board of Directors on 19 March 2019.

Ke Ruiwen
Executive Director,
President and
Chief Operating Officer

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

The notes on pages 169 to 261 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018 (Amounts in millions, except per share data)

	Notes	2018 RMB	2017 RMB
Operating revenues	26	**377,124**	366,229
Operating expenses			
Depreciation and amortisation		**(75,493)**	(74,951)
Network operations and support	27	**(116,062)**	(103,969)
Selling, general and administrative		**(59,422)**	(58,434)
Personnel expenses	28	**(59,736)**	(56,043)
Other operating expenses	29	**(37,697)**	(45,612)
Total operating expenses	30	**(348,410)**	(339,009)
Operating profit		**28,714**	27,220
Net finance costs	31	**(2,708)**	(3,291)
Investment income		**38**	147
Income from investments in associates	9	**2,104**	877
Profit before taxation		**28,148**	24,953
Income tax	32	**(6,810)**	(6,192)
Profit for the year		**21,338**	18,761
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		**(324)**	–
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income		**82**	–
		(242)	–
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale equity securities		**–**	(400)
Deferred tax on change in fair value of available-for-sale equity securities		**–**	100
Exchange difference on translation of financial statements of subsidiaries outside mainland China		**154**	(259)
Share of other comprehensive income of associates		**(7)**	7
		147	(552)
Other comprehensive income for the year, net of tax		**(95)**	(552)
Total comprehensive income for the year		**21,243**	18,209
Profit attributable to			
Equity holders of the Company		**21,210**	18,617
Non-controlling interests		**128**	144
Profit for the year		**21,338**	18,761
Total comprehensive income attributable to			
Equity holders of the Company		**21,115**	18,065
Non-controlling interests		**128**	144
Total comprehensive income for the year		**21,243**	18,209
Basic earnings per share	37	**0.26**	0.23
Number of shares (in millions)	37	**80,932**	80,932

The notes on pages 169 to 261 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018 (Amounts in millions)

	Notes	Attributable to equity holders of the Company									
		Share capital RMB	Capital reserve RMB	Share premium RMB	Surplus reserves RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance as at 1 January 2017		80,932	17,160	10,746	72,611	711	(622)	133,839	315,377	971	316,348
Profit for the year		–	–	–	–	–	–	18,617	18,617	144	18,761
Other comprehensive income for the year		–	–	–	–	(293)	(259)	–	(552)	–	(552)
Total comprehensive income for the year		–	–	–	–	(293)	(259)	18,617	18,065	144	18,209
Acquisition of the Eighth Acquired Group	1	–	(80)	–	–	–	–	(7)	(87)	–	(87)
Acquisition of non-controlling interests		–	46	–	–	–	–	–	46	(196)	(150)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	(89)	(89)
Dividends	36	–	–	–	–	–	–	(7,530)	(7,530)	–	(7,530)
Appropriations	25	–	–	–	1,686	–	–	(1,686)	–	–	–
Others		–	–	–	–	(4)	–	–	(4)	–	(4)
Balance as at 31 December 2017		80,932	17,126	10,746	74,297	414	(881)	143,233	325,867	830	326,697
Changes in accounting policies	2	**–**	**–**	**–**	**302**	**–**	**–**	**2,673**	**2,975**	**(1)**	**2,974**
Balance as at 1 January 2018, as restated		**80,932**	**17,126**	**10,746**	**74,599**	**414**	**(881)**	**145,906**	**328,842**	**829**	**329,671**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**21,210**	**21,210**	**128**	**21,338**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(249)**	**154**	**–**	**(95)**	**–**	**(95)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(249)**	**154**	**21,210**	**21,115**	**128**	**21,243**
Disposal of investments in equity instruments at fair value through other comprehensive income		**–**	**–**	**–**	**–**	**(5)**	**–**	**5**	**–**	**–**	**–**
Disposal of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Contribution from non-controlling interests		**–**	**680**	**–**	**–**	**–**	**–**	**–**	**680**	**265**	**945**
Reduction of capital by non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Distribution to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(177)**	**(177)**
Dividends	36	**–**	**–**	**–**	**–**	**–**	**–**	**(7,568)**	**(7,568)**	**–**	**(7,568)**
Appropriations	25	**–**	**–**	**–**	**1,875**	**–**	**–**	**(1,875)**	**–**	**–**	**–**
Balance as at 31 December 2018		**80,932**	**17,806**	**10,746**	**76,474**	**160**	**(727)**	**157,678**	**343,069**	**1,030**	**344,099**

The notes on pages 169 to 261 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018 (Amounts in millions)

	Note	2018 RMB	2017 RMB
Net cash from operating activities	(a)	**99,298**	96,502
Cash flows used in investing activities			
Capital expenditure		**(83,835)**	(87,334)
Lease prepayments		**(20)**	(89)
Purchase of investments		**(328)**	(443)
Proceeds from disposal of property, plant and equipment		**1,866**	2,066
Proceeds from disposal of lease prepayments		**45**	72
Proceeds from disposal of investments		**96**	–
Net cash (outflow)/inflow from disposal of subsidiaries		**(1)**	184
Purchase of short-term bank deposits		**(7,726)**	(2,815)
Maturity of short-term bank deposits		**3,949**	3,096
Net cash used in investing activities		**(85,954)**	(85,263)
Cash flows used in financing activities			
Principal element of finance lease payments		**(73)**	(84)
Proceeds from bank and other loans		**97,829**	123,250
Repayments of bank and other loans		**(106,923)**	(69,953)
Repayment of deferred consideration in respect of the Mobile Network Acquisition		**–**	(61,710)
Payment of the acquisition price of the Eighth Acquisition (Note 1)		**(87)**	–
Payment of dividends		**(7,568)**	(7,530)
Distribution to non-controlling interests		**(177)**	(89)
Payment for the acquisition of non-controlling interests		**(119)**	(31)
Contribution from non-controlling interests		**855**	–
Reduction of capital by non-controlling interests		**(20)**	–
Net cash used in financing activities		**(16,283)**	(16,147)
Net decrease in cash and cash equivalents		**(2,939)**	(4,908)
Cash and cash equivalents at 1 January		**19,410**	24,617
Effect of changes in foreign exchange rate		**195**	(299)
Cash and cash equivalents at 31 December		**16,666**	19,410

The notes on pages 169 to 261 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018 (Amounts in millions)

(a) Reconciliation of profit before taxation to net cash from operating activities

	2018 RMB	2017 RMB
Profit before taxation	**28,148**	24,953
Adjustment for:		
Depreciation and amortisation	**75,493**	74,951
Credit impairment losses, net of reversal	**2,050**	2,036
Impairment losses for long-lived assets	**–**	10
Write down of inventories	**66**	178
Investment income	**(38)**	(147)
Income from investments in associates	**(2,104)**	(877)
Interest income	**(306)**	(429)
Interest expense	**3,093**	3,586
Net foreign exchange (gain)/loss	**(79)**	134
Net loss on retirement and disposal of long-lived assets	**1,757**	1,841
Operating profit before changes in working capital	**108,080**	106,236
Increase in accounts receivable	**(1,848)**	(2,770)
Decrease in contract assets	**170**	–
(Increase)/decrease in inventories	**(622)**	905
Increase in prepayments and other current assets	**(1,349)**	(2,618)
Decrease/(increase) in other assets	**271**	(231)
Decrease in accounts payable	**(3,181)**	(4,213)
Increase in accrued expenses and other payables	**9,842**	7,232
Decrease in contract liabilities	**(6,414)**	–
Decrease in deferred revenues	**(138)**	(202)
Cash generated from operations	**104,811**	104,339
Interest received	**306**	433
Interest paid	**(3,094)**	(3,707)
Investment income received	**34**	63
Income tax paid	**(2,759)**	(4,626)
Net cash from operating activities	**99,298**	96,502

The notes on pages 169 to 261 form part of these consolidated financial statements.

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 equipment services, international 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 and regulation by the PRC government.

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").

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

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").

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 ("Zhonghe Hengtai"), 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 Zhonghe Hengtai (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".

1. Principal Activities, Organisation and Basis of Presentation (continued)

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.

Merger with subsidiaries

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

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation

In the current year, the Group has applied, for the first time, the following new and amendments to IFRSs and interpretation issued by IASB that are mandatorily effective for the current year:

- IFRS 9, "*Financial Instruments*"
- IFRS 15, "*Revenue from Contracts with Customers*" and the related Amendments
- IFRIC 22, "*Foreign Currency Transactions and Advance Consideration*"
- Amendments to IFRS 2, "*Classification and Measurement of Share-based Payment Transactions*"
- Amendments to IFRS 4, "*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*"
- Amendments to IAS 40, "*Transfers of Investment Property*"
- Amendments to IAS 28 as part of the "*Annual Improvements to IFRS Standards 2014–2016 Cycle*"

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

Except for IFRS 9, "Financial Instruments" and IFRS 15, "Revenue from Contracts with Customers" and the related Amendments as described below, the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's consolidated financial statements.

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current year (Note 47).

2.1 IFRS 15, *"Revenue from Contracts with Customers"*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18, "*Revenue*", IAS 11, "*Construction Contracts*" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening reserves and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18, "*Revenue*" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, and resale of mobile services (MVNO); and
- Sales, and repair and maintenance of telecommunications equipment and others.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 26 and 3(m) respectively.

Summary of effects arising from initial application of IFRS 15

The following table summarises the impacts of transition to IFRS 15 on reserves at 1 January 2018.

	RMB millions
Reserves	
Consideration payable to customers	**2,884**
Contract with multiple performance obligations	**663**
Incremental costs of obtaining contracts	**1,210**
Tax effect	**(1,066)**
Increase at 1 January 2018	**3,691**

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.1 IFRS 15, *"Revenue from Contracts with Customers"* (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB millions	Reclassification RMB millions	Remeasurement RMB millions	Carrying amounts under IFRS 15 at 1 January 2018* RMB millions
Non-current assets					
Other assets	(a)	3,349	–	1,210	4,559
Current assets					
Accounts receivable, net	(b)	22,096	(596)	–	21,500
Contract assets	(b, e)	–	633	23	656
Prepayments and other current assets	(b)	22,128	(37)	–	22,091
Current liabilities					
Accrued expenses and other payables	(c)	98,695	(64,912)	–	33,783
Contract liabilities	(c, d, e)	–	65,699	(3,524)	62,175
Current portion of deferred revenues	(c)	1,233	(787)	–	446
Non-current liabilities					
Deferred tax liabilities	(a, d, e)	8,010	–	1,066	9,076
Equity					
Reserves		244,935	–	3,691	248,626

* *The amounts in this column are before the adjustments from the application of IFRS 9.*

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.1 IFRS 15, *"Revenue from Contracts with Customers"* (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Notes:

(a) The Group incurred incremental commission paid/payable to third party agents in connection with obtaining the contracts with customers. These amounts were previously expensed as incurred. At the date of initial application of IFRS 15, incremental costs of obtaining contracts, netted off deferred tax, amounting to RMB940 million were recognised with corresponding adjustments to reserves.

(b) At the date of initial application of IFRS 15 unbilled revenues of RMB633 million arising from information and application service contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from accounts receivable and prepayments and other current assets to contract assets.

(c) At the date of initial application of IFRS 15, considerations received from telecommunications service contracts included in receipts in advance and deferred revenues amounting to RMB64,912 million and RMB787 million, respectively, were reclassified from accrued expenses and other payables and current portion of deferred revenues to contract liabilities.

(d) Certain subsidies payable to third party agents 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, were previously expensed as incurred. At the date of initial application of IFRS 15, such subsidies were considered as consideration payable to customers and the related impact, netted off deferred tax, amounting to RMB2,224 million were recognised with corresponding adjustments to reserves.

(e) The sales of terminal equipment and the provision of telecommunications services represent separate performance obligations from the Group's direct sales of promotional packages. The total contract consideration of a promotional package is previously allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. At the date of initial application of IFRS 15, the transaction price was allocated to each performance obligation in the contract on a relative stand-alone selling price basis, and the consideration allocated to sales of terminal equipment was recognised as revenue at contract inception, i.e. when the equipment are delivered, while consideration allocated to provision of telecommunications services would be subsequently recognised as revenue as services are delivered during the contract period, with the impact, netted of deferred tax, amounting to RMB527 million recognised with corresponding adjustments to reserves.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.1 IFRS 15, *"Revenue from Contracts with Customers"* (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of comprehensive income and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Notes	As reported at 31 December 2018 RMB millions	Adjustments RMB millions	Amounts without application of IFRS 15 at 31 December 2018 RMB millions
Non-current assets				
Other assets	(a)	4,840	(1,287)	3,553
Current assets				
Accounts receivable, net	(b)	20,475	461	20,936
Contract assets	(b, e)	478	(478)	–
Current liabilities				
Accrued expenses and other payables	(c, d, e)	43,497	57,681	101,178
Contract liabilities	(c)	55,783	(55,783)	–
Current portion of deferred revenues	(c)	375	765	1,140
Non-current liabilities				
Deferred tax liabilities		13,138	(869)	12,269
Equity				
Reserves		262,137	(3,098)	259,039

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.1 IFRS 15, *"Revenue from Contracts with Customers"* (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Impact on the consolidated statement of comprehensive income

	Notes	As reported for 2018 RMB millions	Adjustments RMB millions	Amounts without application of IFRS 15 for 2018 RMB millions
Operating revenues	(d, e)	377,124	4,377	381,501
Operating expenses				
Selling, general and administrative	(a, d, e)	59,422	3,956	63,378
Other operating expenses	(e)	37,697	(369)	37,328
Total operating expenses		348,410	3,587	351,997
Operating profit		28,714	790	29,504
Profit before taxation		28,148	790	28,938
Income tax		6,810	197	7,007
Profit for the year		21,338	593	21,931
Total comprehensive income for the year		21,243	593	21,836

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.1 IFRS 15, *"Revenue from Contracts with Customers"* (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Impact on the consolidated statement of cash flows

	As reported for 2018 RMB millions	Adjustments RMB millions	Amounts without application of IFRS 15 for 2018 RMB millions
Profit before taxation	28,148	790	28,938
Operating profit before changes in working capital	108,080	790	108,870
Increase in accounts receivable	(1,848)	164	(1,684)
Decrease in contract assets	170	(170)	–
Decrease in other assets	271	77	348
Increase in accrued expenses and other payables	9,842	(7,253)	2,589
Decrease in contract liabilities	(6,414)	6,414	–
Decrease in deferred revenues	(138)	(22)	(160)
Net cash from operating activities	99,298	–	99,298

Notes:

(a) The Group incurred incremental commission paid/payable to third party agents in connection with obtaining the contracts with customers. These amounts were previously expensed as incurred. Upon application of IFRS 15, incremental costs of obtaining contracts were recognised as an asset if the Group expects to recover such cost. The asset so recognised was subsequently amortised to consolidated statement of comprehensive income on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This change in accounting policy resulted in a reduction of operating expenses by RMB77 million for the year ended 31 December 2018, and an increase in contract costs, included in other assets, by RMB1,287 million as at 31 December 2018.

(b) At 31 December 2018, upon application of IFRS 15, unbilled revenue of RMB461 million arising from information and application service contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was recognised as contract assets. Before application of IFRS 15, such balance was presented as accounts receivable.

(c) At 31 December 2018, upon application of IFRS 15, consideration received from telecommunications service contracts amounting to RMB55,783 million was recognised as contract liability. Before application of IFRS 15, such balance was presented as receipts in advance (included in accrued expenses and other payables) and current portion of deferred revenues amounting to RMB55,018 million and RMB765 million, respectively.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.1 IFRS 15, *"Revenue from Contracts with Customers"* (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Notes: (continued)

(d) Certain subsidies payable to third party agents 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, were previously expensed as incurred. Upon application of IFRS 15, such subsidies were considered as consideration payable to a customer and were accounted for as a reduction of operating revenues 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. This change in accounting policy resulted in a reduction of operating revenues by RMB3,897 million and a reduction of operating expenses by RMB3,510 million for the year ended 31 December 2018, and a reduction of contract liabilities, which was presented as accrued expenses and other payables before application of IFRS 15, by RMB2,497 million, as at 31 December 2018.

(e) The sales of terminal equipment and the provision of telecommunications services represent separate performance obligations from the Group's sales of promotional packages. The total contract consideration of a promotional package is previously allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Upon application of IFRS 15, the transaction price was allocated to each performance obligation in the contract on a relative stand-alone selling price basis, and the consideration allocated to sales of terminal equipment was recognised as revenue at contract inception, i.e. when the equipment are delivered, while consideration allocated to provision of telecommunications services would be subsequently recognised as revenue as services are delivered during the contract period. This change in accounting policy resulted in a reduction of operating revenues by RMB480 million for the year ended 31 December 2018, a reduction of contract liabilities, which was presented as accrued expenses and other payables before application of IFRS 15, by RMB166 million, and an increase of contract assets by RMB17 million, as at 31 December 2018.

2.2 IFRS 9, *"Financial Instruments"*

In the current year, the Group has applied IFRS 9, "*Financial instruments*" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening reserves, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39, "*Financial Instruments: Recognition and Measurement*".

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3(k).

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.2 IFRS 9, *"Financial Instruments"* (continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Investments RMB millions	Equity instruments at fair value through other comprehensive income RMB millions	Accounts receivable RMB millions	Contract assets RMB millions	Prepayments and other current assets RMB millions	Deferred tax assets RMB millions	Deferred tax liabilities RMB millions	Reserves RMB millions	Non-controlling interests RMB millions
Closing balance at 31 December 2017 — IAS 39		1,154	–	22,096	–	22,128	5,479	8,010	244,935	830
Effect arising from initial application of IFRS 15		–	–	(596)	656	(37)	–	1,066	3,691	–
Effect arising from initial application of IFRS 9:										
Reclassification										
From investments	(a)	(1,154)	1,154	–	–	–	–	–	–	–
Remeasurement										
Impairment under ECL model	(b)	–	–	(919)	–	(1)	203	–	(716)	(1)
Opening balance at 1 January 2018		–	1,154	20,581	656	22,090	5,682	9,076	247,910	829

Notes:

(a) Available for sale ("AFS") investments

From AFS equity investments to equity instruments at fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB1,154 million were reclassified from investments to equity instruments at FVTOCI, of which RMB185 million related to unquoted equity investments previously measured at cost less impairment under IAS 39. The fair value gains of RMB674 million relating to those investments previously carried at fair value continued to accumulate in other reserves.

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.2 IFRS 9, *"Financial Instruments"* (continued)

Summary of effects arising from initial application of IFRS 9 (continued)

Notes: (continued)

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and contract assets. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics, nature of services provided as well as type of customers. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as accounts receivable for the same types of contracts. The Group has therefore concluded that the expected loss rates for accounts receivable are a reasonable approximation of the loss rates for contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of financial assets included in prepayments and other current assets, are measured on 12-month ECL ("12m ECL") basis and there have been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB920 million and the related deferred tax impact of RMB203 million have been recognised against reserves and non-controlling interests. The additional loss allowance is charged against the respective assets.

All loss allowances for financial assets measured at amortised cost, including accounts receivable and financial assets included in prepayments and other current assets as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 are as follows:

	Accounts receivable RMB millions	Prepayments and other current assets RMB millions
At 31 December 2017 — IAS 39	3,842	370
Amount remeasured through opening reserves	**919**	**1**
At 1 January 2018	**4,761**	**371**

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected.

	31 December 2017 RMB millions (audited)	IFRS 15 RMB millions	IFRS 9 RMB millions	1 January 2018 RMB millions (restated)
Non-current assets				
Investments	1,154	–	(1,154)	–
Equity instruments at fair value through other comprehensive income	–	–	1,154	1,154
Deferred tax assets	5,479	–	203	5,682
Other assets	3,349	1,210	–	4,559
Others with no adjustments	579,662	–	–	579,662
Total non-current assets	589,644	1,210	203	591,057
Current assets				
Accounts receivable, net	22,096	(596)	(919)	20,581
Contract assets	–	656	–	656
Prepayments and other current assets	22,128	(37)	(1)	22,090
Others with no adjustments	27,326	–	–	27,326
Total current assets	71,550	23	(920)	70,653
Total assets	661,194	1,233	(717)	661,710
Current liabilities				
Accrued expenses and other payables	98,695	(64,912)	–	33,783
Contract liabilities	–	62,175	–	62,175
Current portion of deferred revenues	1,233	(787)	–	446
Others with no adjustments	175,480	–	–	175,480
Total current liabilities	275,408	(3,524)	–	271,884
Net current liabilities	(203,858)	3,547	(920)	(201,231)
Total assets less current liabilities	385,786	4,757	(717)	389,826

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") and Interpretation (continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (continued)

	31 December 2017 RMB millions (audited)	IFRS 15 RMB millions	IFRS 9 RMB millions	1 January 2018 RMB millions (restated)
Non-current liabilities				
Deferred tax liabilities	8,010	**1,066**	**–**	**9,076**
Others with no adjustments	51,079	**–**	**–**	**51,079**
Total non-current liabilities	59,089	**1,066**	**–**	**60,155**
Total liabilities	334,497	**(2,458)**	**–**	**332,039**
Equity				
Share capital	80,932	**–**	**–**	**80,932**
Reserves	244,935	**3,691**	**(716)**	**247,910**
Total equity attributable to equity holders of the Company	325,867	**3,691**	**(716)**	**328,842**
Non-controlling interests	830	**–**	**(1)**	**829**
Total equity	326,697	**3,691**	**(717)**	**329,671**
Total liabilities and equity	661,194	**1,233**	**(717)**	**661,710**

Note: *For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.*

3. Significant Accounting Policies

(a) Basis of preparation

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

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

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 46.

(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.

3. Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

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

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

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

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

3. Significant Accounting Policies (continued)

(c) Foreign currencies

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

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

(d) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 3(i)). The cost of an asset comprises its purchase price, any directly attributable costs of 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.

Assets held under finance leases (Note 3(o)) are amortised over the shorter of the lease term and their estimated useful lives on a straight-line basis. As at 31 December 2018, no asset was held by the Group under finance leases (31 December 2017: nil).

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

3. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

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(i)). 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) Lease prepayments

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

(g) 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 6) 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(i)). 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.

(h) 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(i)). Amortisation of software is mainly calculated on a straight-line basis over the estimated useful lives, which range from 3 to 5 years.

3. Significant Accounting Policies (continued)

(i) Impairment of goodwill and long-lived assets

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

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

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)

(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 settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

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 (upon application of IFRS 9 in accordance with transitions in note 2.2)

The Group's financial assets include financial assets measured subsequently at amortised cost and equity instruments designated as at FVTOCI.

(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 FVTOCI

At the date of initial application/initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI, 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.

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts receivables and financial assets included in prepayments and other current assets) and contract assets. 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, 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 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, i.e. financial assets included in prepayments and other current assets, 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.

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (continued)

(i) Significant increase in credit risk (continued)

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

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

(ii) Definition of default

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

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (continued)

(v) Measurement and recognition of ECL (continued)

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.

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

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

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

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

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into the following specified categories: AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of the financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) AFS financial assets

Investments in available-for-sale listed equity securities are carried at fair value with any change in fair value being recognised in other comprehensive income and accumulated separately in equity. For investments in available-for-sale listed equity securities, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (see below).

(ii) Loans and receivables

Accounts receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for doubtful debts (see below) unless the effect of discounting would be immaterial, in which case they are stated at cost less allowance for doubtful debts.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Accounts and other receivables and investments in equity securities carried at cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor/issuer.

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

The impairment loss for accounts and other receivables is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the financial asset's original effective interest rate where the effect of discounting is material, and is recognised as an expense in profit or loss.

The impairment loss for investments in equity securities carried at cost is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in profit or loss.

Impairment losses for accounts and other receivables are reversed through profit or loss if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

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/initial application to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in other reserves is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

3. Significant Accounting Policies (continued)

(k) Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

Offsetting a financial asset and a financial liability

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

(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. None of the Group's cash and cash equivalents is restricted as to withdrawal.

3. Significant Accounting Policies (continued)

(m) Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 2.1)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied. i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the 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.

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.

3. Significant Accounting Policies (continued)

(m) Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 2.1) (continued)

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

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

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

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

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

Principal versus agent

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

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

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

3. Significant Accounting Policies (continued)

(m) Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 2.1) (continued)

Consideration payable to a customer

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

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

Incremental costs of obtaining a contract

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

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

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

Costs to fulfil a contract

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

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

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

3. Significant Accounting Policies (continued)

(n) Revenue recognition (prior to 1 January 2018)

Before the application of IFRS 15, the revenue recognition methods of the Group are as follows:

- Revenues from 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 recognised over time during which the services are provided to customers.

  Revenue from information and application services in which no third party service providers are involved, such as caller display and Internet data centre services, are presented on a gross basis. Revenues from all other information and application services are presented on either gross or net basis based on the assessment of each individual arrangement with third parties. The following factors indicate that the Group is acting as principal in the arrangements with third parties:

  — The Group is primarily responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;

  — The Group takes title of the inventory of the applications before they are ordered by customers;

  — The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;

  — The Group has latitude in establishing selling prices with customers;

  — The Group can modify the applications or perform part of the services;

  — The Group has discretion in selecting suppliers used to fulfill an order; and

  — The Group determines the nature, type, characteristics, or specifications of the applications or services.

  If majority of the indicators of risks and responsibilities exist in the arrangements with third parties, the Group is acting as a principal and have exposure to the significant risks and rewards associated with the rendering of services or the sale of applications, and revenues for these services are recognised on a gross basis. If majority of the indicators of risks and responsibilities do not exist in the arrangements with third parties, the Group is acting as an agent, and revenues for these services are recognised on a net basis.

3. Significant Accounting Policies (continued)

(n) Revenue recognition (prior to 1 January 2018) (continued)

- Sale of equipment is recognised on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers.

The Group offers promotional packages, which involve the bundled sales of terminal equipment, i.e. mobile handsets, and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: the undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognises revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognised based upon the actual usage of such services.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Lease income from operating leases is recognised over the term of the lease.

The Group as lessee

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

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

3. Significant Accounting Policies (continued)

(p) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, 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.

(q) Research and development expense

Research and development expenditure is expensed as incurred. For the year ended 31 December 2018, research and development expense was RMB1,341 million (2017: RMB1,088 million).

(r) 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 44.

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 45.

(s) 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)

(t) 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. 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.

(u) Value-added tax

Output VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 10%, 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 16%, 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 16%, 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.

3. Significant Accounting Policies (continued)

(v) Income tax

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

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

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

(w) Dividends

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

(x) 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)

(x) 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.

(y) 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 2017	99,509	823,836	30,114	953,459
Additions	583	532	410	1,525
Transferred from construction in progress	1,967	87,129	1,707	90,803
Retirement and disposal	(709)	(68,719)	(1,936)	(71,364)
Disposal of a subsidiary	–	(33)	–	(33)
Reclassification	(18)	(272)	290	–
Balance at 31 December 2017	101,332	842,473	30,585	974,390
Additions	**712**	**512**	**306**	**1,530**
Transferred from construction in progress	**1,454**	**71,704**	**1,721**	**74,879**
Retirement and disposal	**(860)**	**(59,822)**	**(1,636)**	**(62,318)**
Reclassification	**(97)**	**(485)**	**582**	**–**
Balance at 31 December 2018	**102,541**	**854,382**	**31,558**	**988,481**
Accumulated depreciation and impairment:				
Balance at 1 January 2017	(51,018)	(490,917)	(21,853)	(563,788)
Depreciation and impairment charge for the year	(4,326)	(63,903)	(2,145)	(70,374)
Written back on retirement and disposal	620	63,553	1,839	66,012
Disposal of a subsidiary	–	17	–	17
Reclassification	18	184	(202)	–
Balance at 31 December 2017	(54,706)	(491,066)	(22,361)	(568,133)
Depreciation charge for the year	**(4,370)**	**(63,878)**	**(2,135)**	**(70,383)**
Written back on retirement and disposal	**750**	**55,519**	**1,561**	**57,830**
Reclassification	**26**	**439**	**(465)**	**–**
Balance at 31 December 2018	**(58,300)**	**(498,986)**	**(23,400)**	**(580,686)**
Net book value at 31 December 2018	**44,241**	**355,396**	**8,158**	**407,795**
Net book value at 31 December 2017	46,626	351,407	8,224	406,257

5. Construction in Progress

	RMB millions
Balance at 1 January 2017	80,386
Additions	88,359
Transferred to property, plant and equipment	(90,803)
Transferred to intangible assets	(4,836)
Balance at 31 December 2017	73,106
Additions	**74,457**
Transferred to property, plant and equipment	**(74,879)**
Transferred to intangible assets	**(6,040)**
Balance at 31 December 2018	**66,644**

6. Goodwill

	31 December	
	2018 **RMB millions**	2017 RMB millions
Cost:		
Goodwill arising from acquisition of CDMA business	**29,922**	29,920

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

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

6. Goodwill (continued)

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 9.4% (2017: 9.8%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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

7. Intangible Assets

	Software RMB millions
Cost:	
Balance at 1 January 2017	29,818
Additions	175
Transferred from construction in progress	4,836
Disposals	(268)
Disposal of a subsidiary	(11)
Balance at 31 December 2017	34,550
Additions	**269**
Transferred from construction in progress	**6,040**
Disposals	**(3,545)**
Balance at 31 December 2018	**37,314**
Accumulated amortisation and impairment:	
Balance at 1 January 2017	(18,574)
Amortisation charge for the year	(3,843)
Written back on disposals	250
Disposal of a subsidiary	8
Balance at 31 December 2017	(22,159)
Amortisation charge for the year	**(4,366)**
Written back on disposals	**3,372**
Balance at 31 December 2018	**(23,153)**
Net book value at 31 December 2018	**14,161**
Net book value at 31 December 2017	12,391

8. Investments in Subsidiaries

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2018 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/ issued capital (in RMB millions 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	500	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

8. Investments in Subsidiaries (continued)

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

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 and E-surfing Pay Co., Ltd, which is 78.74% 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.

9. Interests in Associates

	31 December 2018 RMB millions	31 December 2017 RMB millions
Cost of investment in associates	**36,933**	36,648
Share of post-acquisition changes in net assets	**1,118**	(922)
	38,051	35,726
Fair value of listed investments	**46,797**	N/A

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% (2017: 27.9%)	Construction, maintenance and operation of telecommunications towers as well as ancillary facilities
Shanghai Information Investment Incorporation (Note (ii))	24.0%	Provision of information technology consultancy services

Notes:

(i) China Tower Corporation Limited ("China Tower") is established and operated in the PRC, and listed on the Main Board of The Stock Exchange of Hong Kong Limited on 8 August 2018. Income from investments in associates for the year ended 31 December 2018 includes: (a) a one-off gain amounting to RMB1,170 million arising from the dilution of the Company's share in China Tower in respect of China Tower's listing, including those released from the deferred gain from the Tower Assets Disposal; and (b) share of profits of associates.

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

9. 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	
	2018	2017
	RMB millions	RMB millions
Current assets	**31,799**	30,517
Non-current assets	**283,565**	292,126
Current liabilities	**114,759**	150,438
Non-current liabilities	**20,103**	44,710

	2018	2017
	RMB millions	RMB millions
Operating revenues	**71,819**	68,665
Profit for the year	**2,650**	1,943
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**2,650**	1,943
Dividend received from the associate	**–**	–

Reconcile to the Group's interests in the associate:

	31 December	
	2018	2017
	RMB millions	RMB millions
Net assets of the associate	**180,502**	127,495
Non-controlling interests of the associate	**–**	–
The Group's effective interest in the associate	**20.5%**	27.9%
The Group's share of net assets of the associate	**37,003**	35,571
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	**(1,013)**	(1,580)
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	**35,990**	33,991

9. Interests in Associates (continued)

Shanghai Info-investment

	31 December	
	2018	2017
	RMB millions	RMB millions
Current assets	**7,181**	7,146
Non-current assets	**8,592**	8,049
Current liabilities	**6,615**	5,835
Non-current liabilities	**1,985**	2,673

	2018	2017
	RMB millions	RMB millions
Operating revenues	**4,337**	4,313
Profit for the year	**586**	563
Other comprehensive income for the year	**(29)**	22
Total comprehensive income for the year	**557**	585
Dividend received from the associate	**9**	9

Reconcile to the Group's interests in the associate:

	31 December	
	2018	2017
	RMB millions	RMB millions
Net assets of the associate	**7,173**	6,687
Non-controlling interests of the associate	**(2,180)**	(2,004)
The Group's effective interest in the associate	**24.0%**	24.0%
The Group's share of net assets of the associate	**1,198**	1,124
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	**1,198**	1,124

9. Interests in Associates (continued)

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

	2018 RMB millions	2017 RMB millions
The Group's share of profit of these associates	**14**	36
The Group's share of other comprehensive income of these associates	**–**	2
The Group's share of total comprehensive income of these associates	**14**	38

	31 December	
	2018 **RMB millions**	2017 RMB millions
Aggregate carrying amount of interests in these associates in the consolidated financial statements of the Group	**863**	611

10. Investments

	31 December 2017 RMB millions
Available-for-sale listed equity securities	969
Other unlisted equity investments	185
	1,154

Other unlisted equity investments mainly represent the Group's various interests in private enterprises which are mainly engaged in the provision of telecommunications infrastructures construction services, information technology services and Internet contents.

11. Equity Instruments at Fair Value through Other Comprehensive Income

	Notes	31 December 2018 RMB millions
Equity securities listed in the mainland China	(i)	**638**
Unlisted equity securities	(ii)	**214**
		852

Notes:

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

(ii) The above unlisted equity securities represent the Group's equity interests in various private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that the Group will hold these investments for long-term strategic purposes.

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 2018 RMB millions	31 December 2017 RMB millions	**31 December 2018 RMB millions**	31 December 2017 RMB millions	**31 December 2018 RMB millions**	31 December 2017 RMB millions
Provisions and impairment losses, primarily for credit losses	**1,925**	1,626	**–**	–	**1,925**	1,626
Property, plant and equipment and others	**4,580**	3,782	**(13,022)**	(7,789)	**(8,442)**	(4,007)
Deferred revenues and installation costs	**39**	71	**(29)**	(52)	**10**	19
Available-for-sale equity securities	**–**	–	**–**	(169)	**–**	(169)
Equity instruments at fair value through other comprehensive income	**–**	–	**(87)**	–	**(87)**	–
Deferred tax assets/(liabilities)	**6,544**	5,479	**(13,138)**	(8,010)	**(6,594)**	(2,531)

12. Deferred Tax Assets and Liabilities (continued)

	Balance at 31 December 2017 RMB millions	**Changes in accounting policies RMB millions**	**Recognised in consolidated statement of comprehensive income RMB millions**	**Balance at 31 December 2018 RMB millions**
Provisions and impairment losses, primarily for credit losses	1,626	**203**	**96**	**1,925**
Property, plant and equipment and others	(4,007)	**(1,066)**	**(3,369)**	**(8,442)**
Deferred revenues and installation costs	19	**–**	**(9)**	**10**
Available-for-sale equity securities	(169)	**169**	**–**	**–**
Equity instruments at fair value through other comprehensive income	–	**(169)**	**82**	**(87)**
Net deferred tax liabilities	(2,531)	**(863)**	**(3,200)**	**(6,594)**

	Balance at 1 January 2017 RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 31 December 2017 RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,531	95	1,626
Property, plant and equipment and others	(1,006)	(3,001)	(4,007)
Deferred revenues and installation costs	35	(16)	19
Available-for-sale equity securities	(269)	100	(169)
Net deferred tax assets/(liabilities)	291	(2,822)	(2,531)

13. Other Assets

	Note	31 December 2018 RMB millions	2017 RMB millions
Contract costs	(i)	**1,287**	–
Installation fees		**124**	228
Other long-term prepaid expenses		**3,429**	3,121
		4,840	3,349

Note:

(i) Contract costs capitalised as at 31 December 2018 mainly relate to the incremental sales commissions paid to third party agents whose selling activities resulted in subscribers entering into telecommunications service agreements with the Group. The amount of capitalised costs recognised in profit or loss during the year was RMB1,744 million. There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year.

14. Inventories

	31 December 2018 RMB millions	2017 RMB millions
Materials and supplies	**1,012**	1,071
Goods for resale	**3,820**	3,052
	4,832	4,123

15. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

		31 December	
	Note	**2018 RMB millions**	2017 RMB millions
Third parties		**23,308**	23,762
China Telecom Group	(i)	**1,327**	1,502
China Tower		**10**	5
Other telecommunications operators in the PRC		**510**	669
		25,155	25,938
Less: Allowance for credit losses		**(4,680)**	(3,842)
		20,475	22,096

Note:

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

As at 31 December 2018 and 1 January 2018, the gross carrying amount of accounts receivable from contracts with customers amounted to RMB25,155 million and RMB25,342 million, respectively.

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

	31 December	
	2018 RMB millions	2017 RMB millions
Current, within 1 month	**8,376**	9,323
1 to 3 months	**2,117**	2,607
4 to 12 months	**1,932**	1,780
More than 12 months	**943**	878
	13,368	14,588
Less: Allowance for credit losses	**(2,898)**	(2,603)
	10,470	11,985

15. 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	
	2018 **RMB millions**	2017 RMB millions
Current, within 1 month	**3,318**	4,421
1 to 3 months	**2,300**	1,973
4 to 12 months	**3,994**	2,644
More than 12 months	**2,175**	2,312
	11,787	11,350
Less: Allowance for credit losses	**(1,782)**	(1,239)
	10,005	10,111

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

Ageing analysis of accounts receivable that are not impaired at 31 December 2017 is as follows:

	31 December 2017 RMB millions
Not past due	19,623
Less than 1 month past due	1,518
1 to 3 months past due	955
Amounts past due	2,473
	22,096

The following table summarises the changes in allowance for doubtful debts in 2017:

	2017 RMB millions
At beginning of year	3,402
Impairment losses for doubtful debts	1,962
Accounts receivable written off	(1,522)
At end of year	3,842

Details of impairment assessment of accounts receivable for the year ended 31 December 2018 are set out in note 39.

16. Contract Assets

	31 December 2018 RMB millions	1 January 2018* RMB millions
Third parties	**454**	480
China Telecom Group	**24**	176
	478	656

* *The amounts in this column are after the adjustments from the application of IFRS 9 and 15.*

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

17. Prepayments and Other Current Assets

	Note	31 December 2018 RMB millions	2017 RMB millions
Amounts due from China Telecom Group		**1,035**	774
Amounts due from China Tower		**293**	2,152
Amounts due from other telecommunications operators in the PRC		**333**	369
Prepayments in connection with construction work and equipment purchases		**2,752**	2,542
Prepaid expenses and deposits		**3,628**	3,486
Value-added tax recoverable		**8,618**	7,186
Other receivables	(i)	**6,960**	5,619
		23,619	22,128

Note:

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

18. Cash and Cash Equivalents

	31 December	
	2018 **RMB millions**	2017 RMB millions
Cash at bank and in hand	**14,937**	17,763
Time deposits with original maturity within three months	**1,729**	1,647
	16,666	19,410

19. Short-Term and Long-Term Debt

Short-term debt comprises:

	31 December	
	2018 **RMB millions**	2017 RMB millions
Loans from banks — unsecured	**12,881**	16,565
Super short-term commercial papers — unsecured	**27,992**	18,745
Other loans — unsecured	**80**	150
Loans from China Telecom Group — unsecured	**8,584**	19,098
Total short-term debt	**49,537**	54,558

The weighted average interest rate of the Group's total short-term debt as at 31 December 2018 was 3.2% (31 December 2017: 4.0%) per annum. As at 31 December 2018, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 4.6% (31 December 2017: 3.5% to 7.3%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 2.1% to 3.3% (31 December 2017: 4.1% to 4.2%) per annum, and are repayable by 26 July 2019; the loans from China Telecom Group bear interest at rate of 3.5% (31 December 2017: 3.5%) per annum and are repayable within one year.

19. Short-Term and Long-Term Debt (continued)

Long-term debt comprises:

	Interest rates and final maturity	31 December 2018 RMB millions	31 December 2017 RMB millions
Bank loans — unsecured			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 7.04% per annum with maturities through 2036	**8,455**	9,148
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2048	**336**	370
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	**199**	223
		8,990	9,741
Other loans — unsecured			
Renminbi denominated		**1**	1
Loans from China Telecom Group — unsecured			
Renminbi denominated (Note (ii))		**37,000**	40,000
Total long-term debt		**45,991**	49,742
Less: current portion		**(1,139)**	(1,146)
Non-current portion		**44,852**	48,596

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 23).*

(ii) *The Group obtained long-term RMB denominated loans with the interest rate of 3.8% per annum from China Telecommunications Corporation on 25 December 2017, which are repayable within 3 to 5 years. The Group partially repaid these loans amounting to RMB3,000 million in 2018.*

19. Short-Term and Long-Term Debt (continued)

The aggregate maturities of the Group's long-term debt subsequent to 31 December 2018 are as follows:

	31 December	
	2018 **RMB millions**	2017 RMB millions
Within 1 year	**1,139**	1,146
Between 1 to 2 years	**18,091**	1,088
Between 2 to 3 years	**1,029**	21,044
Between 3 to 4 years	**20,992**	983
Between 4 to 5 years	**923**	20,944
Thereafter	**3,817**	4,537
	45,991	49,742

The Group's short-term and long-term debt do not contain any financial covenants. As at 31 December 2018, the Group had unutilised committed credit facilities amounting to RMB150,693 million (31 December 2017: RMB154,793 million).

20. Accounts Payable

Accounts payable are analysed as follows:

	31 December	
	2018 **RMB millions**	2017 RMB millions
Third parties	**83,418**	93,324
China Telecom Group	**20,983**	22,682
China Tower	**2,850**	2,611
Other telecommunications operators in the PRC	**636**	704
	107,887	119,321

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.

20. Accounts Payable (continued)

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

	31 December 2018 RMB millions	31 December 2017 RMB millions
Due within 1 month or on demand	**20,619**	27,502
Due after 1 month but within 3 months	**14,568**	17,257
Due after 3 months but within 6 months	**36,067**	26,603
Due after 6 months	**36,633**	47,959
	107,887	119,321

21. Accrued Expenses and Other Payables

	Notes	31 December 2018 RMB millions	31 December 2017 RMB millions
Amounts due to China Telecom Group	(i)	**2,171**	1,838
Amounts due to China Tower		**1,246**	1,374
Amounts due to other telecommunications operators in the PRC		**46**	59
Accrued expenses	(ii)	**33,811**	24,864
Value-added tax payable		**484**	645
Customer deposits and receipts in advance		**5,739**	69,915
		43,497	98,695

Notes:

(i) Amounts due to China Telecom Group as at 31 December 2017 includes the consideration of the Eighth Acquisition amounting to RMB87 million, which has been fully settled by 30 June 2018.

(ii) Accrued expenses as at 31 December 2017 includes the unpaid portion of consideration of the acquisition of non-controlling interest of a subsidiary of the Group amounting to RMB119 million, which has been fully settled on 23 January 2018.

22. Contract Liabilities

	31 December 2018 RMB millions	1 January 2018* RMB millions
Third parties	55,638	62,001
China Telecom Group	145	174
	55,783	62,175

* *The amounts in this column are after the adjustments from the application of IFRS 15.*

Majority of contract liabilities as at 1 January 2018 was recognised as operating revenues for the year ended 31 December 2018.

23. Deferred Revenues

Deferred revenues as at 31 December 2017 mainly represent the unearned portion of installation fees for wireline services received from customers, the unused portion of calling cards, and the unamortised portion of government grants (Note 19). On 1 January 2018, upon application of IFRS 15, the unused portion of calling cards was reclassified into contract liabilities.

	2018 RMB millions	2017 RMB millions
Balance at end of last year	3,061	3,558
Change in accounting policy (Note 2)	(787)	–
Balance at beginning of the year, as restated	2,274	3,558
Additions for the year:		
Calling cards	–	390
Reductions for the year:		
Amortisation of installation fees	(138)	(208)
Usage of calling cards	–	(384)
Amortisation of government grants	(307)	(295)
Balance at end of year	1,829	3,061
Representing:		
Current portion	375	1,233
Non-current portion	1,454	1,828
	1,829	3,061

24. Share Capital

	31 December 2018 RMB millions	31 December 2017 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.

25. Reserves

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Surplus reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Exchange reserves RMB millions	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2017	17,160	10,746	72,611	711	(622)	133,839	234,445
Total comprehensive income for the year	–	–	–	(293)	(259)	18,617	18,065
Acquisition of the Eighth Acquired Group (Note 1)	(80)	–	–	–	–	(7)	(87)
Acquisition of non-controlling interests	46	–	–	–	–	–	46
Dividends (Note 36)	–	–	–	–	–	(7,530)	(7,530)
Appropriations (Note (iii))	–	–	1,686	–	–	(1,686)	–
Others	–	–	–	(4)	–	–	(4)
Balance as at 31 December 2017	17,126	10,746	74,297	414	(881)	143,233	244,935
Changes in accounting policies (Note 2)	**–**	**–**	**302**	**–**	**–**	**2,673**	**2,975**
Balance as at 1 January 2018, as restated	**17,126**	**10,746**	**74,599**	**414**	**(881)**	**145,906**	**247,910**
Total comprehensive income for the year	**–**	**–**	**–**	**(249)**	**154**	**21,210**	**21,115**
Disposal of investments in equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**(5)**	**–**	**5**	**–**
Contribution from non-controlling interests	**680**	**–**	**–**	**–**	**–**	**–**	**680**
Dividends (Note 36)	**–**	**–**	**–**	**–**	**–**	**(7,568)**	**(7,568)**
Appropriations (Note (iii))	**–**	**–**	**1,875**	**–**	**–**	**(1,875)**	**–**
Balance as at 31 December 2018	**17,806**	**10,746**	**76,474**	**160**	**(727)**	**157,678**	**262,137**

25. Reserves (continued)

The Company

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Surplus reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Retained earnings RMB millions (Note (iv))	Total RMB millions
Balance as at 1 January 2017	29,148	10,746	72,611	536	112,631	225,672
Total comprehensive income for the year	–	–	–	(287)	16,855	16,568
Dividends (Note 36)	–	–	–	–	(7,530)	(7,530)
Appropriations (Note (iii))	–	–	1,686	–	(1,686)	–
Others	(4)	–	–	(4)	–	(8)
Balance as at 31 December 2017	29,144	10,746	74,297	245	120,270	234,702
Changes in accounting policies	**–**	**–**	**302**	**–**	**2,717**	**3,019**
Balance as at 1 January 2018, as restated	**29,144**	**10,746**	**74,599**	**245**	**122,987**	**237,721**
Total comprehensive income for the year	**–**	**–**	**–**	**(257)**	**19,532**	**19,275**
Dividends (Note 36)	**–**	**–**	**–**	**–**	**(7,568)**	**(7,568)**
Appropriations (Note (iii))	**–**	**–**	**1,875**	**–**	**(1,875)**	**–**
Balance as at 31 December 2018	**29,144**	**10,746**	**76,474**	**(12)**	**133,076**	**249,428**

Notes:

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

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

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

(ii) *Other reserves of the Group and the Company represent primarily the change in the fair value of investment in equity instruments and the deferred tax liabilities recognised due to the change in fair value of investment in equity instruments.*

25. Reserves (continued)

Notes: (continued)

(iii) The surplus reserves consist of statutory surplus reserve and discretionary surplus reserve.

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRSs, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended 31 December 2018, the Company transferred RMB1,875 million, being 10% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to this reserve. For the years ended 31 December 2017, the net profit of the Company determined in accordance with the PRC Accounting Standards for Business Enterprises and IFRS are the same. For the year ended 31 December 2017, the Company transferred RMB1,686 million, being 10% of the year's net profit, to this reserve. As at 31 December 2018, the amount of statutory surplus reserve was RMB30,395 million (1 January 2018: RMB28,520 million; 31 December 2017: RMB28,218 million).

The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2018 and 2017. As at 31 December 2018 and 2017, 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 2018, the amount of retained earnings available for distribution was RMB133,076 million (1 January 2018: RMB122,987 million; 31 December 2017: RMB120,270 million), being the amount determined in accordance with IFRSs. Final dividend of approximately RMB8,629 million in respect of the financial year 2018 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 36).

26. Operating Revenues

For the year ended 31 December 2018

Disaggregation of revenues

	Notes	2018 RMB millions
Type of goods or services		
Revenue from contracts with customers		
Voice	(i)	**50,811**
Internet	(ii)	**190,871**
Information and application services	(iii)	**83,478**
Telecommunications network resource and equipment services	(iv)	**20,211**
Sales of goods and others	(v)	**27,450**
Subtotal		**372,821**
Revenue from other sources	(vi)	**4,303**
Total operating revenues		**377,124**
Timing of revenue recognition		
A point in time		**24,496**
Over time		**352,628**
Total operating revenues		**377,124**

Notes:

(i) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.

(ii) Represent amounts charged to customers for the provision of Internet access services.

(iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet data centre service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.

(iv) Represent amounts charged to other domestic telecommunications operators and enterprise customers for the provision of telecommunications network resource and equipment services.

(v) Represent primarily revenues from sales, and repair and maintenance of telecommunications equipment as well as the resale of mobile services (MVNO).

(vi) Represent primarily revenue from property rental and other revenues.

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

26. Operating Revenues (continued)

For the year ended 31 December 2017

The components of the Group's operating revenues are as follows:

	2017 RMB millions
Voice	61,678
Internet	172,554
Information and application services	73,044
Telecommunications network resource and equipment services	19,125
Others	39,828
Total operating revenues	366,229

27. Network Operations and Support Expenses

	Note	**2018 RMB millions**	2017 RMB millions
Operating and maintenance		**64,056**	55,360
Utility		**13,477**	12,522
Property rental and management fee	(i)	**29,434**	26,926
Others		**9,095**	9,161
		116,062	103,969

Note:

(i) *Property rental and management fee includes the fee in relation to the lease of telecommunications towers and related assets (hereinafter referred to as the "tower assets lease and related fee").*

28. Personnel Expenses

Personnel expenses are attributable to the following functions:

	2018 RMB millions	2017 RMB millions
Network operations and support	**40,388**	38,574
Selling, general and administrative	**19,348**	17,469
	59,736	56,043

29. Other Operating Expenses

	Notes	2018 RMB millions	2017 RMB millions
Interconnection charges	(i)	**12,878**	12,223
Cost of goods sold	(ii)	**23,185**	31,712
Donations		**20**	23
Others	(iii)	**1,614**	1,654
		37,697	45,612

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.*

30. Total Operating Expenses

Total operating expenses for the year ended 31 December 2018 were RMB348,410 million (2017: RMB339,009 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 (2017: RMB75 million and RMB2 million).

31. Net Finance Costs

	2018 RMB millions	2017 RMB millions
Interest expense incurred	**3,278**	3,913
Less: Interest expense capitalised*	**(185)**	(327)
Net interest expense	**3,093**	3,586
Interest income	**(306)**	(429)
Foreign exchange losses	**423**	664
Foreign exchange gains	**(502)**	(530)
	2,708	3,291
* Interest expense was capitalised in construction in progress at the following rates per annum	**3.8%–4.4%**	3.9%–4.9%

32. Income Tax

Income tax in the profit or loss comprises:

	2018 RMB millions	2017 RMB millions
Provision for PRC income tax	**3,408**	3,147
Provision for income tax in other tax jurisdictions	**120**	123
Deferred taxation	**3,282**	2,922
	6,810	6,192

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

	Notes	**2018 RMB millions**	2017 RMB millions
Profit before taxation		**28,148**	24,953
Expected income tax expense at statutory tax rate of 25%	(i)	**7,037**	6,238
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(291)**	(108)
Differential tax rate on other subsidiaries' income	(ii)	**(58)**	(82)
Non-deductible expenses	(iii)	**537**	380
Non-taxable income	(iv)	**(319)**	(112)
Others	(v)	**(96)**	(124)
Actual income tax expense		**6,810**	6,192

Notes:

(i) Except for certain subsidiaries and branches which are mainly taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.

(ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 8% to 35%.

(iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iv) Amounts represent miscellaneous income which are not subject to income tax.

(v) Amounts primarily represent settlement of tax filing differences of prior year annual tax return and other tax benefits.

33. Directors' and Supervisors' Remuneration

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

2018	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses[10] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Yang Jie[1]	–	207	536	89	–	832
Liu Aili[2]	–	121	178	52	–	351
Ke Ruiwen	–	197	497	85	–	779
Sun Kangmin[3]	–	–	–	–	–	–
Gao Tongqing	–	192	489	84	–	765
Chen Zhongyue	–	192	489	82	–	763
Zhu Min[4]	–	37	53	14	–	104
Non-executive director						
Chen Shengguang	–	–	–	–	–	–
Independent non-executive directors[9]						
Tse Hau Yin, Aloysius	471	–	–	–	–	471
Cha May Lung, Laura[5]	108	–	–	–	–	108
Xu Erming	250	–	–	–	–	250
Wang Hsuehming	257	–	–	–	–	257
Yeung Chi Wai, Jason[6]	44	–	–	–	–	44
Supervisors						
Sui Yixun	–	216	485	84	–	785
Zhang Jianbin	–	209	485	84	–	778
Yang Jianqing	–	268	494	86	–	848
Hu Jing[7]	–	15	83	12	–	110
Xu Shiguang[8]	–	18	40	13	–	71
Ye Zhong	–	–	–	–	–	–
	1,130	1,672	3,829	685	–	7,316

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

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

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

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

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

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

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

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

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

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

11 *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.*

33. Directors' and Supervisors' Remuneration (continued)

2017	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses[9] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Yang Jie	–	207	558	89	–	854
Liu Aili[1]	–	16	25	8	–	49
Yang Xiaowei[2]	–	110	420	39	–	569
Ke Ruiwen	–	184	503	85	–	772
Sun Kangmin	–	184	503	85	–	772
Gao Tongqing[3]	–	99	127	51	–	277
Chen Zhongyue[4]	–	99	127	45	–	271
Non-executive director						
Chen Shengguang[5]	–	–	–	–	–	–
Independent non-executive directors[8]						
Tse Hau Yin, Aloysius	459	–	–	–	–	459
Cha May Lung, Laura	243	–	–	–	–	243
Xu Erming	230	–	–	–	–	230
Wang Hsuehming	243	–	–	–	–	243
Supervisors						
Sui Yixun	–	196	483	78	–	757
Zhang Jianbin	–	189	495	78	–	762
Yang Jianqing[6]	–	150	202	47	–	399
Tang Qi[7]	–	83	98	41	–	222
Hu Jing	–	113	346	69	–	528
Ye Zhong	–	–	–	–	–	–
	1,175	1,630	3,887	715	–	7,407

1 *Mr Liu Aili was appointed as an executive director of the Company on 28 November 2017.*

2 *Mr Yang Xiaowei resigned as an executive director of the Company on 7 June 2017.*

3 *Mr Gao Tongqing was appointed as an executive director of the Company on 23 May 2017.*

4 *Mr Chen Zhongyue was appointed as an executive director of the Company on 23 May 2017.*

5 *Mr Chen Shengguang was appointed as a non-executive director of the Company on 23 May 2017.*

6 *Mr Yang Jianqing was appointed as a supervisor of the Company on 23 May 2017.*

7 *Mr Tang Qi retired as a supervisor of the Company on 23 May 2017.*

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

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

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

34. 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 2018 and 2017 were directors of the Company.

The aggregate of the emoluments in respect of the five (2017: five) individuals (non-directors) are as follows:

	2018 RMB thousands	2017 RMB thousands
Salaries, allowances and benefits in kind	**5,850**	5,583
Discretionary bonuses	**2,382**	2,767
Retirement scheme contributions	**45**	78
	8,277	8,428

The emoluments of the five (2017: five) individuals (non-directors) with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
RMB0–RMB1,000,000	**–**	–
RMB1,000,001–RMB1,500,000	**2**	1
RMB1,500,001–RMB2,000,000	**2**	3
RMB2,000,001–RMB2,500,000	**1**	1

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

34. Individuals with Highest Emoluments and Senior Management Remuneration (continued)

(b) Senior management remuneration

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

	2018 Number of individuals	2017 Number of individuals
RMB0–RMB1,000,000	**20**	19
RMB1,000,001–RMB1,500,000	**1**	–

35. Profit Attributable to Equity Holders of the Company

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

For the year ended 31 December 2017, the consolidated profit attributable to equity holders of the Company includes a profit of RMB16,855 million which has been dealt with in the stand-alone financial statements of the Company.

36. Dividends

Pursuant to a resolution passed at the Board of Directors' meeting on 19 March 2019, a final dividend of equivalent to HK$0.125 per share totaling approximately RMB8,629 million for the year ended 31 December 2018 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 2018.

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

Pursuant to the shareholders' approval at the Annual General Meeting held on 23 May 2017, a final dividend of RMB0.093043 (equivalent to HK$0.105) per share totaling RMB7,530 million in respect of the year ended 31 December 2016 was declared and paid on 21 July 2017.

37. Basic Earnings per Share

The calculation of basic earnings per share for the years ended 31 December 2018 and 2017 is based on the profit attributable to equity holders of the Company of RMB21,210 million and RMB18,617 million respectively, divided by 80,932,368,321 shares.

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

38. Commitments and Contingencies

Operating lease commitments

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

As at 31 December 2018 and 2017, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	31 December	
	2018 RMB millions	2017 RMB millions
Within 1 year	**15,658**	20,680
Between 1 to 2 years	**14,466**	19,563
Between 2 to 3 years	**13,440**	16,730
Between 3 to 4 years	**12,682**	6,631
Between 4 to 5 years	**3,461**	3,376
Thereafter	**6,098**	2,786
Total minimum lease payments	**65,805**	69,766

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

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2018 was RMB27,810 million (2017: RMB25,493 million).

Capital commitments

As at 31 December 2018 and 2017, the Group had capital commitments as follows:

	31 December	
	2018 RMB millions	2017 RMB millions
Contracted for but not provided		
Property	**1,103**	346
Telecommunications network plant and equipment	**14,200**	10,900
	15,303	11,246

38. Commitments and Contingencies (continued)

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 2018 and 2017, 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.

39. Financial Instruments

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instruments, accounts receivable 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. The Group does not hold nor issue financial instruments for trading purposes.

(a) Fair Value Measurements

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

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

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

39. Financial Instruments (continued)

(a) Fair Value Measurements (continued)

The listed equity securities investment included in Group's equity instruments at fair value through other comprehensive income (2017: available-for-sale listed equity securities) are categorised as level 1 financial instruments. As at 31 December 2018, the fair value of the Group's listed equity securities investment are RMB638 million (31 December 2017: RMB969 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 1.0% to 4.9% (31 December 2017: 1.0% to 4.9%). As at 31 December 2018 and 2017, the carrying amounts and fair value of the Group's long-term debt were as follows:

	31 December 2018		31 December 2017	
	Carrying amount RMB millions	**Fair value RMB millions**	Carrying amount RMB millions	Fair value RMB millions
Long-term debt	**45,991**	**44,968**	49,742	48,256

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 and short-term bank deposits

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

39. 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 upon application of IFRS 9 (2017: incurred loss 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. 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 from telephone and Internet subscribers and enterprise customers and contract assets, respectively, as at 31 December 2018:

Accounts receivable from telephone and Internet subscribers:

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

39. Financial Instruments (continued)

(b) Risks (continued)

(i) Credit risk (continued)

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

Accounts receivable from enterprise customers and contract assets:

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

As at 31 December 2018, the loss allowance for accounts receivable and contract assets was RMB4,680 million and RMB8 million, respectively. Loss allowance of RMB734 million as at 31 December 2018, which was not calculated collectively in the above tables, was made individually on debtors with significant balances and 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 during the year is as follows:

	RMB millions
Balance at 31 December 2017 under IAS 39	3,842
Impact on initial application of IFRS 9 (note 2.2)	**919**
Balance at 1 January 2018	**4,761**
Impairment losses for ECL	**2,008**
Amounts written off	**(2,089)**
Balance at 31 December 2018	**4,680**

39. 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, 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 2018					
	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	49,537	51,091	51,091	–	–	–
Long-term debt	45,991	52,625	2,602	19,604	25,061	5,358
Accounts payable	107,887	107,887	107,887	–	–	–
Accrued expenses and other payables	43,497	43,497	43,497	–	–	–
Finance lease obligations	216	241	112	40	82	7
	247,128	255,341	205,189	19,644	25,143	5,365

39. Financial Instruments (continued)

(b) Risks (continued)

(ii) Liquidity risk (continued)

	31 December 2017					
	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	54,558	55,682	55,682	–	–	–
Long-term debt	49,742	58,543	2,725	2,716	46,612	6,490
Accounts payable	119,321	119,321	119,321	–	–	–
Accrued expenses and other payables	98,695	98,695	98,695	–	–	–
Finance lease obligations	77	85	56	14	13	2
	322,393	332,326	276,479	2,730	46,625	6,492

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

39. 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 2018		31 December 2017	
	Effective interest rate %	**RMB millions**	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	**3.2**	**49,347**	4.0	54,042
Long-term debt	**3.3**	**45,991**	3.3	49,742
		95,338		103,784
Variable rate debt:				
Short-term debt	**4.2**	**190**	4.1	516
		190		516
Total debt		**95,528**		104,300
Fixed rate debt as a percentage of total debt		**99.8%**		99.5%

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 99.8% (2017: 99.5%) of the Group's short-term and long-term debt as at 31 December 2018 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 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 64.0% (2017: 81.6%) of the Group's cash and cash equivalents and 99.4% (2017: 99.4%) of the Group's short-term and long-term debt as at 31 December 2018 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 19.

40. 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, long-term debt, and finance lease obligations. As at 31 December 2018, the Group's total debt-to-total assets ratio was 14.4% (31 December 2017: 15.8%), which is within the range of management's expectation.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

41. 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 and payable RMB millions	Finance lease obligations RMB millions	Other payables in respect of the reduction of capital by non-controlling interests RMB millions	Consideration payables in respect of the Eighth Acquisition RMB millions (Note 21)	Consideration payable in respect of the acquisition of non-controlling interests RMB millions (Note 21)	Dividend payable RMB millions	Total RMB millions
Balance as at 1 January 2017	40,780	71,646	102	–	–	–	–	112,528
Financing cash flows	13,778	(22,191)	(84)	–	–	(31)	(7,619)	(16,147)
New finance leases	–	–	55	–	–	–	–	55
Interest expenses	–	295	9	–	–	–	–	304
Foreign exchange gain	–	(8)	–	–	–	–	–	(8)
Acquisition of the Eighth Acquired Group	–	–	–	–	87	–	–	87
Acquisition of non-controlling interests	–	–	–	–	–	150	–	150
Distribution to non-controlling interests	–	–	–	–	–	–	89	89
Dividends declared	–	–	–	–	–	–	7,530	7,530
Others	–	–	(5)	–	–	–	–	(5)
Balance as at 31 December 2017	54,558	49,742	77	–	87	119	–	104,583
Financing cash flows	**(5,021)**	**(4,073)**	**(73)**	**(20)**	**(87)**	**(119)**	**(7,745)**	**(17,138)**
New finance leases	**–**	**–**	**200**	**–**	**–**	**–**	**–**	**200**
Interest expenses	**–**	**304**	**12**	**–**	**–**	**–**	**–**	**316**
Foreign exchange loss	**–**	**18**	**–**	**–**	**–**	**–**	**–**	**18**
Reduction of capital by non-controlling interests	**–**	**–**	**–**	**20**	**–**	**–**	**–**	**20**
Distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**177**	**177**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**7,568**	**7,568**
Balance as at 31 December 2018	**49,537**	**45,991**	**216**	**–**	**–**	**–**	**–**	**95,744**

Other than net financing cash outflows for the year ended 31 December 2018 totalling RMB17,138 million as presented above, E-surfing Pay, a subsidiary of the Company, received RMB855 million in the current year as part of the consideration amounting to RMB945 million in respect of contribution from non-controlling interests. The remaining balance of RMB90 million as at 31 December 2018 was included in prepayments and other current assets (Note 17).

42. 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	**2018 RMB millions**	2017 RMB millions
Construction and engineering services	(i)	**16,396**	18,672
Receiving ancillary services	(ii)	**16,744**	16,072
Interconnection revenues	(iii)	**80**	48
Interconnection charges	(iii)	**204**	193
Receiving community services	(iv)	**3,296**	3,028
Net transaction amount of centralised services	(v)	**519**	727
Property lease income	(vi)	**48**	53
Property lease expenses	(vi)	**713**	654
Provision of IT services	(vii)	**531**	642
Receiving IT services	(vii)	**1,895**	1,812
Purchases of telecommunications equipment and materials	(viii)	**3,760**	4,248
Sales of telecommunications equipment and materials	(viii)	**2,760**	3,291
Internet applications channel services	(ix)	**298**	344
Interest on amounts due to and loans from China Telecom Group*	(x)	**2,099**	2,720
Others*	(xi)	**186**	190

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

Notes:

(i) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.

(ii) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.

(iii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.

(iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.

42. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Notes: (continued)

(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/paid and payable to China Telecom Group for mutual leasing of properties.*

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

(viii) *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.*

(ix) *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.*

(x) *Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 19).*

(xi) *Represent amounts paid and payable to China Telecom Group primarily for leases of CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region, certain inter-provincial transmission optic fibres within its service regions and land use rights.*

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

	31 December	
	2018 **RMB millions**	2017 RMB millions
Accounts receivable	**1,327**	1,502
Contract assets	**24**	–
Prepayments and other current assets	**1,035**	774
Total amounts due from China Telecom Group	**2,386**	2,276
Accounts payable	**20,983**	22,682
Accrued expenses and other payables	**2,171**	1,838
Contract liabilities	**145**	–
Short-term debt	**8,584**	19,098
Long-term debt	**37,000**	40,000
Total amounts due to China Telecom Group	**68,883**	83,618

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt due to China Telecom Group are set out in Note 19.

As at 31 December 2018 and 2017, no material loss allowance was recognised in respect of amounts due from China Telecom Group.

42. Related Party Transactions (continued)

(b) Transactions with China Tower

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

	Notes	**2018 RMB millions**	2017 RMB millions
Tower assets lease and related fee	(i)	**16,063**	15,389
Provision of IT services	(ii)	**32**	49

Notes:

(i) *Represent tower assets lease and related fee paid and payable to China Tower. The Company and China Tower entered into an agreement on 8 July 2016 and a supplemental agreement on 1 February 2018 to confirm the pricing and related arrangements in relation to the leases of the telecommunications towers and related assets.*

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

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

	31 December	
	2018 RMB millions	2017 RMB millions
Accounts receivable	**10**	5
Prepayments and other current assets	**293**	2,152
Total amounts due from China Tower	**303**	2,157
Accounts payable	**2,850**	2,611
Accrued expenses and other payables	**1,246**	1,374
Total amounts due to China Tower	**4,096**	3,985

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 2018 and 2017, no material loss allowance was recognised in respect of amounts due from China Tower.

42. Related Party Transactions (continued)

(c) Key management personnel compensation

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

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

	2018 **RMB thousands**	2017 RMB thousands
Short-term employee benefits	**7,942**	7,804
Post-employment benefits	**799**	816
	8,741	8,620

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 44.

42. 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 42(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.

43. Information About the Statement of Financial Position of the Company

	Note	31 December 2018 RMB millions	31 December 2017 RMB millions
ASSETS			
Non-current assets			
Property, plant and equipment, net		**404,622**	403,228
Construction in progress		**65,701**	72,157
Lease prepayments		**21,554**	22,249
Goodwill		**29,877**	29,877
Intangible assets		**12,851**	11,220
Investments in subsidiaries	8	**11,377**	6,424
Interests in associates		**37,927**	35,546
Investments		**–**	996
Equity instruments at fair value through other comprehensive income		**665**	–
Deferred tax assets		**6,087**	5,050
Other assets		**7,928**	3,205
Total non-current assets		**598,589**	589,952
Current assets			
Inventories		**1,562**	1,508
Income tax recoverable		**39**	644
Accounts receivable, net		**18,758**	21,219
Contract assets		**367**	–
Prepayments and other current assets		**16,556**	15,996
Short-term bank deposits		**2,526**	1,054
Cash and cash equivalents		**6,183**	8,199
Total current assets		**45,991**	48,620
Total assets		**644,580**	638,572

43. Information About the Statement of Financial Position of the Company (continued)

	Note	31 December 2018 RMB millions	31 December 2017 RMB millions
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt		**60,532**	57,482
Current portion of long-term debt		**1,139**	1,146
Accounts payable		**105,124**	116,035
Accrued expenses and other payables		**34,456**	88,304
Contract liabilities		**52,039**	–
Income tax payable		**471**	21
Current portion of finance lease obligations		**101**	51
Current portion of deferred revenues		**375**	1,061
Total current liabilities		**254,237**	264,100
Net current liabilities		**(208,246)**	(215,480)
Total assets less current liabilities		**390,343**	374,472
Non-current liabilities			
Long-term debt		**44,852**	48,596
Finance lease obligations		**101**	26
Deferred revenues		**1,454**	1,828
Deferred tax liabilities		**12,908**	7,781
Other non-current liabilities		**668**	607
Total non-current liabilities		**59,983**	58,838
Total liabilities		**314,220**	322,938
Equity			
Share capital		**80,932**	80,932
Reserves	25	**249,428**	234,702
Total equity		**330,360**	315,634
Total liabilities and equity		**644,580**	638,572

44. 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 13% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the above plans for the year ended 31 December 2018 were RMB7,256 million (2017: RMB6,884 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2018 was RMB675 million (31 December 2017: RMB569 million).

45. 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, where the highest proportion of the earnings from exercise of the share appreciation rights to the total remuneration at the grant of the share appreciation rights shall be 40%. The Company recognises compensation expense of the share appreciation rights over the applicable period.

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

During the years ended 31 December 2018 and 2017, no share appreciation right units were exercised. For the year ended 31 December 2018, compensation expense of RMB30 million was recognised by the Group in respect of share appreciation rights (2017: Nil).

As at 31 December 2018, the carrying amount of the liability arising from share appreciation rights was RMB30 million. As at 31 December 2017, no liability arising from share appreciation rights was assumed by the Group.

46. 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 default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. The historical observed default rates are reassessed annually, and changes in the forward-looking information are considered. In addition, accounts receivable with significant balances and credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable are disclosed in notes 39 and 15.

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

For the year ended 31 December 2018, no provision for impairment losses were made against the carrying value of long-lived assets (2017: RMB10 million). In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

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

46. Accounting Estimates and Judgments (continued)

Depreciation and amortisation

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

Classification of lease arrangement with China Tower

The Company and China Tower entered into a lease arrangement regarding the leases of Tower Assets on 8 July 2016 and a supplemental agreement on 1 February 2018. Management evaluated the detailed clauses of the leases agreement and determined such lease arrangements as operating leases according to the accounting policies disclosed in Note 3(o) and based on the following judgments: (i) the Company does not expect any transfer of ownership of Tower Assets from China Tower by the end of the lease term; (ii) the Company considered the current lease term of 5 years does not account for the major part of the economic lives of Tower Assets; (iii) the present value of minimum lease payment at the inception of the lease does not substantially account for all of the fair value of the Tower Assets; and (iv) Tower Assets are compatible with all telecommunications operators, and therefore are not of specialised nature that only the Company can use them without major modifications.

47. Possible Impact of Amendments to Standards, New Standards and Interpretation Issued but not yet Effective for the Annual Accounting Period Ended 31 December 2018

Up to the date of issue of the consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretation which are not yet effective and not early adopted by the Group for the annual accounting period ended 31 December 2018:

	Effective for accounting period beginning on or after
IFRS 16, "*Leases*"	1 January 2019
IFRIC 23, "*Uncertainty over Income Tax Treatments*"	1 January 2019
Amendments to IFRS 9, "*Prepayment Features with Negative Compensation*"	1 January 2019
Amendments to IAS 28, "*Long-term Interests in Associates and Joint Ventures*"	1 January 2019
Amendments to IFRSs, "*Annual Improvements to IFRS Standards 2015–2017 Cycle*"	1 January 2019
Amendments to IAS 19, "*Plan Amendment, Curtailment or Settlement*"	1 January 2019
Amendments to IFRS 3, "*Definition of a Business*"	1 January 2020
Amendments to IAS 1 and IAS 8, "*Definition of Material*"	1 January 2020
IFRS 17, "*Insurance Contracts*"	1 January 2021
Amendments to IFRS 10 and IAS 28, "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*"	Postponed

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards, new standards and interpretation issued by the IASB which are not yet effective for the accounting period ended on 31 December 2018. Except for IFRS 16, *"Leases"*, so far the Group believes that the adoption of these amendments to standards, new standards and interpretation is unlikely to have a significant impact on its financial position and the results of operations.

47. Possible Impact of Amendments to Standards, New Standards and Interpretation Issued but not yet Effective for the Annual Accounting Period Ended 31 December 2018 (continued)

IFRS 16, *"Leases"*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17, *"Leases"* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to land use rights while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for land use rights where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB65,805 million as disclosed in Note 38. A preliminary assessment indicates that majority of these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening reserves without restating comparative information.

48. Event after the Reporting Period

The Company, China Telecommunications Corporation and China Communications Services Corporation Limited ("CCS", a subsidiary of China Telecommunications Corporation) entered into an agreement ("Capital Contribution Agreement") on 22 June 2018 and jointly established China Telecom Group Finance Co., Ltd. ("China Telecom Finance"), a non-banking financial institution legally established with the approval of China Banking and Insurance Regulatory Commission providing capital and financial management services to the member units of China Telecommunications Corporation, on 8 January 2019. Pursuant to the Capital Contribution Agreement, the registered share capital of China Telecom Finance is RMB5,000 million. The Company, China Telecommunications Corporation and CCS respectively contributed RMB3,500 million, RMB750 million and RMB750 million, which respectively represented 70%, 15% and 15% of the total registered capital of China Telecom Finance. As the Company holds 70% of the issued share capital of China Telecom Finance, China Telecom Finance is a subsidiary of the Company.

49. Parent and Ultimate Holding Company

The parent and ultimate holding company of the Company as at 31 December 2018 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				
	2018 RMB	2017 RMB	2016 RMB	2015 RMB	2014 RMB
Results of operation					
Operating revenues	**377,124**	366,229	352,534	331,517	324,755
Depreciation and amortisation	**75,493**	74,951	67,942	67,666	66,348
Network operations and support	**116,062**	103,969	94,156	81,433	68,885
Selling, general and administrative	**59,422**	58,434	56,426	54,480	62,753
Personnel expenses	**59,736**	56,043	54,504	52,586	50,698
Other operating expenses	**37,697**	45,612	52,286	48,905	47,555
Operating expenses	**348,410**	339,009	325,314	305,070	296,239
Operating profit	**28,714**	27,220	27,220	26,447	28,516
Gain from Tower Assets Disposal	**–**	–	–	5,214	–
Net finance costs	**(2,708)**	(3,291)	(3,235)	(4,273)	(5,291)
Investment income	**38**	147	40	8	6
Income from investments in associates	**2,104**	877	91	(698)	34
Profit before taxation	**28,148**	24,953	24,116	26,698	23,265
Income tax	**(6,810)**	(6,192)	(5,993)	(6,552)	(5,498)
Profit for the year	**21,338**	18,761	18,123	20,146	17,767
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	**(324)**	–	–	–	–
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income	**82**	–	–	–	–
Items that may be reclassified subsequently to profit or loss:					
Change in fair value of available-for-sale equity securities	**–**	(400)	(228)	652	(54)
Deferred tax on change in fair value of available-for-sale equity securities	**–**	100	57	(163)	14
Exchange difference on translation of financial statements of subsidiaries outside mainland China	**154**	(259)	190	129	3
Share of other comprehensive income of associates	**(7)**	7	6	3	(3)
Other comprehensive income for the year, net of tax	**(95)**	(552)	25	621	(40)
Total comprehensive income for the year	**21,243**	18,209	18,148	20,767	17,727
Profit attributable to					
Equity holders of the Company	**21,210**	18,617	18,018	20,058	17,688
Non-controlling interests	**128**	144	105	88	79
Profit for the year	**21,338**	18,761	18,123	20,146	17,767
Total comprehensive income attributable to					
Equity holders of the Company	**21,115**	18,065	18,043	20,679	17,648
Non-controlling interests	**128**	144	105	88	79
Total comprehensive income for the year	**21,243**	18,209	18,148	20,767	17,727
Basic earnings per share	**0.26**	0.23	0.22	0.25	0.22

(Amounts in millions, except per share data)

	As at 31 December of the year				
	2018	2017	2016	2015	2014
	RMB	RMB	RMB	RMB	RMB
Financial condition					
Property, plant and equipment, net	**407,795**	406,257	389,671	374,004	372,898
Construction in progress	**66,644**	73,106	80,386	69,107	53,183
Other non-current assets	**115,938**	110,281	108,367	108,369	75,674
Cash and bank deposits	**23,480**	22,510	27,948	34,388	21,815
Other current assets	**49,525**	49,040	46,186	43,879	37,967
Total assets	**663,382**	661,194	652,558	629,747	561,537
Current liabilities	**258,920**	275,408	319,133	256,074	206,553
Non-current liabilities	**60,363**	59,089	17,077	68,883	64,841
Total liabilities	**319,283**	334,497	336,210	324,957	271,394
Total equity attributable to equity holders of the Company	**343,069**	325,867	315,377	303,823	289,218
Non-controlling interests	**1,030**	830	971	967	925
Total equity	**344,099**	326,697	316,348	304,790	290,143
Total liabilities and equity	**663,382**	661,194	652,558	629,747	561,537

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 163 to 261, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 26, 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.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill and long-lived assets	
We identified the valuation of goodwill and long-lived assets as a key audit matter because the impairment assessment of goodwill and long-lived assets 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(i) and 46, respectively, to the consolidated financial statements. Details of goodwill impairment assessment are disclosed in Note 6 to the consolidated financial statements.	Our procedures in relation to the valuation of goodwill and long-lived assets 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, average revenue per subscriber and amount of operating cost, 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.

- 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.

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 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, related safeguards.

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
19 March 2019