

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

## 1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

China Telecom Corporation Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 10 September 2002. The Company and its subsidiaries (hereinafter, collectively referred to as the “Group”) is a leading and large-scale full-service and integrated intelligent information services provider, providing its individual, household, government and enterprise customers with integrated intelligent information services.

The Company filed a Form 15F with the U.S. Securities and Exchange Commission (the “SEC”) on 25 February 2022 to deregister the American Depositary Shares (the “ADSs”) and terminate its reporting obligation under the U.S. Securities Exchange Act of 1934, as amended (the “U.S. Exchange Act”). The deregistration and termination of reporting obligation therefore became effective 90 days after the filing as the application was neither withdrawn by the Company nor objected to by the SEC.

## 2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

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

Amendments to IAS 16, IFRS 3, IAS 37 and “*Annual Improvements to IFRS Standards 2018-2020*”

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRSs as issued by the IASB. For the purpose of the preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

As at 31 December 2022, the total current liabilities of the Group had exceeded the total current assets by RMB140,665 million (31 December 2021: RMB137,708 million). Management of the Company have assessed the Group’s available sources of funds as follows: 1) the Group’s continuous net cash inflow to be generated from its operating activities; 2) the unutilised credit facilities amounting to RMB233,639 million (31 December 2021: RMB276,483 million); and 3) the Group’s other available sources of financing from domestic banks in mainland China and other financial institutions in view of the Group’s good credit history. Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2022 has 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 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 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

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

In December 2022, China Telecom Intelligent Network Technology Co., Ltd., a subsidiary of the Company, acquired equity interest in Beeya (Shanghai) Technology Co., Ltd. (the “Acquired Company”) from Tianyi Technology Venture Capital Co., Ltd., a wholly-owned subsidiary of China Telecommunications Corporation, and Shanghai Yizhiying Intelligent Technology Partnership (Limited Partnership), a wholly-owned subsidiary of Shanghai Yizhichuang Management Consulting Co., Ltd., a holding subsidiary of Tianyi Technology Venture Capital Co., Ltd., at total purchase prices of RMB2 million and RMB1 million respectively.

Since the Group and the Acquired Company are under common control of China Telecommunications Corporation, the Group’s acquisition of the Acquired Company has been accounted for as a combination of entities under common control. Accordingly, the Acquired Company is stated at predecessor values, and were included in the consolidated financial statements from the beginning of the earliest period presented as if the Acquired Company acquired had always been part of the Group. As a result, the Group has restated the 2021 comparative amounts of the consolidated statement of comprehensive income by including the operating results of the Acquired Company and eliminating its transactions with the Acquired Company. The consolidated statement of financial position of the Group as at 31 December 2021 was restated to include the assets and liabilities of the Acquired Company. For the years presented, all significant transactions and balances between the Group and the Acquired Company have been eliminated on combination.

#### (b) Basis of consolidation and equity accounting

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Basis of consolidation and equity accounting (continued)

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Foreign currencies translation**

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 years 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 the exchange rates approximating the foreign exchange rate ruling at the dates of transactions. Assets and liabilities of the Group’s foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

**(d) Property, plant and equipment**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Property, plant and equipment (continued)**

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:

	<b>Depreciable lives primarily range from</b>	<b>Residual rate</b>
Buildings and improvements	8 to 30 years	3%
Communications network plant and equipment	5 to 10 years	0%-3%
Furniture, fixture, motor vehicles and other equipment	5 to 10 years	0%-3%

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 and any change will be accounted for as change in accounting estimate.

**(e) Construction in progress**

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

No depreciation is provided in respect of construction in progress.

**(f) Goodwill**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Intangible assets**

The Group's intangible assets are primarily software.

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

#### (i) Interests in joint operations

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial instruments (continued)

##### Financial assets

##### Classification and subsequent measurement of financial assets

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial instruments (continued)

##### Financial assets (continued)

##### Classification and subsequent measurement of financial assets (continued)

(iii) Financial assets at FVTPL

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial instruments (continued)

##### Financial assets (continued)

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

(i) Significant increase in credit risk

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

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

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

At the balance sheet date, if the Group considers that the financial instruments has only lower credit risk, the Group will assume that the credit risk of the financial instruments has not been significantly increased since initial recognition. The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the debtor has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the debtor to fulfil its contractual cash flow obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial instruments (continued)

##### Financial assets (continued)

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

(ii) Definition of default

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial instruments (continued)

##### Financial assets (continued)

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on the historical data and forward-looking information. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

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

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

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

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Financial instruments (continued)****Financial assets (continued)****Derecognition of financial assets**

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

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

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

**Financial liabilities and equity****Classification as debt or equity**

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

**Equity instruments**

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

**Financial liabilities**

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

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

**Offsetting a financial asset and a financial liability**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and time deposits with original maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates fair value.

#### (m) Revenue from contract with customers

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

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

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

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

As such, revenues from contracts with customers of telecommunications services are generally recognised over time during which the services are provided to customers.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(m) Revenue from contract with customers (continued)**

Where the contract contains a significant financing component, the Group recognises the transaction price at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer. The difference between the amount of promised consideration and the cash selling price is amortised using an effective interest method over the contract term.

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.

The Group provides subscriber points reward program, which rewards customers based on their consumption amounts and loyalty. Under the reward program, the Group allocates part of the transaction price to subscriber points according to the stand-alone selling prices of subscriber points and relevant goods or services. The standalone selling price of each point in the customer point rewards is based on its fair value. The allocated portion of transaction price for the subscriber points reward is recorded as contract liability when the rewards are granted and recognised as revenue when the goods or services of points redemption are delivered or the points are expired.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Revenue from contract with customers (continued)

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

For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

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

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

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

##### **Principal versus agent**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(m) Revenue from contract with customers (continued)****Consideration payable to a customer**

Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer, and also includes credit or other items that can be applied against amounts owed to the Group. The Group accounted for such consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group and the fair value of the good or service received from the customer can be reasonably estimated. Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, the Group recognises the reduction of revenue when (or as) the later of either of the following events occurs: (i) the Group recognises revenue for the transfer of the related goods or services to the customer; and (ii) the Group pays or promises to pay the consideration (even if the payment is conditional on a future event).

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

**Incremental costs of obtaining a contract**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Revenue from contract with customers (continued)

##### Costs to fulfil a contract

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

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

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

#### (n) Leases

##### Definition of a lease

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

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

##### The Group as a lessee

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

##### Allocation of consideration to components of a contract

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Leases (continued)****The Group as a lessee (continued)****Short-term leases and leases of low-value assets**

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

**Right-of-use assets**

The cost of right-of-use asset includes:

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Leases (continued)

##### The Group as a lessee (continued)

###### Lease liabilities

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

The lease payments include:

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Leases (continued)

##### The Group as a lessee (continued)

##### Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

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

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

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

##### Covid-19-related rent concessions

Since 2020, in relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group had elected to early apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Leases (continued)

##### The Group as a lessee (continued)

###### Lease modifications (continued)

Covid-19-related rent concessions (continued)

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

##### The Group as a lessor

###### Classification and measurement of leases

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

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

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

###### Allocation of consideration to components of a contract

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Leases (continued)****The Group as a lessor (continued)****Refundable rental deposits**

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

**Sublease**

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

**Lease modifications**

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

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

**(o) Net finance costs**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Research and development expense

Research and development expenditure is expensed as incurred if the criteria of recognition as intangible assets were not met. For the year ended 31 December 2022, research and development expense, other than those related personnel expenses and depreciation was RMB4,199 million (2021: RMB3,379 million). Research and development related personnel expenses and depreciation for the year ended 31 December 2022 amounted to RMB6,237 million (2021: RMB3,432 million) and RMB124 million (2021: RMB122 million), respectively.

#### (q) Employee benefits

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

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

#### (r) Government grants

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 accrued expenses and other payables and other non-current liabilities and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(s) Provisions and contingent liabilities**

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

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

**(t) Value-added tax (“VAT”)**

Output VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 9% since 1 April 2019, while the output VAT rate for value-added telecommunications services (including Internet access services, short and multimedia messaging services, transmission and application service of electronic data and information) is 6%, and the output VAT for sales of telecommunications terminals and equipment is 13% since 1 April 2019. Input VAT rate depends on the type of services received and the assets purchased as well as the VAT rate applicable to a specific industry, and ranges from 3% to 13% since 1 April 2019.

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 financial statement line items of prepayments and other current assets and accrued expenses and other payables, respectively, in the consolidated statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Income tax

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

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, associates and joint ventures, 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.

The Group considers that assets and liabilities relating to leasing arise from a single transaction. The Group applies IAS 12, "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis.

#### (v) Dividends

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (w) Related parties

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

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

#### (x) Segment 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 years presented, management has determined that the Group has one operating segment as the Group is only engaged in the integrated telecommunications business. The Group's assets located outside mainland China and operating revenues derived from activities outside mainland China are less than 10% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amount is immaterial. No single external customer accounts for 10% or more of the Group's operating revenues.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

## 4. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and improvements RMB million	Communications network plant and equipment RMB million	Furniture, fixture, motor vehicles and other equipment RMB million	Total RMB million
Cost/Deemed cost:				
Balance as at 1 January 2021	105,594	896,411	31,162	1,033,167
Additions	284	175	325	784
Transferred from construction in progress	2,466	72,260	1,625	76,351
Retirement and disposal	(1,146)	(74,532)	(2,960)	(78,638)
Balance as at 31 December 2021	107,198	894,314	30,152	1,031,664
Additions	<b>1,054</b>	<b>528</b>	<b>365</b>	<b>1,947</b>
Transferred from construction in progress	<b>2,303</b>	<b>72,836</b>	<b>1,890</b>	<b>77,029</b>
Retirement and disposal	<b>(1,541)</b>	<b>(85,846)</b>	<b>(2,688)</b>	<b>(90,075)</b>
<b>Balance as at 31 December 2022</b>	<b>109,014</b>	<b>881,832</b>	<b>29,719</b>	<b>1,020,565</b>
Accumulated depreciation and impairment:				
Balance as at 1 January 2021	(64,649)	(526,740)	(23,173)	(614,562)
Depreciation charge for the year	(3,997)	(65,113)	(2,396)	(71,506)
Provision for impairment loss	-	(119)	(2)	(121)
Written back on retirement and disposal	1,022	66,735	2,749	70,506
Balance as at 31 December 2021	(67,624)	(525,237)	(22,822)	(615,683)
Depreciation charge for the year	<b>(3,777)</b>	<b>(66,975)</b>	<b>(1,978)</b>	<b>(72,730)</b>
Provision for impairment loss	-	<b>(68)</b>	<b>(2)</b>	<b>(70)</b>
Written back on retirement and disposal	<b>1,392</b>	<b>77,958</b>	<b>2,531</b>	<b>81,881</b>
<b>Balance as at 31 December 2022</b>	<b>(70,009)</b>	<b>(514,322)</b>	<b>(22,271)</b>	<b>(606,602)</b>
<b>Net book value as at 31 December 2022</b>	<b>39,005</b>	<b>367,510</b>	<b>7,448</b>	<b>413,963</b>
Net book value as at 31 December 2021	39,574	369,077	7,330	415,981

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**5. CONSTRUCTION IN PROGRESS**

	RMB million
Balance as at 1 January 2021	48,425
Additions	85,583
Transferred to property, plant and equipment	(76,351)
Transferred to intangible assets	(6,200)
Balance as at 31 December 2021 (restated)	51,457
Additions	<b>89,736</b>
Transferred to property, plant and equipment	<b>(77,029)</b>
Transferred to intangible assets	<b>(5,721)</b>
<b>Balance as at 31 December 2022</b>	<b>58,443</b>

**6. RIGHT-OF-USE ASSETS**

	Leasehold land RMB million	Buildings RMB million	Communications towers and related assets RMB million	Equipment RMB million	Others RMB million	Total RMB million
<b>As at 31 December 2022</b>						
Carrying amount	21,499	15,895	40,013	9,302	346	87,055
<b>As at 31 December 2021</b>						
Carrying amount (restated)	20,207	16,678	13,034	10,927	341	61,187
<b>For the year ended 31 December 2022</b>						
Depreciation charge	(769)	(5,309)	(8,237)	(2,879)	(119)	(17,313)
<b>For the year ended 31 December 2021</b>						
Depreciation charge (restated)	(762)	(3,645)	(8,078)	(2,513)	(99)	(15,097)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 6. RIGHT-OF-USE ASSETS (continued)

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

The additions of right-of-use assets this year include the increases in right-of-use assets arising from the Company's entering into Commercial Pricing Agreement and Service Agreement with China Tower this year, which was accounted for as lease modification, further information is set out in Note 43(b).

The Group regularly entered into short-term leases for buildings and other assets. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expenses disclosed in this note.

For the year ended 31 December 2022, expenses relating to short-term leases amounting to RMB863 million (2021: RMB1,006 million), expenses relating to leases of low value assets (excluding short-term leases of low value assets) amounting to RMB112 million (2021: RMB34 million) and variable lease payments not included in the measurement of lease liabilities amounting to RMB4,950 million (2021: RMB5,151 million), are recognised in profit or loss.

For the year ended 31 December 2022, total cash outflow for leases was RMB24,748 million (2021: RMB21,952 million), and additions to right-of-use assets were RMB47,154 million (2021: RMB18,083 million).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**7. GOODWILL**

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Cost:		
Goodwill arising from acquisition of mobile communications business	<b>29,922</b>	29,919

On 1 October 2008, the Group acquired the mobile communications business and related assets and liabilities (collectively “mobile communications business”), 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) from China Unicom Limited and China Unicom Corporation Limited (collectively “Unicom Group”). The purchase price of the business combination was RMB43,800 million, which was fully settled as at 31 December 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of mobile communications business for a net settlement amount of RMB3,471 million due from Unicom Group. This amount was subsequently settled by Unicom Group in 2009. The business combination was accounted for using the purchase method.

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

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of mobile communications business was allocated to the appropriate cash-generating unit of the Group, which is the Group’s integrated telecommunications business. The recoverable amount of the Group’s integrated telecommunications business is estimated based on the value in use model, which considers the Group’s financial budgets covering a five-year period, revenue growth rate between 3.6% to 4.5% (2021: 3.7% to 4.6%) and a pre-tax discount rate of 9.8% (2021: 9.8%). Cash flows beyond the five-year period are extrapolated using a steady 1.5% growth rate (2021: 1.5%). The Group performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. The Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**8. INTANGIBLE ASSETS**

	<b>Software</b> <b>RMB million</b>
<b>Cost:</b>	
Balance as at 1 January 2021	50,854
Additions	2,038
Transferred from construction in progress	6,200
Retirement and disposal	(3,352)
Balance as at 31 December 2021	55,740
Additions	<b>2,462</b>
Transferred from construction in progress	<b>5,721</b>
Retirement and disposal	<b>(3,144)</b>
<b>Balance as at 31 December 2022</b>	<b>60,779</b>
<b>Accumulated amortisation and impairment:</b>	
Balance as at 1 January 2021	(32,346)
Amortisation charge for the year	(6,363)
Written back on retirement and disposal	2,722
Balance as at 31 December 2021	(35,987)
Amortisation charge for the year	<b>(6,889)</b>
Written back on retirement and disposal	<b>2,877</b>
<b>Balance as at 31 December 2022</b>	<b>(39,999)</b>
<b>Net book value as at 31 December 2022</b>	<b>20,780</b>
Net book value as at 31 December 2021	19,753

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**9. INVESTMENTS IN SUBSIDIARIES**

Details of the Company's subsidiaries which principally affected the operating results, assets and liabilities of the Group as at 31 December 2022 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/issued capital (in RMB million unless otherwise stated)	Principal activity
China Telecom Digital Intelligence Technology Co., Ltd. (formerly known as "China Telecom System Integration Co., Ltd.")	Limited Company	13 September 2001	PRC	3,000	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 Best Tone Information Service Co., Limited	Limited Company	15 August 2007	PRC	350	Provision of Best Tone information services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
iMUSIC Culture & Technology Co., Ltd.	Limited Company	9 June 2013	PRC	250	Provision of music production and related information services
Tianyi Capital Holding Co., Ltd.	Limited Company	30 November 2017	PRC	5,000	Capital investment and provision of consulting services
China Telecom Group Finance Co., Ltd.	Limited Company	8 January 2019	PRC	5,000	Provision of capital and financial management services

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**9. INVESTMENTS IN SUBSIDIARIES (continued)**

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/issued capital (in RMB million unless otherwise stated)	Principal activity
China Telecom Cloud Technology Co., Ltd.	Limited Company	1 July 2021	PRC	4,514	Provision of cloud products and services
E-surfing Digital Life Technology Co., Ltd.	Limited Company	6 July 2021	PRC	900	Provision of comprehensive solutions related to the digital life
Lingang Suanli (Shanghai) Technology Co., Ltd.	Limited Company	29 April 2021	PRC	900	Provision of computing power services
Shanghai Information Industry (Group) Co., Ltd.	Limited Company	14 December 1994	PRC	297	Provision of communication engineering design and system terminal development services
Tianyi IoT Technology Co., Ltd.	Limited Company	2 February 2019	PRC	1000	Provision of IoT services
China Telecom Intelligent Network Technology Co., Ltd.	Limited Company	26 January 2022	PRC	900	Provision of operation and support technical services
Tianyi Safety Technology Co., Ltd.	Limited Company	9 September 2021	PRC	500	Provision of network information security services

Except Finance Company which is 70% owned by the Company, and China Telecom Cloud Technology Co., Ltd. which is 89% 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 interests. None of the subsidiaries had issued any debt securities at the end of the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**10. INTERESTS IN ASSOCIATES AND JOINT VENTURES**

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Cost of investment in associates and joint ventures	<b>36,964</b>	36,983
Share of post-acquisition changes in net assets	<b>5,256</b>	4,183
	<b>42,220</b>	41,166

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

<b>Name of company</b>	<b>Attributable equity interest</b>	<b>Principal activities</b>
China Tower Corporation Limited (Note (i))	20.5%	Construction, maintenance and operation of communications towers as well as ancillary facilities
Shanghai Information Investment Incorporation (Note (ii))	24.0%	Information technology consulting services

Notes:

- (i) *China Tower is established and operated in the PRC, and listed on the Main Board of The Stock Exchange of Hong Kong Limited on 8 August 2018.*
- (ii) *Shanghai Information Investment Incorporation ("Shanghai Info-investment") is established and operated in the PRC and is not traded on any stock exchange.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**10. INTERESTS IN ASSOCIATES AND JOINT VENTURES (continued)**

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

**China Tower**

	31 December	
	2022	2021
	RMB million	RMB million
Current assets	<b>49,706</b>	48,344
Non-current assets	<b>255,854</b>	274,915
Current liabilities	<b>65,158</b>	76,182
Non-current liabilities	<b>46,811</b>	57,723

	2022		2021	
	RMB million		RMB million	
Operating revenues	<b>92,170</b>		86,585	
Profit for the year	<b>8,787</b>		7,328	
Other comprehensive income for the year	<b>-</b>		(1)	
Total comprehensive income for the year	<b>8,787</b>		7,327	
Dividend received from China Tower	<b>947</b>		807	

Reconcile to the Group's interests in the associate:

	31 December	
	2022	2021
	RMB million	RMB million
Net assets of China Tower	<b>193,591</b>	189,354
Non-controlling interests of China Tower	<b>-</b>	-
The Group's effective interest in China Tower	<b>20.5%</b>	20.5%
The Group's share of net assets of China Tower	<b>39,686</b>	38,818
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	<b>(415)</b>	(568)
Carrying amount of the interest in China Tower in the consolidated financial statements of the Group	<b>39,271</b>	38,250
Fair value of China Tower calculated based on quoted price	<b>27,078</b>	25,374

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**10. INTERESTS IN ASSOCIATES AND JOINT VENTURES (continued)****Shanghai Info-investment**

	31 December	
	2022	2021
	RMB million	RMB million
Current assets	5,769	6,783
Non-current assets	6,556	4,272
Current liabilities	1,857	1,712
Non-current liabilities	2,559	1,814

	2022		2021	
	RMB million		RMB million	
Operating revenues	1,403		1,470	
Profit for the year	739		663	
Other comprehensive income for the year	(2)		–	
Total comprehensive income for the year	737		663	
Dividend received from Shanghai Info-investment	18		18	

Reconcile to the Group's interests in the associate:

	31 December	
	2022	2021
	RMB million	RMB million
Net assets of Shanghai Info-investment	7,909	7,529
Non-controlling interests of Shanghai Info-investment	(17)	(258)
The Group's effective interest in Shanghai Info-investment	24.0%	24.0%
The Group's share of net assets of Shanghai Info-investment	1,894	1,745
Carrying amount of the interest in Shanghai Info-investment in the consolidated financial statements of the Group	1,894	1,745

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**10. INTERESTS IN ASSOCIATES AND JOINT VENTURES (continued)**

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

	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
The Group's share of profit of these associates and joint ventures	<b>(86)</b>	122
The Group's share of total comprehensive income of these associates and joint ventures	<b>(86)</b>	122

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Aggregate carrying amount of interests in these associates and joint ventures in the consolidated financial statements of the Group	<b>1,055</b>	1,171

**11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

		<b>31 December</b>	
	Notes	<b>2022</b>	2021
		<b>RMB million</b>	RMB million
Equity securities of listed companies	(i)	<b>759</b>	942
Unlisted equity securities	(ii)	<b>126</b>	274
		<b>885</b>	1,216

Notes:

- (i) The above listed equity instruments represent ordinary shares of listed entities. 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. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that the Group will hold these investments for long-term strategic purposes.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**12. DEFERRED TAX ASSETS AND LIABILITIES**

The components of deferred tax assets and deferred tax liabilities before offsetting are as follows:

	Deferred tax assets		Deferred tax liabilities	
	31 December 2022 RMB million	31 December 2021 RMB million	31 December 2022 RMB million	31 December 2021 RMB million
Accrued salaries, wages and other benefits	2,115	1,416	–	–
Temporary receipts of demolition and modification and deferred revenues	2,627	2,286	–	–
Depreciation, write-off and impairment of property, plant and equipment, etc.	2,536	2,675	(35,479)	(30,202)
Impairment losses of accounts receivable	1,404	1,140	–	–
Subscriber points reward program	1,064	1,058	–	–
Right-of-use assets and lease liabilities	731	845	–	–
Equity instruments at fair value through other comprehensive income	9	–	(110)	(151)
Others	979	944	–	–
Deferred tax assets/(liabilities)	11,465	10,364	(35,589)	(30,353)

As at 31 December 2022, the offsetting amount of deferred tax assets and deferred tax liabilities was RMB7,644 million (31 December 2021: RMB3,676 million). As at 31 December 2022, net deferred tax assets and deferred tax liabilities after offsetting were RMB3,821 million (31 December 2021: RMB6,688 million) and RMB27,945 million (31 December 2021: RMB26,677 million), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**12. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

The movement of deferred tax assets and deferred tax liabilities are as follows:

	Balance as at 1 January 2022 RMB million	Recognised in consolidated statement of comprehensive income RMB million	Balance as at 31 December 2022 RMB million
Accrued salaries, wages and other benefits	1,416	699	2,115
Temporary receipts of demolition and modification and deferred revenues	2,286	341	2,627
Depreciation, write-off and impairment of property, plant and equipment, etc.	2,675	(139)	2,536
Impairment losses of accounts receivable	1,140	264	1,404
Subscriber points reward program	1,058	6	1,064
Right-of-use assets and lease liabilities	845	(114)	731
Equity instruments at fair value through other comprehensive income	-	9	9
Others	944	35	979
Deferred tax assets	10,364	1,101	11,465
Depreciation, write-off and impairment of property, plant and equipment, etc.	(30,202)	(5,277)	(35,479)
Equity instruments at fair value through other comprehensive income	(151)	41	(110)
Deferred tax liabilities	(30,353)	(5,236)	(35,589)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**12. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

	Balance as at 1 January 2021 RMB million	Recognised in consolidated statement of comprehensive income RMB million	Disposal of subsidiaries RMB million	Balance as at 31 December 2021 RMB million
Accrued salaries, wages and other benefits	930	487	(1)	1,416
Temporary receipts of demolition and modification and deferred revenues	1,991	295	–	2,286
Depreciation, write-off and impairment of property, plant and equipment, etc.	2,724	(49)	–	2,675
Impairment losses of accounts receivable	1,039	121	(20)	1,140
Subscriber points reward program	863	195	–	1,058
Right-of-use assets and lease liabilities	791	54	–	845
Others	964	9	(29)	944
Deferred tax assets	9,302	1,112	(50)	10,364
Depreciation, write-off and impairment of property, plant and equipment, etc.	(25,209)	(5,007)	14	(30,202)
Equity instruments at fair value through other comprehensive income	(137)	(15)	1	(151)
Deferred tax liabilities	(25,346)	(5,022)	15	(30,353)

Deferred tax assets are recognized for deductible temporary differences and tax losses carry-forwards only to the extent that the realization of the related tax benefit through future taxable profits is probable. Certain subsidiaries of the Group did not recognize deferred tax assets of RMB826 million (31 December 2021: RMB542 million) in respect of deductible temporary differences and tax losses amounting to RMB5,130 million (31 December 2021: RMB2,571 million) that can be carried forward against future taxable profits as at 31 December 2022. The deductible tax losses are allowed to be carried forward within next five years against future taxable profits, while those of high-tech enterprises are allowed to be within next ten years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**13. OTHER ASSETS**

	Notes	31 December	
		2022 RMB million	2021 RMB million
Contract costs	(i)	<b>1,503</b>	1,436
Other long-term prepaid expenses and receivables	(ii)	<b>7,632</b>	5,825
		<b>9,135</b>	7,261

Notes:

- (i) Contract costs capitalised as at 31 December 2022 and 2021 mainly relate to the direct cost of the provision of wireline terminals to subscribers for the provision of Wireline and Smart Family services of the Group. The amount of capitalised costs recognised in profit or loss for the year ended 31 December 2022 was RMB1,752 million (2021: RMB1,584 million). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during this year.
- (ii) Other long-term prepaid expenses and receivables mainly include prepayments of construction and materials, etc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**14. JOINT OPERATION**

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

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

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

Under the joint operation, the business and branding of each party continue to operate independently, and the subscribers to the services are owned by each party, respectively. Revenues derived from each party’s subscribers are recognised by each party independently; cost and expenses are assumed by each party respectively; while assets constructed by each party and the related liabilities are recognised and assumed by each respective party.

## SECTION IX FINANCIAL REPORTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 15. INVENTORIES

	31 December	
	2022	2021
	RMB million	RMB million
Materials and supplies	433	410
Goods for resale	3,080	3,417
	3,513	3,827

### 16. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	Note	31 December	
		2022	2021
		RMB million	RMB million
Third parties		27,714	25,067
China Telecom Group	(i)	2,073	1,889
China Tower		23	9
Other telecommunications operators in the PRC		619	475
		30,429	27,440
Less: Allowance for credit losses		(6,117)	(5,051)
		24,312	22,389

Note:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**16. ACCOUNTS RECEIVABLE, NET (continued)**

As at 31 December 2022 and 2021, the gross carrying amounts of accounts receivable from contracts with customers amounted to RMB30,350 million, and RMB27,339 million.

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

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Current, within 1 month	<b>6,405</b>	7,164
1 to 3 months	<b>2,040</b>	1,683
4 to 6 months	<b>807</b>	692
7 to 12 months	<b>1,234</b>	928
Over 12 months	<b>1,317</b>	1,079
	<b>11,803</b>	11,546
Less: Allowance for credit losses	<b>(3,335)</b>	(2,690)
	<b>8,468</b>	8,856

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

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
1 to 6 months	<b>11,817</b>	10,581
7 to 12 months	<b>3,537</b>	1,909
1 to 2 years	<b>1,709</b>	2,012
2 to 3 years	<b>677</b>	563
Over 3 years	<b>886</b>	829
	<b>18,626</b>	15,894
Less: Allowance for credit losses	<b>(2,782)</b>	(2,361)
	<b>15,844</b>	13,533

As at 31 December 2022 and 2021, included in the net balance of the Group's accounts receivable are debtors with an aggregate carrying amount of RMB2,142 million and RMB1,790 million, respectively, which are past due as at the reporting date.

Details of impairment assessment of accounts receivable for the year ended 31 December 2022 and 2021 are set out in Note 40.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**17. CONTRACT ASSETS**

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Third parties	<b>2,937</b>	792
China Telecom Group	<b>180</b>	139
	<b>3,117</b>	931
Less: Provision for impairment loss	<b>(75)</b>	(19)
	<b>3,042</b>	912

Contract assets mainly arise from contracts for the provision of industrial digitalisation and wireline and smart family services. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle which is generally within a year.

**18. PREPAYMENTS AND OTHER CURRENT ASSETS**

	Note	<b>31 December</b>	
		<b>2022</b>	2021
		<b>RMB million</b>	RMB million
Amounts due from China Telecom Group	(i)	<b>8,846</b>	2,756
Amounts due from China Tower		<b>43</b>	63
Amounts due from other telecommunications operators in the PRC		<b>199</b>	207
Other receivables		<b>5,582</b>	4,404
Less: Allowance for credit losses		<b>(722)</b>	(508)
Prepayments in connection with terminal equipment purchases		<b>6,296</b>	4,843
Prepaid expenses and deposits		<b>3,657</b>	3,184
Value-added tax recoverable		<b>9,850</b>	9,636
		<b>33,751</b>	24,585



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**18. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)**

Note:

- (i) As at 31 December 2022, amounts due from China Telecom Group included short-term loans of RMB8,071 million granted to China Telecom Group and its subsidiaries by Finance Company, and an impairment allowance recognised at RMB161 million, including:
- (a) Amount of RMB2,000 million with issue date of 26 January 2022, expiry date of 25 January 2023, interest rate of 3.3%;
- (b) Amount of RMB4,000 million with issue date of 25 May 2022, expiry date of 24 May 2023, interest rate of 3.3%;
- (c) Amount of RMB80 million with issue date of 4 July 2022, expiry date of 3 July 2023, interest rate of 4.3%; the principal of RMB24 million has been repaid in 2022;
- (d) Amount of RMB25 million with issue date of 18 August 2022, expiry date of 17 August 2023, interest rate of 3.9%; the principal of RMB10 million has been repaid in 2022;
- (e) Amount of RMB2,000 million with issue date of 23 December 2022, expiry date of 22 December 2023, interest rate of 3.3%.

**19. CASH AND CASH EQUIVALENTS**

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
		(restated)
Cash at bank and in hand	<b>65,234</b>	71,760
Time deposits with original maturity within three months	<b>7,231</b>	1,524
	<b>72,465</b>	73,284

**20. SHORT-TERM AND LONG-TERM DEBTS**

Short-term debts comprise:

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Loans from banks – unsecured	<b>2,840</b>	2,821
Total short-term debts	<b>2,840</b>	2,821

The weighted average interest rate of the Group's total short-term debts as at 31 December 2022 was 3.3% (31 December 2021: 3.7%) per annum. As at 31 December 2022, the Group's loans from banks bear interests at rates ranging from 3.0% to 4.1% (31 December 2021: 3.3% to 4.4%) per annum, and are repayable within one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**20. SHORT-TERM AND LONG-TERM DEBTS (continued)**

Long-term debts comprise:

	Interest rates and final maturity	31 December	
		2022	2021
		RMB million	RMB million
<b>Bank loans – unsecured</b>			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 1.20% per annum with maturities through 2036	<b>5,321</b>	6,179
US Dollars denominated	Interest rates ranging from 1.25% to 2.00% per annum with maturities through 2028	<b>178</b>	185
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	<b>97</b>	114
		<b>5,596</b>	6,478
<b>Other loans – unsecured</b>			
Renminbi denominated		<b>1</b>	1
Medium-term notes – unsecured (Note (ii))		<b>–</b>	5,150
Company bonds – unsecured (Note (iii))		<b>2,047</b>	2,046
Total long-term debts		<b>7,644</b>	13,675
Less: Current portion		<b>(3,160)</b>	(6,280)
Non-current portion		<b>4,484</b>	7,395

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**20. SHORT-TERM AND LONG-TERM DEBTS (continued)**

Long-term debts comprise (continued):

Notes:

- (i) *The loans from banks include long-term RMB denominated government loans with below-market interest rates ranging from 1.08% to 1.20% per annum obtained by the Group 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 accrued expenses and other payables and other non-current liabilities.*
- (ii) *On 22 January 2019, the Group issued a three-year RMB denominated medium-term note, amounting to RMB3,000 million, with interest rate of 3.42% per annum, and incurred issuing costs of RMB3 million. The medium-term note is unsecured and has been fully repaid on 21 January 2022.*
- On 19 March 2019, the Group issued a three-year RMB denominated medium-term note, amounting to RMB2,000 million, with interest rate of 3.41% per annum and incurred issuing costs of RMB3 million. The medium-term note is unsecured and has been fully repaid on 18 March 2022.*
- (iii) *On 10 March 2020, the Group issued three-year RMB denominated company bonds, amounting to RMB2,000 million, to qualified investors on Shanghai Stock Exchange, with interest rate of 2.90% per annum. The company bonds are unsecured and are repayable on 9 March 2023.*

The aggregate maturities of the Group's long-term debts subsequent to 31 December 2022 are as follows:

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Within 1 year	<b>3,160</b>	6,280
Between 1 to 2 years	<b>1,079</b>	3,103
Between 2 to 3 years	<b>1,045</b>	1,028
Between 3 to 4 years	<b>743</b>	995
Between 4 to 5 years	<b>328</b>	647
Thereafter	<b>1,289</b>	1,622
	<b>7,644</b>	13,675

The Group's short-term and long-term debts do not contain any financial covenants. As at 31 December 2022, the Group had unutilised credit facilities amounting to RMB233,639 million (31 December 2021: RMB276,483 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**21. ACCOUNTS PAYABLE**

Accounts payable are analysed as follows:

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million (restated)
Third parties	<b>98,076</b>	89,299
China Telecom Group	<b>23,971</b>	21,013
China Tower	<b>4,340</b>	3,914
Other telecommunications operators in the PRC	<b>873</b>	667
	<b>127,260</b>	114,893

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

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

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million (restated)
Due within 1 month or on demand	<b>22,078</b>	20,291
Due after 1 month but within 3 months	<b>28,308</b>	23,965
Due after 3 months but within 6 months	<b>33,280</b>	36,338
Due after 6 months	<b>43,594</b>	34,299
	<b>127,260</b>	114,893

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**22. ACCRUED EXPENSES AND OTHER PAYABLES**

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Amounts due to China Telecom Group	<b>19,841</b>	15,249
Amounts due to China Tower	<b>1,590</b>	1,596
Amounts due to other telecommunications operators in the PRC	<b>19</b>	22
Accrued expenses	<b>25,404</b>	24,041
Value-added tax payable	<b>952</b>	1,029
Deposits and rental receipt in advance	<b>5,844</b>	5,777
Accrued salaries, wages and other benefits	<b>11,579</b>	8,051
	<b>65,229</b>	55,765

**23. CONTRACT LIABILITIES**

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Third parties	<b>67,570</b>	70,713
China Telecom Group	<b>271</b>	198
China Tower	<b>-</b>	3
	<b>67,841</b>	70,914

Majority of contract liabilities as at 31 December 2021 was recognised as operating revenues for the year ended 31 December 2022.

## SECTION IX FINANCIAL REPORTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 24. LEASE LIABILITIES

	31 December	
	2022	2021
	RMB million	RMB million (restated)
Within one year	<b>14,488</b>	13,810
Within a period of more than one year but not more than two years	<b>13,225</b>	8,780
Within a period of more than two years but not more than five years	<b>35,655</b>	14,447
Within a period of more than five years	<b>3,528</b>	5,367
	<b>66,896</b>	42,404
Less: Current portion	<b>(14,488)</b>	(13,810)
Non-current portion	<b>52,408</b>	28,594

### 25. SHARE CAPITAL

	31 December	
	2022	2021
	RMB million	RMB million
<b>Registered, issued and fully paid</b>		
77,629,728,699 A shares of RMB1.00 each	<b>77,630</b>	77,630
13,877,410,000 H shares of RMB1.00 each	<b>13,877</b>	13,877
	<b>91,507</b>	91,507

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**26. RESERVES****The Group**

	Capital reserve RMB million (Note (i))	Share premium RMB million	Surplus reserves RMB million (Note (iii))	General risk reserve RMB million (Note (v))	Other reserves RMB million (Note (ii))	Exchange reserves RMB million	Retained earnings RMB million	Total RMB million
Balance as at 1 January 2021	17,468	10,746	79,854	56	321	(937)	175,016	282,524
Total comprehensive income for the year (restated)	-	-	-	-	5	(233)	25,949	25,721
Adjusted for entity combination under common control	3	-	-	-	-	-	-	3
Issuance of shares upon A Shares Offering, net of issuing expenses	-	36,941	-	-	-	-	-	36,941
Contribution from non-controlling interests	463	-	-	-	-	-	-	463
Disposal of subsidiaries	-	-	-	(3)	(28)	-	31	-
Share of associates and joint ventures' other changes in reserves	(42)	-	-	-	-	-	-	(42)
Dividends (Note 37)	-	-	-	-	-	-	(8,439)	(8,439)
Appropriations to statutory surplus reserve (Note (iii))	-	-	2,423	-	-	-	(2,423)	-
Appropriations to general risk reserve (Note (v))	-	-	-	44	-	-	(44)	-
Balance as at 31 December 2021, as restated	17,892	47,687	82,277	97	298	(1,170)	190,090	337,171
Total comprehensive income for the year	-	-	-	-	(172)	712	27,593	28,133
Consideration for entity combination under common control	(3)	-	-	-	-	-	-	(3)
Acquisition of non-controlling interests	(1)	-	-	-	-	-	-	(1)
Contribution from non-controlling interests	1,824	-	-	-	-	-	-	1,824
Share of associates and joint ventures' other changes in reserves	(2)	-	-	-	-	-	(3)	(5)
Dividends (Note 37)	-	-	-	-	-	-	(26,537)	(26,537)
Appropriations to statutory surplus reserve (Note (iii))	-	-	2,624	-	-	-	(2,624)	-
Appropriations to general risk reserve (Note (v))	-	-	-	86	-	-	(86)	-
Balance as at 31 December 2022	19,710	47,687	84,901	183	126	(458)	188,433	340,582

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**26. RESERVES (continued)****The Company**

	Capital reserve RMB million (Note (i))	Share premium RMB million	Surplus reserves RMB million (Note (iii))	Other reserves RMB million (Note (ii))	Retained earnings RMB million (Note (iv))	Total RMB million
Balance as at 1 January 2021	28,803	10,746	79,854	132	145,351	264,886
Total comprehensive income for the year	-	-	-	45	24,234	24,279
Issuance of shares upon A Shares Offering, net of issuing expenses	-	36,941	-	-	-	36,941
Share of associates and joint ventures' other changes in reserves	(42)	-	-	-	-	(42)
Dividends (Note 37)	-	-	-	-	(8,439)	(8,439)
Appropriations to statutory surplus reserve (Note (iii))	-	-	2,423	-	(2,423)	-
Balance as at 31 December 2021	28,761	47,687	82,277	177	158,723	317,625
Total comprehensive income for the year	-	-	-	(123)	26,244	26,121
Share of associates and joint ventures' other changes in reserves	(2)	-	-	-	-	(2)
Dividends (Note 37)	-	-	-	-	(26,537)	(26,537)
Appropriations to statutory surplus reserve (Note (iii))	-	-	2,624	-	(2,624)	-
Balance as at 31 December 2022	28,759	47,687	84,901	54	155,806	317,207



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**26. RESERVES (continued)**

Notes:

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

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

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

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

*According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRSs, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the years ended 31 December 2022 and 2021, the net profit of the Company determined in accordance with China Accounting Standards for Business Enterprises and IFRSs are the same. For the year ended 31 December 2022, the Company transferred RMB2,624 million (2021: RMB2,423 million), being 10% of the year's net profit, to this reserve. As at 31 December 2022, the amount of statutory surplus reserve was RMB38,822 million (31 December 2021: RMB36,198 million).*

*The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2022 and 2021. As at 31 December 2022 and 2021, 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 China Accounting Standards for Business Enterprises and the amount determined in accordance with IFRSs. As at 31 December 2022, the amount of retained earnings available for distribution was RMB155,806 million (31 December 2021: RMB158,723 million), being the amount determined in accordance with IFRSs. Final dividend of approximately RMB6,955 million in respect of the financial year 2022 proposed after the end of the reporting period has not been recognised as a liability in the consolidated financial statements at the end of the reporting period (Note 37).*

- (v) *Pursuant to "Requirements on Impairment Allowance for Financial Institutions" (Caijin [2012] No. 20) issued by the Ministry of Finance of the PRC effective on 1 July 2012 (the "Requirements"), the Group's subsidiaries, mainly Finance Company, establish a general risk reserve within equity, through appropriation of retained earnings, to address unidentified potential losses relating to risk assets. The general risk reserve balance should not be less than 1.5% of the ending balance of risk assets, as defined in the Requirements.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**27. OPERATING REVENUES****Disaggregation of revenue**

	Notes	2022 RMB million	2021 RMB million (restated)
<b>Type of goods or services</b>			
Service revenues		<b>434,928</b>	402,828
Mobile communications service revenues	(i)	<b>191,026</b>	184,158
Wireline and Smart Family service revenues	(ii)	<b>118,534</b>	113,522
Industrial Digitalisation service revenues	(iii)	<b>117,756</b>	98,945
Other service revenues	(iv)	<b>7,612</b>	6,203
Sales of goods and others	(v)	<b>46,520</b>	36,725
<b>Total operating revenues</b>		<b>481,448</b>	439,553
Revenue from customer contracts		<b>472,952</b>	431,911
Revenue from other sources and others		<b>8,496</b>	7,642
<b>Total operating revenues</b>		<b>481,448</b>	439,553
<b>Timing of revenue recognition</b>			
A point in time		<b>40,039</b>	31,332
Over time		<b>441,409</b>	408,221
<b>Total operating revenues</b>		<b>481,448</b>	439,553

Notes:

- (i) Represent primarily the aggregate amount of mobile communications service fees, mobile Internet access service fees, caller ID service fees, and short messaging service fees, etc., charged to customers for the provision of mobile services.
- (ii) Represent primarily the aggregate amount of wireline communications service fees, broadband Internet access service fees, e-Surfing HD service fees and Smart Family applications service fees, etc., charged to customers for the provision of wireline services.
- (iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet datacentre services, cloud services, digital platform services, dedicated Internet access services, etc.
- (iv) Represent primarily the aggregate amount of revenues from property rental and other revenues.
- (v) Represent primarily revenues from sales of mobile terminal equipment as well as wireline communications equipment and government grants.

As at 31 December 2022 and 2021, 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 services are provided over the contract terms over the next 1 to 3 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**28. NETWORK OPERATIONS AND SUPPORT**

	Note	2022 RMB million	2021 RMB million (restated)
Operating and maintenance		<b>88,682</b>	79,377
Utility		<b>18,055</b>	16,209
Network resources usage and related fees	(i)	<b>28,173</b>	25,318
Others		<b>12,679</b>	12,436
		<b>147,589</b>	133,340

Note:

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

**29. PERSONNEL EXPENSES**

Personnel expenses are attributable to the following functions:

	2022 RMB million	2021 RMB million (restated)
Network operations and support	<b>53,347</b>	48,576
Selling, general and administrative	<b>31,425</b>	27,481
	<b>84,772</b>	76,057

## SECTION IX FINANCIAL REPORTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 30. OTHER OPERATING EXPENSES

	Notes	2022 RMB million	2021 RMB million
Interconnection charges	(i)	13,052	12,858
Cost of goods sold	(ii)	39,592	30,415
Donations		6	12
Others	(iii)	1,801	1,803
		<b>54,451</b>	45,088

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 communications equipment sold.

(iii) Others mainly include tax and surcharges other than value-added tax and income tax.

### 31. SELLING, GENERAL AND ADMINISTRATIVE

	Note	2022 RMB million	2021 RMB million (restated)
Channel commission and customer services expenses		47,290	45,157
Advertising and promotion expenses		2,804	2,904
Property and transportation related expenses		2,982	2,865
Research and development expenses	(i)	4,199	3,379
Auditors' remuneration			
– Audit services		59	57
– Non-audit services		6	7
Others		6,937	6,785
		<b>64,277</b>	61,154

(i) The item does not include depreciation and amortization and personnel expenses related to research and development.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**32. NET FINANCE COSTS**

	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Interest expense on lease liabilities	<b>1,425</b>	1,399
Interest expense on short-term and long-term debts	<b>556</b>	1,110
Less: Interest expense capitalised*	<b>(100)</b>	(105)
Net interest expense	<b>1,881</b>	2,404
Interest income	<b>(1,808)</b>	(1,104)
Net foreign exchange gain or loss and others	<b>(66)</b>	(7)
	<b>7</b>	1,293
* Interest expense was capitalised in construction in progress at the following rates per annum	<b>3.4%-3.6%</b>	3.0%-4.5%

**33. INCOME TAX**

Income tax in the profit or loss comprises:

	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Provision for PRC income tax	<b>3,676</b>	3,606
Provision for income tax in other tax jurisdictions	<b>177</b>	215
Deferred taxation	<b>4,185</b>	3,895
	<b>8,038</b>	7,716

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**33. INCOME TAX (continued)**

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

	Notes	2022 RMB million	2021 RMB million (restated)
Profit before taxation		<b>35,714</b>	33,865
Expected income tax expense at statutory tax rate of 25%	(i)	<b>8,929</b>	8,466
Impact of tax incentives and reduction including additional deduction for qualified research and development costs, etc.		<b>(1,061)</b>	(738)
Differential tax rate on mainland China subsidiaries' and branches' income	(i)	<b>(764)</b>	(495)
Differential tax rate on other subsidiaries' income	(ii)	<b>(54)</b>	(70)
Non-deductible expenses	(iii)	<b>821</b>	1,036
Non-taxable income	(iv)	<b>(568)</b>	(522)
Tax effect of deductible temporary difference and deductible tax loss for which no deferred tax asset was recognized		<b>803</b>	245
Others	(v)	<b>(68)</b>	(206)
Income tax expense		<b>8,038</b>	7,716

Notes:

- (i) Except for certain subsidiaries and branches which are mainly taxed at the 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 mainland China.
- (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 share of profits of associates and joint ventures and miscellaneous income which are not subject to income tax.
- (v) Amounts primarily represent settlement of tax filing differences of prior year annual tax return, etc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**34. DIRECTORS' AND SUPERVISORS' REMUNERATION**

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

2022	Directors'/ supervisors' fees RMB thousand	Salaries, allowances and benefits in kind RMB thousand	Discretionary bonuses <sup>7</sup> RMB thousand	Retirement scheme contributions RMB thousand	Share-based payments RMB thousand	Total RMB thousand
<b>Executive directors</b>						
Ke Ruiwen	-	234	352	110	-	696
Li Zhengmao <sup>1</sup>	-	137	141	59	-	337
Shao Guanglu	-	221	331	105	-	657
Liu Guiqing	-	209	316	104	-	629
Tang Ke <sup>2</sup>	-	209	313	104	-	626
<b>Non-executive director</b>						
Chen Shengguang	-	-	-	-	-	-
<b>Independent non-executive directors<sup>3</sup></b>						
Tse Hau Yin, Aloysius <sup>4</sup>	491	-	-	-	-	491
Xu Erming <sup>4</sup>	250	-	-	-	-	250
Wang Hsuehming	268	-	-	-	-	268
Yeung Chi Wai, Jason	268	-	-	-	-	268
<b>Supervisors</b>						
Sui Yixun <sup>5</sup>	-	66	229	25	-	320
You Minqiang <sup>5</sup>	-	-	-	-	-	-
Zhang Jianbin	-	253	720	110	-	1,083
Dai Bin	-	226	720	106	-	1,052
Xu Shiguang	-	115	729	85	-	929
Han Fang <sup>6</sup>	-	158	511	89	-	758
Wang Yibing <sup>6</sup>	-	-	-	-	-	-
	1,277	1,828	4,362	897	-	8,364

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 34. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

- 1 *Mr. Li Zhengmao resigned as an executive director of the Company on 12 July 2022.*
- 2 *Mr. Tang Ke was appointed as an executive director of the Company on 22 March 2022.*
- 3 *The independent non-executive directors' remunerations were for their services as directors of the Company.*
- 4 *Mr. Tse Hau Yin, Aloysius ("Mr. Tse") and Mr. Xu Erming ("Mr. Xu") resigned from position as independent non-executive directors of the Company on 16 August 2022. The resignation of Mr. Tse and Mr. Xu took effect on the date of election of the proposed independent non-executive directors at the extraordinary general meeting of the Company convened on 6 January 2023. Prior to that, Mr. Tse and Mr. Xu continued to carry out their duties as independent non-executive directors.*
- 5 *Mr. Sui Yixun and Mr. You Minqiang resigned as supervisors of the Company on 22 March 2022.*
- 6 *Madam Han Fang and Madam Wang Yibing were appointed as supervisors of the Company on 22 March 2022.*
- 7 *The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance.*
- 8 *During year 2022, the Company also settled the bonus for year 2021, including RMB1,080 thousand for Ke Ruiwen, RMB727 thousand for Shao Guanglu, RMB970 thousand for Liu Guiqing, RMB254 thousand for Tang Ke.*
- 9 *The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year. None of the directors or supervisors received any inducements for joining the Company or compensation for loss of office, or waived or agreed to waive any emoluments during this year.*



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**34. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)**

2021	Directors/ supervisors' fees RMB thousand	Salaries, allowances and benefits in kind RMB thousand	Discretionary bonuses <sup>5</sup> RMB thousand	Retirement scheme contributions RMB thousand	Share-based payments RMB thousand	Total RMB thousand
<b>Executive directors</b>						
Ke Ruiwen	–	234	352	119	–	705
Li Zhengmao	–	234	359	119	–	712
Shao Guanglu	–	211	317	114	–	642
Liu Guiqing	–	209	313	102	–	624
Zhu Min <sup>1</sup>	–	209	313	95	–	617
Chen Zhongyue <sup>2</sup>	–	44	–	11	–	55
<b>Non-executive director</b>						
Chen Shengguang	–	–	–	–	–	–
<b>Independent non-executive directors<sup>3</sup></b>						
Tse Hau Yin, Aloysius	450	–	–	–	–	450
Xu Erming	250	–	–	–	–	250
Wang Hsuehming	245	–	–	–	–	245
Yeung Chi Wai, Jason	245	–	–	–	–	245
<b>Supervisors</b>						
Sui Yixun <sup>4</sup>	–	235	688	100	–	1,023
Zhang Jianbin	–	222	747	100	–	1,069
Dai Bin	–	195	690	98	–	983
Xu Shiguang	–	112	338	80	–	530
You Minqiang <sup>4</sup>	–	–	–	–	–	–
	1,190	1,905	4,117	938	–	8,150

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 34. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

- 1 *Madam Zhu Min resigned as an executive director, executive vice president, chief financial officer, secretary of the board and authorised representative of the Company on 27 December 2021.*
- 2 *Mr. Chen Zhongyue resigned as an executive director of the Company on 19 January 2021.*
- 3 *The independent non-executive directors' remunerations were for their services as directors of the Company.*
- 4 *Mr. Sui Yixun ("Mr. Sui") and Mr. You Minqiang ("Mr. You") resigned from position as supervisors of the Company on 17 December 2021. The resignation of Mr. Sui and Mr. You took effect on the date of election of the proposed supervisors at the extraordinary general meeting of the Company convened on 22 March 2022. Prior to that, Mr. Sui and Mr. You continued to carry out their duties as supervisors.*
- 5 *The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance.*
- 6 *During year 2021, the Company also settled the bonus for year 2020, including RMB416 thousand for Ke Ruiwen, RMB381 thousand for Li Zhengmao, RMB343 thousand for Shao Guanglu, RMB369 thousand for Chen Zhongyue and RMB364 thousand for each of Liu Guiqing and Zhu Min.*
- 7 *The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year. None of the directors or supervisors received any inducements for joining the Company or compensation for loss of office, or waived or agreed to waive any emoluments during this year.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**35. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION****(a) Five highest paid individuals**

None of the five highest paid individuals of the Group for the years ended 31 December 2022 and 2021 were directors of the Company.

The aggregate of the emoluments in respect of the five (2021: five) individuals (non-directors) with the highest emoluments are as follows:

	<b>2022</b>	2021
	<b>RMB thousand</b>	RMB thousand
Salaries, allowances and benefits in kind	<b>7,218</b>	5,321
Discretionary bonuses	<b>5,599</b>	4,977
Retirement scheme contributions	<b>777</b>	479
	<b>13,594</b>	10,777

The emoluments of the five (2021: five) individuals (non-directors) with the highest emoluments are within the following bands:

	<b>2022</b>	2021
	<b>Number of individuals</b>	Number of individuals
RMB0 – RMB1,000,000	–	–
RMB1,000,001 – RMB1,500,000	–	–
RMB1,500,001 – RMB2,000,000	–	1
More than RMB2,000,001	<b>5</b>	4

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**35. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION (continued)****(b) Senior management remuneration**

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

	<b>2022</b>	2021
	<b>Number of individuals</b>	Number of individuals
RMB0 – RMB1,000,000	<b>17</b>	18
RMB1,000,001 – RMB1,500,000	<b>2</b>	–
RMB1,500,001 – RMB2,000,000	<b>–</b>	–

**36. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

For the year ended 31 December 2022, the consolidated profit attributable to equity holders of the Company includes a profit of RMB26,244 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2021, the consolidated profit attributable to equity holders of the Company includes a profit of RMB24,234 million which has been dealt with in the stand-alone financial statements of the Company.

**37. DIVIDENDS**

Pursuant to a resolution passed at the Board of Directors' meeting on 22 March 2023, a final dividend of RMB0.076 per share (pre-tax) totalling approximately RMB6,955 million for the year ended 31 December 2022 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 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**37. DIVIDENDS (continued)**

Pursuant to a resolution at the Board of Directors' meeting on 16 August 2022, an interim dividend of RMB0.120 (equivalent to HK\$0.139523) per share (pre-tax) totalling approximately RMB10,981 million in respect of the six-month period ended 30 June 2022 was declared. The dividend of RMB9,316 million for A shares was paid on 8 September 2022, and the dividend of RMB1,665 million for H shares was paid on 14 October 2022.

Pursuant to the shareholders' approval at the Annual General Meeting held on 19 May 2022, a final dividend of RMB0.170 (equivalent to HK\$0.197211) per share (pre-tax) totalling approximately RMB15,556 million in respect of the year ended 31 December 2021 was declared. The dividend of RMB13,197 million for A shares was paid on 8 June 2022, and the dividend of RMB2,359 million for H shares was paid on 18 July 2022.

Pursuant to the shareholders' approval at the Annual General Meeting held on 7 May 2021, a final dividend of RMB0.104269 (equivalent to HK\$0.125) per share (pre-tax) totalling RMB8,439 million in respect of the year ended 31 December 2020 was declared, and paid on 1 June 2021.

**38. EARNINGS PER SHARE**

The calculation of basic earnings per share for the years ended 31 December 2022 and 2021 is based on the profit attributable to equity holders of the Company of RMB27,593 million and RMB25,949 million, respectively, divided by the weighted average number of 91,507,138,699 shares and 84,442,405,521 shares in issue.

The amount of diluted earnings per share equals basic earnings per share as there were no potential ordinary shares in existence for the years presented.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**39. COMMITMENTS AND CONTINGENCIES****Capital commitments**

As at 31 December 2022 and 2021, the Group had capital commitments as follows:

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Contracted for but not provided		
Property	<b>1,584</b>	1,831
Telecommunications network plant and equipment	<b>15,023</b>	18,942
	<b>16,607</b>	20,773

**Contingent liabilities**

- (a) The Group assessed and concluded that no material contingent liabilities were assumed by the Group with assistance of the PRC lawyers.
- (b) As at 31 December 2022 and 2021, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

**Legal contingencies**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS**

Financial assets of the Group include cash and cash equivalents, bank deposits and restricted cash, equity instruments at fair value through other comprehensive income, accounts receivable, financial assets at fair value through profit or loss and financial assets included in prepayments and other current assets. Financial liabilities of the Group include short-term and long-term debts, accounts payable and financial liabilities included in accrued expenses and other payables.

**(a) Fair Value Measurements**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(a) Fair Value Measurements (continued)**

The listed equity securities investments included in the Group's equity instruments at fair value through other comprehensive income and financial assets at fair value through profit or loss are categorised as level 1 financial instruments. As at 31 December 2022, the fair value of the Group's listed equity securities investments is RMB762 million (31 December 2021: RMB942 million), based on quoted market price on PRC stock exchanges. The Group's investments in unlisted equity securities, included in financial assets at fair value through profit or loss and equity instruments at fair value through other comprehensive income, are classified as financial instruments categorised as level 3. As at 31 December 2022, the fair value of the Group's financial instruments categorised as level 3 is RMB525 million (31 December 2021: RMB522 million). For the financial instruments which are not traded in active markets, the Group establishes fair value by using valuation techniques. The valuation methods or models used primarily include net asset value method and market comparable company model, etc. The input values of valuation models mainly include net asset value and expected yield rates, etc.

The fair value of long-term debts is estimated by discounting future cash flows using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities. The fair value measurement of long-term debts is categorised as level 2. The interest rates used by the Group in estimating the fair values of long-term debts, having considered the foreign currency denomination of the debts, ranged from 2.9% to 4.9% (31 December 2021: 2.9% to 4.9%). As at 31 December 2022 and 2021, the carrying amounts and fair values of the Group's long-term debts were as follows:

	<b>31 December 2022</b>		31 December 2021	
	<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair value
	<b>RMB million</b>	<b>RMB million</b>	RMB million	RMB million
Long-term debts	<b>7,644</b>	<b>7,613</b>	13,675	13,444

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks**

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

**(i) Credit risk**

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

**Cash and cash equivalents, short-term bank deposits and restricted cash**

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

**Accounts receivable and contract assets arising from contracts with customers**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks (continued)****(i) Credit risk (continued)****Accounts receivable and contract assets arising from contracts with customers (continued)**

The Group measures loss allowances for accounts receivable and contract assets at an amount equal to lifetime ECL, which is calculated using a provision matrix, or individually assessed for those debtors with significant balances or credit-impaired debtors. As different loss patterns were indicated during the analysis of the Group's historical credit loss experience between telephone and Internet subscribers and enterprise customers, the following tables provide information about the Group's exposure to credit risk and ECL for accounts receivable and contract assets from telephone and Internet subscribers and enterprise customers, respectively, as at 31 December 2022 and 2021:

Accounts receivable from telephone and Internet subscribers:

	31 December 2022		
	Expected	Gross carrying	Loss
	loss rate	amount	allowance
	%	RMB million	RMB million
Current, within 1 month	2	6,164	123
1 to 3 months	20	1,975	389
4 to 6 months	60	781	468
7 to 12 months	80	1,213	970
Over 12 months	100	1,317	1,317
		11,450	3,267

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks (continued)****(i) Credit risk (continued)****Accounts receivable and contract assets arising from contracts with customers (continued)**

Accounts receivable from telephone and Internet subscribers (continued):

	31 December 2021		
	Expected	Gross carrying	Loss
	loss rate	amount	allowance
	%	RMB million	RMB million
Current, within 1 month	2	7,164	133
1 to 3 months	20	1,683	329
4 to 6 months	60	692	407
7 to 12 months	80	928	742
Over 12 months	100	1,079	1,079
		11,546	2,690

Accounts receivable and contract assets from enterprise customers:

	31 December 2022		
	Expected	Gross carrying	Loss
	loss rate	amount	allowance
	%	RMB million	RMB million
1 to 6 months	2	8,253	189
7 to 12 months	23	2,405	548
1 to 2 years	68	869	595
2 to 3 years	100	379	379
Over 3 years	100	608	608
		12,514	2,319

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks (continued)****(i) Credit risk (continued)****Accounts receivable and contract assets arising from contracts with customers (continued)**

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

	31 December 2021		
	Expected	Gross carrying	Loss
	loss rate	amount	allowance
	%	RMB million	RMB million
1 to 6 months	3	7,299	182
7 to 12 months	21	1,068	223
1 to 2 years	65	948	619
2 to 3 years	97	364	355
Over 3 years	100	467	467
		10,146	1,846

As at 31 December 2022, the loss allowance for accounts receivable and contract assets was RMB6,117 million and RMB75 million (2021: RMB5,051 million and RMB19 million), respectively. Loss allowance of RMB466 million as at 31 December 2022 (2021: RMB517 million), which was not calculated collectively in the above tables, was made individually on debtors with significant balances or credit-impaired debtors.

Expected loss rates are based on actual loss experience over the past 1 to 3 years. These rates are adjusted to reflect differences among 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks (continued)****(i) Credit risk (continued)****Accounts receivable and contract assets arising from contracts with customers (continued)**

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

	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
At beginning of year	<b>5,051</b>	4,434
Impairment losses for ECL	<b>2,027</b>	1,689
Amounts written off	<b>(961)</b>	(1,072)
At end of year	<b>6,117</b>	5,051

**(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks (continued)****(ii) Liquidity risk (continued)**

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

	31 December 2022					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
				RMB million	RMB million	RMB million
Short-term debts	2,840	2,884	2,884	-	-	-
Long-term debts	7,644	8,595	3,226	1,187	2,509	1,673
Accounts payable	127,260	127,260	127,260	-	-	-
Accrued expenses and other payables	42,056	42,201	42,201	-	-	-
Lease liabilities	66,896	73,034	16,163	14,685	38,195	3,991
Other non-current liabilities	143	152	-	152	-	-
	<b>246,839</b>	<b>254,126</b>	<b>191,734</b>	<b>16,024</b>	<b>40,704</b>	<b>5,664</b>

	31 December 2021					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
				RMB million	RMB million	RMB million
Short-term debts	2,821	2,870	2,870	-	-	-
Long-term debts	13,675	15,038	6,415	3,218	3,201	2,204
Accounts payable (restated)	114,893	114,893	114,893	-	-	-
Accrued expenses and other payables	35,111	35,241	35,241	-	-	-
Lease liabilities (restated)	42,404	46,070	15,194	9,557	15,560	5,759
Other non-current liabilities	34	34	12	22	-	-
	<b>208,938</b>	<b>214,146</b>	<b>174,625</b>	<b>12,797</b>	<b>18,761</b>	<b>7,963</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**40. FINANCIAL INSTRUMENTS (continued)****(b) Risks (continued)****(iii) Interest rate risk**

The Group's interest rate risk exposure arises primarily from its short-term debts and long-term debts. 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 debts at the end of the reporting period:

	31 December 2022		31 December 2021	
	Effective interest rate %	RMB million	Effective interest rate %	RMB million
<b>Fixed rate debts</b>				
Short-term debts	3.3	2,403	3.6	2,146
Long-term debts	1.4	7,644	2.1	13,675
		10,047		15,821
<b>Variable rate debts</b>				
Short-term debts	3.5	437	3.7	675
		437		675
Total debts		10,484		16,496
Fixed rate debts as a percentage of total debts		95.8%		95.9%

Management does not expect the increase or decrease in interest rate will materially affect the Group's financial position and result of operations because the interest rates of 95.8% (31 December 2021: 95.9%) of the Group's short-term and long-term debts as at 31 December 2022 are fixed as set out above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 40. FINANCIAL INSTRUMENTS (continued)

#### (b) Risks (continued)

##### (iv) Foreign currency exchange rate risk

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

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 94.3% (31 December 2021: 89.6%) of the Group's cash and cash equivalents and 97.4% (31 December 2021: 98.2%) of the Group's short-term and long-term debts as at 31 December 2022 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 20.

### 41. CAPITAL MANAGEMENT

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

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

Management monitors its capital structure on the basis of total debts to total assets ratio. For this purpose the Group defines total debts as the sum of short-term debts and long-term debts. Total debts do not include balance of deposits received by Finance Company from China Telecom Group amounting to RMB17,427 million and lease liabilities amounting to RMB66,896 million as at 31 December 2022 (31 December 2021: RMB13,016 million and RMB42,404 million). As at 31 December 2022, the Group's total debt-to-total assets ratio was 1.3% (31 December 2021: 2.2%), which is within the range of management's expectation.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

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

	Short-term debts RMB million	Long-term debts RMB million	Payables in respect of instalment purchase of equipment RMB million	Lease liabilities RMB million	Dividend payable RMB million	Deposits with Finance Company RMB million (Note (i))	Other payables in respect of certain equity transactions RMB million	Total RMB million
Balance as at 1 January 2021	27,994	25,348	-	40,647	-	9,826	978	104,793
Financing cash flows	(23,473)	(12,091)	-	(14,035)	(8,551)	3,190	-	(54,960)
Foreign exchange gain or loss	-	(18)	-	(8)	-	-	-	(26)
New leases (restated)	-	-	-	17,082	-	-	-	17,082
Disposal of subsidiaries	(1,700)	-	-	(42)	-	-	-	(1,742)
Acquisition of non-controlling interests	-	-	-	-	-	-	(978)	(978)
Distribution to non-controlling interests	-	-	-	-	116	-	-	116
Dividends declared	-	-	-	-	8,439	-	-	8,439
Others	-	436	-	(1,240)	-	-	-	(804)
Balance as at 31 December 2021 (restated)	2,821	13,675	-	42,404	4	13,016	-	71,920
Financing cash flows	<b>19</b>	<b>(6,115)</b>	<b>173</b>	<b>(15,897)</b>	<b>(26,627)</b>	<b>4,411</b>	<b>-</b>	<b>(44,036)</b>
Foreign exchange gain or loss	-	<b>18</b>	-	<b>94</b>	-	-	-	<b>112</b>
New leases	-	-	-	<b>44,961</b>	-	-	-	<b>44,961</b>
Distribution to non-controlling interests	-	-	-	-	<b>89</b>	-	-	<b>89</b>
Dividends declared	-	-	-	-	<b>26,537</b>	-	-	<b>26,537</b>
Others	-	<b>66</b>	<b>1,356</b>	<b>(4,666)</b>	-	-	-	<b>(3,244)</b>
Balance as at 31 December 2022	<b>2,840</b>	<b>7,644</b>	<b>1,529</b>	<b>66,896</b>	<b>3</b>	<b>17,427</b>	<b>-</b>	<b>96,339</b>

Notes:

- (i) As at 31 December 2022, the balance of deposits with Finance Company amounting to RMB17,427 million (31 December 2021: RMB13,016 million) were included in amounts due to China Telecom Group in accrued expenses and other payables (Note 22).
- (ii) For the year ended 31 December 2022, other than the net financing cash outflows totalling RMB44,036 million (2021: RMB54,960 million) as presented above, other primary financing activities include Finance Company's placing statutory deposit reserves amounting to RMB541 million (2021: RMB177 million) at the People's Bank of China which was included in the balance of short-term bank deposits and restricted cash as at 31 December 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**43. RELATED PARTY TRANSACTIONS****(a) Transactions with China Telecom Group**

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

The principal transactions with China Telecom Group which were carried out in the ordinary course of business 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 “Significant Events”.

	Notes	2022 RMB million	2021 RMB million
Construction engineering and design services	(i)	<b>16,993</b>	15,869
Receiving ancillary services	(ii)	<b>22,309</b>	22,613
Interconnection revenues	(iii)	<b>48*</b>	52
Interconnection charges	(iii)	<b>102*</b>	131
Receiving community services	(iv)	<b>4,340</b>	3,899
Centralised services transaction revenues	(v)	<b>3,572</b>	3,242
Centralised services transaction expenses	(v)	<b>870</b>	2,280
Property and land use right lease income	(vi)	<b>51</b>	50
Property and land use right lease related expenses	(vii)	<b>715</b>	638
Addition to right-of-use assets	(vii)	<b>463</b>	240
Interest expense on lease liabilities	(vii)	<b>21</b>	17
Provision of IT services	(viii)	<b>1,944</b>	1,186
Receiving IT services	(viii)	<b>4,834</b>	3,548
Purchases of telecommunications equipment and materials	(ix)	<b>4,249</b>	4,105
Sales of telecommunications equipment and materials	(ix)	<b>4,692</b>	3,901
Internet applications channel services	(x)	<b>57</b>	60
Interest expense on loans from China Telecom Group*	(xi)	<b>-</b>	356

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**43. RELATED PARTY TRANSACTIONS (continued)****(a) Transactions with China Telecom Group (continued)**

	Notes	2022 RMB million	2021 RMB million
Consideration received from disposal of subsidiaries	(xii)	–	4,072
Payment and digital finance related services	(xiii)	1,068	802
Communications resources lease	(xiv)	442	216
Net deposit by China Telecom Group with Finance Company*	(xv)	4,411	3,190
Interest expense on the deposit by China Telecom Group with Finance Company*	(xv)	238	182
Short-term loans granted by Finance Company to China Telecom Group	(xv)	8,105	2,000
China Telecom Group's repayments of short-term loans granted by Finance Company	(xv)	2,034	–
Interest income from loans granted by Finance Company to China Telecom Group	(xv)	201	1
Receiving finance lease services	(xvi)	2,212	–

\* These transactions are conducted on normal commercial terms or better 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.
- (v) Represent related revenues and expenses shared between the Company and China Telecom Group for centralised services.
- (vi) Represent amounts of property lease fees received and receivable from China Telecom Group for leasing of properties and land use rights.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 43. RELATED PARTY TRANSACTIONS (continued)

#### (a) Transactions with China Telecom Group (continued)

Notes (continued):

- (vii) Represent amounts in respect of the leasing of properties and land use rights from China Telecom Group, which include the fees for short-term leases, leases of low-value assets, variable lease payments not depending on an index or a rate, fees for non-lease components and interest expenses of right-of-use assets and lease liabilities recognized for leases.
- (viii) Represent IT services provided to and received from China Telecom Group.
- (ix) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (x) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of communications channel and applications support platform and billing and deduction services, etc.
- (xi) Represent interest paid and payable to China Telecom Group with respect to the loans from China Telecom Group (Note 20).
- (xii) Represent consideration received in respect of disposal of subsidiaries from China Telecom Group.
- (xiii) Represent amounts paid and payable to China Telecom Group in respect of payment and digital finance related services.
- (xiv) Represent amounts in respect of the leasing of related communications resources from China Telecom group, including transmission network communications resources, wireless network communications resources and wireline access network communications resources, etc.
- (xv) Represent amounts related to financial services provided by Finance Company to China Telecom Group, including lending service, deposit service and other financial services.
- (xvi) Represent amounts related to finance lease services provided by China Telecom group, including finance lease services such as sale and leaseback, direct lease, etc., and related finance lease consulting services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**43. RELATED PARTY TRANSACTIONS (continued)****(a) Transactions with China Telecom Group (continued)**

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

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million (restated)
Accounts receivable	<b>2,073</b>	1,889
Contract assets	<b>180</b>	139
Prepayments and other current assets	<b>8,846</b>	2,716
Other assets	<b>92</b>	45
Accounts payable	<b>23,971</b>	21,013
Accrued expenses and other payables	<b>19,841</b>	15,249
Contract liabilities	<b>271</b>	198
Other current liabilities	<b>1,529</b>	–
Lease liabilities	<b>652</b>	501

Amounts due from/to China Telecom Group, other than short-term loans granted by Finance Company included in prepayments and other current assets (Note 18(i)) and deposit with Finance Company included in accrued expenses and other payables (Note 42(i)), bear no interest, are unsecured and are receivable or repayable in accordance with contractual terms which are similar to those terms offered by third parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**43. RELATED PARTY TRANSACTIONS (continued)****(b) Transactions with China Tower**

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

	Notes	2022 RMB million	2021 RMB million
Tower assets lease related expenses	(i)	<b>12,193</b>	11,438
Addition to right-of-use assets	(i)	<b>2,239</b>	2,829
Interest expenses on lease liabilities	(i)	<b>387</b>	630
Provision of IT services	(ii)	<b>30</b>	31
Addition to right-of-use assets due to lease modification	(i)(iii)	<b>33,518</b>	–

Notes:

- (i) Represent amounts in respect of the lease of tower assets. Tower assets lease related expenses include the variable lease payments not depending on an index or a rate and fees for non-lease components.
- (ii) Represent IT and other ancillary services provided to China Tower.
- (iii) The original commercial pricing agreement and the service agreement of the Company's leasing of telecommunications towers and related assets from China Tower was due to expire on 31 December 2022. The Board of Directors and the Board of Supervisors considered and approved the Company to enter into the commercial pricing agreement and the service agreement with China Tower for a term of five years commencing from 1 January 2023 to 31 December 2027. This is considered as lease modifications to terms including lease considerations and lease terms that were set in the original commercial pricing agreement and its service agreement. Therefore, on the date of lease modifications, the Group reallocated the considerations in the agreements, determined the lease terms, remeasured the lease liabilities using the present value calculated with revised lease payments and discount rates, and adjusted related right-of-use assets accordingly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**43. RELATED PARTY TRANSACTIONS (continued)****(b) Transactions with China Tower (continued)**

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

	<b>31 December</b>	
	<b>2022</b>	2021
	<b>RMB million</b>	RMB million
Accounts receivable	<b>23</b>	9
Prepayments and other current assets	<b>43</b>	45
Accounts payable	<b>4,340</b>	3,914
Accrued expenses and other payables	<b>1,590</b>	1,596
Contract liabilities	<b>–</b>	3
Lease liabilities	<b>40,339</b>	13,806

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

**(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:

	<b>2022</b>		2021
	<b>RMB thousand</b>	RMB thousand	
Short-term employee benefits	<b>11,400</b>	10,289	
Post-employment benefits	<b>1,059</b>	1,032	
	<b>12,459</b>	11,321	

The above remuneration has been reflected in personnel expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 43. RELATED PARTY TRANSACTIONS (continued)

#### (d) Transactions with other government-related entities

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 the parent company and its fellow subsidiaries (Note 43(a)) and China Tower (Note 43(b)), 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
- deposits and borrowings
- use of public utilities

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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

	Note	31 December	
		2022 RMB million	2021 RMB million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net		<b>393,043</b>	404,882
Construction in progress		<b>49,966</b>	44,018
Right-of-use assets		<b>83,693</b>	60,288
Goodwill		<b>29,877</b>	29,877
Intangible assets		<b>18,992</b>	18,093
Investments in subsidiaries	9	<b>33,086</b>	30,716
Interests in associates and joint ventures		<b>41,878</b>	40,901
Financial assets at fair value through profit or loss		<b>3</b>	–
Equity instruments at fair value through other comprehensive income		<b>757</b>	921
Deferred tax assets		<b>3,272</b>	6,196
Other assets		<b>8,586</b>	6,832
<b>Total non-current assets</b>		<b>663,153</b>	642,724
<b>Current assets</b>			
Inventories		<b>1,460</b>	1,391
Income tax recoverable		<b>37</b>	419
Accounts receivable, net		<b>20,491</b>	19,178
Contract assets		<b>2,054</b>	600
Prepayments and other current assets		<b>16,887</b>	16,598
Short-term bank deposits and restricted cash		<b>534</b>	14
Cash and cash equivalents		<b>47,733</b>	50,812
<b>Total current assets</b>		<b>89,196</b>	89,012
<b>Total assets</b>		<b>752,349</b>	731,736

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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

	Note	31 December	
		2022	2021
		RMB million	RMB million
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term debts		<b>26,964</b>	28,421
Current portion of long-term debts		<b>3,160</b>	6,280
Accounts payable		<b>108,354</b>	105,447
Accrued expenses and other payables		<b>43,052</b>	41,921
Contract liabilities		<b>59,639</b>	63,439
Income tax payable		<b>526</b>	196
Current portion of lease liabilities		<b>14,039</b>	13,555
<b>Total current liabilities</b>		<b>255,734</b>	259,259
<b>Net current liabilities</b>		<b>(166,538)</b>	(170,247)
<b>Total assets less current liabilities</b>		<b>496,615</b>	472,477
<b>Non-current liabilities</b>			
Long-term debts		<b>4,484</b>	7,395
Lease liabilities		<b>51,131</b>	28,168
Deferred tax liabilities		<b>27,608</b>	26,400
Other non-current liabilities		<b>4,678</b>	1,382
<b>Total non-current liabilities</b>		<b>87,901</b>	63,345
<b>Total liabilities</b>		<b>343,635</b>	322,604
<b>Equity</b>			
Share capital		<b>91,507</b>	91,507
Reserves	26	<b>317,207</b>	317,625
<b>Total equity</b>		<b>408,714</b>	409,132
<b>Total liabilities and equity</b>		<b>752,349</b>	731,736

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**45. POST-EMPLOYMENT BENEFITS PLANS**

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by provincial, autonomous regional and municipal governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 20% of the salaries, bonuses and certain allowances of employees. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. During the year ended 31 December 2022, no forfeited contributions may be used by the Group to reduce the existing level of contributions (2021: nil).

The Group's contributions to the above plans for the year ended 31 December 2022 were RMB9,915 million (31 December 2021: RMB9,043 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2022 was RMB923 million (31 December 2021: RMB737 million).

**46. SHARE APPRECIATION RIGHTS**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**46. SHARE APPRECIATION RIGHTS (continued)**

In March 2021, the Company approved the adoption of the Phase II Incentive Scheme for Share Appreciation Rights and the granting of approximately 2.4 billion 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\$2.686 per unit.

At the balance sheet date, the Company used the Binomial Model to determine the fair value of the share appreciation rights. The model inputs to determine the fair value of share appreciation rights granted included the closing price at the grant date, exercise price, years to maturity, expected volatility, risk-free interest rate, dividend payout ratio, the lower price limit on expected exercise date and expected turnover rate.

Movements in the number of share appreciation rights for the years presented are as follows:

	2022	2021
As at 1 January	<b>4,716,560,000</b>	2,317,800,000
Granted	–	2,401,745,000
Forfeited	<b>(1,320,000)</b>	(2,985,000)
As at 31 December	<b>4,715,240,000</b>	4,716,560,000

For the years ended 31 December 2022 and 2021, no share appreciation right units were exercised. For the year ended 31 December 2022, compensation expense of RMB1,009 million (2021: RMB505 million) was recognised by the Group in respect of share appreciation rights.

As at 31 December 2022, the carrying amount of the liability arising from share appreciation rights was RMB1,579 million (31 December 2021: RMB571 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**47. ACCOUNTING ESTIMATES AND JUDGMENTS**

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

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

**Provision of ECL for accounts receivable**

The Group uses provision matrix to calculate ECL for the accounts receivable. The provision rates are based on customer's past history of making payments when due and current ability to pay by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical credit loss experience taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. The historical loss rates are reassessed annually, and changes in the forward-looking information are considered. The Group has taken into account various macroeconomic scenarios in consideration of forward-looking information of enterprise customers, and applied weightings of the following three economic scenarios as well as related forward-looking factors. For the years presented, the weighting of "Neutral", "Positive", and "Negative" scenarios is 60%, 20% and 20%, respectively. The Group regularly monitors and reviews the related assumptions used in calculation of ECL, which include the risk of economic slowdown, changes of external market environment and technological environment and customers' conditions, Consumer Price Index ("CPI"), Producer Price Index ("PPI") and Gross Domestic Product ("GDP"), etc. In addition, accounts receivable with significant balances or credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable are disclosed in Notes 40 and 16.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

### 47. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

#### Impairment of goodwill and long-lived assets

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

For the years ended 31 December 2022 and 2021, no significant provision for impairment loss was made against the carrying value of long-lived assets.

In determining the recoverable amount of the assets within the cash-generating unit, significant estimates and judgments were required in estimating future cash flows, revenues, operating costs and applicable discount rate, etc. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods. Furthermore, revenue growth rate, terminal growth rate and pre-tax discount rate are subject to greater uncertainties in the current year due to uncertainty on volatility in financial markets.

#### Depreciation and amortisation

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

**48. POSSIBLE IMPACT OF NEW AND AMENDMENTS TO STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2022**

Up to the date of issue of the consolidated financial statements, the IASB has issued the following new and amendments to standards which are not yet effective and not early adopted by the Group for the annual accounting period ended 31 December 2022:

	<b>Effective for accounting periods beginning on or after</b>
IFRS 17 <i>"Insurance Contracts"</i>	1 January 2023
Amendments to IAS 1 <i>"Presentation of Financial Statement"</i> – Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 <i>"Presentation of Financial Statement"</i> and IFRS Practice Statement 2 <i>"Making Materiality Judgements"</i> – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 <i>"Accounting Policies, Changes in Accounting Estimates and Errors"</i> – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 <i>"Income Taxes"</i> – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 10 <i>"Consolidated Financial Statements"</i> and IAS 28 <i>"Investments in associates and joint ventures"</i> – Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of the impact that will result from adopting the new and amendments to standards issued by the IASB which are not yet effective for the accounting period ended on 31 December 2022. So far the Group believes that the adoption of these new and amendments to standards is unlikely to have a significant impact on its financial position and the results of operations.

**49. PARENT AND ULTIMATE HOLDING COMPANY**

The parent and ultimate holding company of the Company as at 31 December 2022 is China Telecommunications Corporation, a state-owned enterprise established in PRC.