

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 1. PRINCIPAL ACTIVITIES AND ORGANISATION

#### (a) Principal activities

China Communications Services Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) is a leading service provider in the People’s Republic of China (the “PRC”) that provides integrated comprehensive smart solutions in the field of informatization and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, contents and other services, including system integration, software development and system support, and value-added services.

#### (b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the restructuring of China Telecommunications Corporation (“CTC”), a state-owned enterprise under the direct supervision of the State Council of the PRC. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 December 2006.

The address of the Company’s registered office is Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, PRC 100073. At 31 December 2022, the directors of the Company consider the immediate and ultimate holding company of the Group to be CTC.

The Company established China Comservice Smart Property Development Co., Ltd. in August 2022. The registered capital is RMB50 million. The Company has paid the contribution of RMB50 million on 27 October 2022.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (the “IASB”). IFRSs include all applicable individual IFRSs, International Accounting Standards (“IASs”) and related interpretations. 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”). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain revised IFRSs that are first effective or available for early adoption for the current year of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior years reflected in these consolidated financial statements.

#### (b) Basis of preparation of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Group and its interests in associates and joint ventures.

For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation of consolidated financial statements (Continued)

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases* ("IFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements 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 45.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (c) Basis of consolidation

## (i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

## (ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before the business combination.

The acquirer, at the acquisition date, allocates the consideration of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date. The excess of the consideration over the fair value of the net identifiable assets acquired is recorded as goodwill (see note 2(d)).

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

## (iii) Subsidiaries and non-controlling interests

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- a. has power over the investee;
- b. is exposed, or has rights, to variable returns from its involvement with the investee; and
- c. has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Basis of consolidation (Continued)

#### (iii) Subsidiaries and non-controlling interests (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* ("IFRS 9"), or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### (iv) Investments in associates and joint ventures

Associates are entities in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(c) Basis of consolidation** (Continued)**(iv) Investments in associates and joint ventures** (Continued)

Investments in associates or joint ventures are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investments are initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investees' identifiable net assets over the cost of the investment (if any, after reassessment) which is recognised in the consolidated statement of profit or loss. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's profit or loss and other comprehensive income. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

**(d) Goodwill**

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase after reassessment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(d) Goodwill** (Continued)

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination involving entities not under common control is allocated to each cash-generating unit, or group of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment (see note 2(j)).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

**(e) Investment properties**

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, its costs at the date of reclassification becomes its cost for accounting purposes.

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

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (see note 2(j)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as incurred.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (f) Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	5–30 years
Building improvements	5–8 years
Motor vehicles	6–10 years
Furniture, fixtures and other equipment	3–10 years

The useful life of an asset and its residual value, if any, and depreciation method are reviewed annually.

## (g) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(j)). Cost 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 period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

## (h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. the intention to complete the intangible asset and use or sell it;
- c. the ability to use or sell the intangible asset;
- d. how the intangible asset will generate probable future economic benefits;
- e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Intangible assets (other than goodwill) (Continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss from the date they are available for use on a straight-line basis over the assets' estimated useful lives.

Both the period and method of amortisation are reviewed annually.

### (i) Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(i) Leases** (Continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Except for the practical expedient rent concessions, 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.

For the lessor, the Group derecognises assets held under a finance lease in balance sheet and present them as a receivable at the present value of the lease payments. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Impairment of long-lived assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following long-lived assets may be impaired, except in the case of goodwill:

- property, plant and equipment;
- right-of-use assets;
- investment properties;
- construction in progress;
- goodwill; and
- Intangible assets with finite useful lives.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

#### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows 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 future cash flow estimates have not been adjusted. Where an asset does not generate cash inflows 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).

#### – Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of cash-generating units) and then, to reduce the carrying amount of the other assets in the unit (or group of cash-generating units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable or zero.

#### – Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(k) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversals occurs.

**(l) Financial instruments**

Financial assets and financial liabilities are recognised when a group entity 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.

**Financial assets***Classification and subsequent measurement of financial assets*

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (I) Financial instruments (Continued)

#### Financial assets (Continued)

##### *Classification and subsequent measurement of financial assets (Continued)*

All other financial assets are subsequently measured at FVTPL, except that 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 ("OCI") 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* ("IFRS 3") applies.

#### (i) *Amortised cost and interest income*

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")*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the fair value reserve; and 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.

Dividends 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 "other income" line item in profit or loss.

#### (iii) *Financial assets at FVTPL*

Financial assets that does not meet the criteria for being measured at amortised cost 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (I) Financial instruments (Continued)

## Financial assets (Continued)

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

The Group performs impairment assessment under expected credit losses (“ECL”) model on financial assets (including accounts and bills receivable, financial assets included in prepayments and other current assets, long term receivables, short-term bank deposits and restricted cash, cash and cash equivalents), lease receivables and 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. Assessment 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, lease receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant risk, and collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics and type of customers, such as receivables from telecommunications operators and non-telecom operators. Telecommunications operators include China Telecommunications Corporation and its subsidiaries (excluding the Group) (“CTC Group”), China Mobile Communications Group Co., Ltd. and its subsidiaries (“CM Group”), China Unicom Group and China Tower Corporation Limited, non-telecom operators refer to all of the other 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 and credit-impaired since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in the financial instrument’s external (if available);

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (I) 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 (Continued)*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk.

##### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (I) Financial instruments (Continued)

## Financial assets (Continued)

*Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*(iv) *Write-off policy*

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

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. 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 the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

*Derecognition of financial assets*

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (I) Financial instruments (Continued)

#### Financial liabilities and equity

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

##### *Financial liabilities*

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

#### (i) *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

#### (ii) *Financial liabilities at amortised cost*

Financial liabilities including interest-bearing borrowings, accounts and bills payable, financial liabilities included in accrued expenses and other payables are subsequently measured at amortised cost, using the effective interest method.

#### (iii) *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of original maturity at acquisition.

**(n) Employee benefits****(i) Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

**(ii) Termination benefits**

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

**(iii) Share appreciation rights scheme**

Compensation expense in respect of the share appreciation rights granted is accrued as a charge to profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each end of the reporting period until the liability is settled with the effect of changes in the fair value of the liability is charged or credited to profit or loss. Further details of the Group's share appreciation rights scheme are set out in note 42.

**(o) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate 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. Where current tax or deferred tax arises from the initial recognition for a business combination, the tax effect is included in the accounting for the business combination.

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 assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(o) Income tax** (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which, intend either to realise the current tax assets and settle the current tax liabilities on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**(p) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising 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. 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.

**(q) Revenue from contracts 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 piece of goods or service (or a bundle of goods or services) that is distinct or a series of a piece of distinct goods or services that are substantially the same.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Revenue from contracts with customers (Continued)

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 major telecommunications support services, including construction (included in the revenue from telecommunications infrastructure services described in note 4), management of infrastructure for information technology (included in the revenue from business process outsourcing services described in note 4) 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 a piece of distinct goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9 (see note 2(l)). 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.

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

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

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

The stand-alone selling price of a piece of distinct goods or a distinct service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (q) Revenue from contracts with customers (Continued)

## Revenue recognised over time: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is mainly measured based on the output method, which is to recognise revenue on the basis of direct measurement 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, that best depict the Group's performance in transferring control of goods or services.

## Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

## Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contract where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

## 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 goods or service before that goods 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 goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss over the useful life of the asset.

### (s) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and the presentation currency of the Group is Renminbi ("RMB"). Foreign currency transactions during the year are translated at the applicable rates of exchange quoted by the People's Bank of China prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the applicable rates ruling at the end of the reporting period. Foreign currency differences, other than those capitalised as construction in progress (see note 2(g)), are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities of 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. Upon the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity shareholders of the Company are reclassified to profit or loss.

### (t) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of qualifying assets, which are asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and development activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(u) Segment reporting**

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provide regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group principally has one operating segment and hence no segment information is provided (see note 47).

**(v) Dividends or profit distributions**

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

**(w) Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control of 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) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 3. CHANGES IN ACCOUNTING POLICIES

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

Amendments to IFRS3	Reference to the Conceptual Framework
Amendments to IAS16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS Standards	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.

### 4. REVENUES

Revenues are derived from the provision of integrated comprehensive smart solutions.

The Group's revenues by business nature can be summarised as follows:

	2022 RMB'000	2021 RMB'000
Revenue from telecommunications infrastructure services	72,906,517	71,889,248
Revenue from business process outsourcing services	43,072,446	40,623,583
Revenue from applications, content and other services	24,766,792	21,478,486
	140,745,755	133,991,317

The Group's major customers are telecommunications operators mainly including CTC Group and CM Group. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2022 amounted to RMB50,268 million and RMB17,415 million, respectively (2021: RMB46,047 million and RMB18,186 million, respectively) being 35.7% and 12.4% of the Group's total revenues, respectively (2021: 34.4% and 13.6%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2022 amounted to RMB2,998 million (2021: RMB2,742 million).

For the year ended 31 December 2022, the Group's top three business lines that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology included in business process outsourcing services and system integration included in applications, content and other services, the revenues from which amounted to RMB59,231 million, RMB18,158 million and RMB15,211 million, respectively (2021: The Group's top three business lines that contributed to the overall revenues were construction, management of infrastructure for information technology and system integration, the revenues from which amounted to RMB57,310 million, RMB16,678 million and RMB13,278 million, respectively). Revenues from contracts with non-telecom operators for construction included in telecommunications infrastructure services amounted to RMB29,993 million (2021: RMB28,664 million).

The Group generally accounts for major telecommunications support services, including construction, management of infrastructure for information technology, logistics and warehousing in supply chain, as performance obligations satisfied over time, when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, or the Group's performance creates or enhances an asset that the customer controls as the Groups performs, revenue is recognised for these services by measuring the progress towards complete satisfaction of each performance obligation mainly using the output method. For other goods or services, the revenue recognition method is determined based on the specific contract terms.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. REVENUES (Continued)

As of 31 December 2022, the total transaction price of RMB96,652 million (31 December 2021: RMB76,535 million) allocated to the Group's remaining performance obligations under existing contracts is expected to be recognised as revenue in 2023 and subsequent periods (31 December 2021: 2022 and subsequent periods) in accordance with the terms of the contract and the provision of services. These amounts disclosed above do not include contracts with an original expected duration of one year or less.

## 5. COST OF REVENUES

	2022 RMB'000	2021 RMB'000
Subcontracting charges	76,546,469	71,239,853
Materials costs	21,657,339	19,166,225
Direct personnel costs	8,558,051	8,804,676
Direct costs of products distribution	4,065,197	4,614,143
Expense relating to short-term leases and leases of low-value assets	1,184,887	1,114,587
Depreciation and amortisation	960,995	908,323
Others	11,792,274	13,359,092
	<b>124,765,212</b>	119,206,899

## 6. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Interest income	590,891	372,221
Management fee income	386,733	403,877
Input tax credits	313,019	301,821
Government grants	280,771	261,145
Dividend income from equity instruments at FVTOCI	178,234	163,731
Investment income and fair value gains on wealth management products and structured deposits	51,888	193,894
Write-back of non-payable liabilities	50,506	35,708
Gain on disposal of property, plant and equipment, intangible assets and right-of-use assets	26,936	115,973
Others	75,250	98,026
	<b>1,954,228</b>	1,946,396

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. OTHER EXPENSES

	2022 RMB'000	2021 RMB'000
Bank handling fees	81,897	73,399
Penalty charge and compensation	23,976	70,858
Loss on disposal of property, plant and equipment, construction in progress and intangible assets	6,821	10,271
Donations	2,779	2,796
Net foreign exchange loss	158	15,883
Others	25,325	40,749
	140,956	213,956

## 8. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank and other borrowings	33,342	24,552
Interest on lease liabilities	57,644	54,072
	90,986	78,624

For the year ended 31 December 2022, no borrowing costs were capitalised in relation to construction in progress (2021: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging the following items:

	2022 RMB'000	2021 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	16,207,176	15,932,148
Contributions to defined contribution retirement schemes	1,776,161	1,703,830
	17,983,337	17,635,978
(b) Other items:		
Depreciation		
– Property, plant and equipment (note 16)	744,841	746,188
– Right-of-use assets (note 17)	583,559	549,885
– Investment properties (note 18)	87,503	58,377
Amortisation		
– Intangible assets (note 21)	181,571	174,321
Auditors' remuneration	28,499	27,187
Materials costs	21,657,339	19,166,225
Direct costs of products distribution	4,065,197	4,614,143
Write-down of inventories, net	26,835	26,188
Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	333,085	67,643
Expense relating to short-term leases and leases of low-value assets	1,403,579	1,340,856

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB2,654 million, RMB5,623 million, RMB4,952 million and RMB731 million (2021: RMB2,778 million, RMB5,486 million, RMB4,233 million and RMB455 million), respectively for the year ended 31 December 2022.

## 10. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2022 RMB'000	2021 RMB'000
Current tax	566,816	428,763
Deferred tax (note 24)	(210,720)	(36,090)
Total income tax	356,096	392,673

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 10. INCOME TAX (Continued)

## (b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2022 RMB'000	2021 RMB'000
Profit before tax	3,835,377	3,578,434
Expected income tax expense at a statutory tax rate of 25% (2021: 25%)	958,844	894,609
Differential/preferential tax rates on subsidiaries' income (note (i)(ii))	(176,342)	(177,809)
Non-deductible expenses (note (iii))	239,494	208,190
Non-taxable income	(107,391)	(99,407)
Tax losses not recognised	64,043	119,652
Utilisation of previously unrecognised tax losses	(13,089)	(9,286)
Over provision in respect of prior years	(3,964)	(40,503)
Additional deduction of research and development expenses (note (iv))	(605,499)	(502,773)
Income tax	356,096	392,673

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory tax rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2022 (2021: 25%), except for certain domestic subsidiaries of the Group, which are taxed at preferential rates (refer to note (ii) below), where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.
- (ii) According to the PRC enterprise income tax law and its relevant regulations, certain subsidiaries that are qualified as High and New Technology Enterprise, enterprises under the Western Region Development Program, and Small and Micro enterprises as defined under the tax law are entitled to a preferential income tax rate of 15%, 15% and 20% (2021: 15%, 15%, 20%).
- (iii) The amounts represent staff costs in excess of the statutory deductible limits for tax reporting purposes and other non-deductible expenses.
- (iv) According to the PRC enterprise income tax law and its relevant regulations, certain research and development expenses of Group's PRC subsidiaries are qualified for an additional deduction of 75% and 100% for tax reporting purposes, from 1 January 2022 to 30 September 2022, and from 1 October 2022 to 31 December 2022 respectively (2021: 75%) .

## 11. OTHER COMPREHENSIVE (EXPENSE)/INCOME

	2022 RMB'000	2021 RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive expense recognised during the year	(326,391)	(689,997)
Net deferred tax credited to other comprehensive expense	83,908	172,320
Exchange differences on translation of financial statements	26,141	(25,337)
Other comprehensive expense for the year	(216,342)	(543,014)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2022 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	Expenses related to share appreciation contributions RMB'000	2022 Total RMB'000
<b>Executive Directors</b>						
Liu Guiqing	—	—	—	—	—	—
Huang Xiaoqing	—	242	997	132	4	1,375
Zhang Xu	—	184	882	128	3	1,197
	—	426	1,879	260	7	2,572
<b>Non-Executive Directors</b>						
Gao Tongqing	—	—	—	—	—	—
Mai Yanzhou (resigned on 30 May 2022)	—	—	—	—	—	—
Huang Zhen	—	—	—	—	—	—
	—	—	—	—	—	—
<b>Independent Non-Executive Directors</b>						
Siu Wai Keung, Francis	328	—	—	—	—	328
Lv Tingjie	193	—	—	—	—	193
Wang Qi	92	—	—	—	—	92
Wang Chungue	92	—	—	—	—	92
Wu Taishi (resigned on 17 June 2022)	85	—	—	—	—	85
Liu Linfei (resigned on 17 June 2022)	85	—	—	—	—	85
	875	—	—	—	—	875
<b>Supervisors</b>						
Cai Manli	92	—	—	—	—	92
Ye Lichun	—	—	—	—	—	—
Liu Lian	—	59	151	36	1	247
Si Jianfei (resigned on 17 June 2022)	—	100	336	56	—	492
Hai Liancheng (resigned on 17 June 2022)	42	—	—	—	—	42
	134	159	487	92	1	873
Total directors' and supervisors' emoluments						4,320

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2021 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	2021 Total RMB'000
<b>Executive Directors</b>					
Zhang Zhiyong (resigned on 30 September 2021)	–	–	–	–	–
Huang Xiaoqing	–	245	759	92	1,096
Zhang Xu	–	178	763	96	1,037
	–	423	1,522	188	2,133
<b>Non-Executive Directors</b>					
Gao Tongqing	–	–	–	–	–
Mai Yanzhou	–	–	–	–	–
	–	–	–	–	–
<b>Independent Non-Executive Directors</b>					
Siu Wai Keung, Francis	300	–	–	–	300
Lv Tingjie	170	–	–	–	170
Wu Taishi	170	–	–	–	170
Liu Linfei	170	–	–	–	170
	810	–	–	–	810
<b>Supervisors</b>					
Han Fang (resigned on 22 December 2021)	–	–	–	–	–
Hai Liancheng	85	–	–	–	85
Si Jianfei	–	200	548	97	845
	85	200	548	97	930
Total directors' and supervisors' emoluments					3,873

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Note:

The discretionary bonus is determined based on the individual performance of the directors and supervisors and the Group's overall operating results.

The emoluments of certain executive director or supervisor, and non-executive directors were not borne by the Group and they received remunerations from the parent company and/or from other shareholders. The directors of the Company are of the opinion that the services provided to the Group only occupy an insignificant amount of their time and therefore it is concluded that those directors or supervisors are not remunerated for such services.

The emoluments of executive directors were for their services rendered in connection with the management of the affairs of the Group.

The independent non-executive directors' emoluments shown above were in connection with their services rendered as directors of the Company.

The emoluments of supervisors were in connection with their services rendered as a supervisor of the Company or as an employee of the Group.

## 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

## (a) The five highest paid employees of the Group

The five highest paid employees of the Group are as follows:

	2022	2021
Directors and supervisors	1	—
Non-director and non-supervisor employees	4	5
	5	5

The remuneration paid to the above highest paid employees are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and other benefits in kind	2,017	2,026
Discretionary bonuses	5,129	4,668
Pension scheme contributions	533	679
	7,679	7,373

The number of these highest paid employees whose remuneration fell within the following bands:

	2022	2021
RMB equivalent		
1,000,001 to 1,500,000	3	3
1,500,001 to 2,000,000	2	2

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

## (b) Senior management's remuneration

The number of the senior management (excluding non-director and non-supervisor employees presented in note 13 (a)) whose remuneration fell within the following bands:

	2022	2021
RMB equivalent		
Nil to 1,000,000	11	15
1,000,001 to 2,000,000	10	6

## 14. DIVIDENDS

## (a) Dividends attributable to the year

	2022 RMB'000	2021 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1939 per share (2021: RMB0.1732 per share, including final dividend RMB0.1641 per share and special dividend RMB0.0091 per share)	1,342,955	1,199,587

## (b) Dividends attributable to the previous financial year, approved and paid during the year

	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1641 per share (2021: RMB0.1335 per share)	1,136,560	924,623
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0091 per share (2021: RMB0.0267 per share)	63,027	184,925
	1,199,587	1,109,548



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2022 of RMB3,358,149 thousand (2021: RMB3,157,434 thousand) and number of shares in issue during the year ended 31 December 2022 of 6,926,018 thousand shares (2021: 6,926,018 thousand shares).

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during both years.

## 16. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost					
As at 1 January 2022	6,083,646	858,030	1,529,200	4,095,815	12,566,691
Transfer to investment properties (note 18)	(80,186)	—	—	—	(80,186)
Transfer from investment properties (note 18)	356	—	—	—	356
Transfer from construction in process (note 19)	86,830	21,155	997	310,989	419,971
Additions	7,438	57,925	124,874	275,907	466,144
Disposals	(571)	(2,744)	(140,939)	(215,503)	(359,757)
As at 31 December 2022	6,097,513	934,366	1,514,132	4,467,208	13,013,219
Accumulated depreciation and impairment losses					
As at 1 January 2022	1,841,453	718,317	1,039,568	2,754,567	6,353,905
Transfer to investment properties (note 18)	(22,436)	—	—	—	(22,436)
Transfer from investment properties (note 18)	181	—	—	—	181
Depreciation charge	208,174	63,234	113,282	360,151	744,841
Depreciation written back on disposals	(164)	(1,987)	(129,353)	(200,907)	(332,411)
Impairment loss	—	—	—	(48)	(48)
As at 31 December 2022	2,027,208	779,564	1,023,497	2,913,763	6,744,032
Net carrying value					
As at 31 December 2022	4,070,305	154,802	490,635	1,553,445	6,269,187
As at 1 January 2022	4,242,193	139,713	489,632	1,341,248	6,212,786

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 16. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
<b>Cost</b>					
As at 1 January 2021	4,016,592	804,747	1,558,450	4,045,931	10,425,720
Transfer to investment properties (note 18)	(1,280,912)	–	–	–	(1,280,912)
Transfer from investment properties (note 18)	9,824	–	–	–	9,824
Transfer from construction in process (note 19)	3,282,887	24,933	494	94,222	3,402,536
Additions	57,223	43,408	113,925	274,819	489,375
Disposals	(1,968)	(15,058)	(143,669)	(319,157)	(479,852)
As at 31 December 2021	6,083,646	858,030	1,529,200	4,095,815	12,566,691
<b>Accumulated depreciation and impairment losses</b>					
As at 1 January 2021	1,657,896	669,396	1,056,809	2,710,886	6,094,987
Transfer to investment properties (note 18)	(44,368)	–	–	–	(44,368)
Transfer from investment properties (note 18)	7,722	–	–	–	7,722
Depreciation charge	222,036	63,605	118,369	342,178	746,188
Depreciation written back on disposals	(1,833)	(14,684)	(135,610)	(298,497)	(450,624)
Impairment loss	–	–	–	–	–
As at 31 December 2021	1,841,453	718,317	1,039,568	2,754,567	6,353,905
<b>Net carrying value</b>					
As at 31 December 2021	4,242,193	139,713	489,632	1,341,248	6,212,786
As at 1 January 2021	2,358,696	135,351	501,641	1,335,045	4,330,733

All the Group's buildings are located in the PRC.

Up to the date of issuance of these consolidated financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying amount of approximately RMB103 million as at 31 December 2022 (2021: RMB212 million) to be under its name. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 17. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
<b>As at 31 December 2022</b>					
Carrying amount	882,005	1,434,953	6,613	78,988	2,402,559
<b>As at 31 December 2021</b>					
Carrying amount	849,340	1,474,705	1,576	97,331	2,422,952
<b>For the year ended 31 December 2022</b>					
Depreciation charge	25,852	506,303	2,772	48,632	583,559
<b>For the year ended 31 December 2021</b>					
Depreciation charge	25,476	493,822	1,317	29,270	549,885
				<b>2022 RMB'000</b>	2021 RMB'000
Expense relating to short-term leases				<b>1,377,202</b>	1,282,376
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets				<b>26,377</b>	58,480
Total cash outflow for leases				<b>1,910,919</b>	1,828,483
Additions to right-of-use assets				<b>697,216</b>	1,067,021

The Group leases leasehold lands, buildings, motor vehicles and other equipment 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 the terms under the contract and determines the period for which the contract is enforceable.

The Group entered into short-term leases mainly for buildings, motor vehicles and other equipment. 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 expense disclosed above.

As at 31 December 2022, the Group entered into new leases for buildings, motor vehicles and other equipment that had not yet commenced, the total future undiscounted cash flows over the non-cancellable period amounted to RMB137 million (2021: RMB174 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 18. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
Cost		
As at 1 January	2,529,073	1,250,786
Additions	15,169	159
Transfer from property, plant and equipment (note 16)	80,186	1,280,912
Transfer from right-of-use assets	—	7,040
Transfer to property, plant and equipment (note 16)	(356)	(9,824)
As at 31 December	2,624,072	2,529,073
Accumulated depreciation		
As at 1 January	799,167	700,764
Transfer from property, plant and equipment (note 16)	22,436	44,368
Transfer from right-of-use assets	—	3,380
Transfer to property, plant and equipment (note 16)	(181)	(7,722)
Depreciation charge	87,503	58,377
As at 31 December	908,925	799,167
Net carrying value		
As at 31 December	1,715,147	1,729,906
As at 1 January	1,729,906	550,022
Fair value (as at 31 December)	6,265,977	4,287,597

All the Group's investment properties are located in the PRC.

The fair value measurement of the Group's investment properties is categorised as Level 3 of fair value measurement. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by making reference to the rentals achieved in the lettable units of the properties, as well as lettings of other similar properties in the neighbourhood. The discount rate is determined by making reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted by taking into account the market expectation from property investors which reflect factors specific to the Group's investment properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 18. INVESTMENT PROPERTIES (Continued)

The Group leases out its properties under operating leases. The leases typically run for period of one year to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the end of the reporting period, the total future minimum lease payments receivable under non-cancellable period were as follows:

	2022 RMB'000	2021 RMB'000
Within one year	176,613	120,905
In the second year	104,630	77,665
In the third year	90,802	66,028
In the fourth year	81,856	55,613
In the fifth year	65,982	47,022
After five years	143,933	180,862
As at 31 December	663,816	548,095

During the year ended 31 December 2022, RMB179 million (2021: RMB176 million) had been recognised as rental income in the consolidated statement of profit or loss and RMB28 million (2021: RMB74 million) in respect of direct operating costs relating to investment properties had been recognised as costs in the consolidated statement of profit or loss.

Up to the date of issuance of these consolidated financial statements, the Group was still in the process of applying for or changing the registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB44 million as at 31 December 2022 (2021: RMB33 million) to its name. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

## 19. CONSTRUCTION IN PROGRESS

	2022 RMB'000	2021 RMB'000
Cost:		
As at 1 January	576,405	3,468,094
Additions	320,259	561,328
Disposals	(4,063)	(2,424)
Transfer to intangible assets (note 21)	(44,939)	(48,057)
Transfer to property, plant and equipment (note 16)	(419,971)	(3,402,536)
As at 31 December	427,691	576,405

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 20. GOODWILL

	2022 RMB'000	2021 RMB'000
Cost and carrying amount	103,005	103,005
	2022 RMB'000	2021 RMB'000
Impairment testing for group of cash-generating units containing goodwill China International Telecommunications Construction Corporation ("CITCC")	103,005	103,005

The recoverable amount of group of cash-generating units relates to goodwill arising from the acquisition of CITCC which was determined based on value in use calculation. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rate adopted is 11.01% (2021: 11.00%). The financial budgets and discount rate had been assessed by the Group as at 31 December 2022, taking into consideration a higher degree of estimation uncertainties in the current year due to uncertainty of volatility in the financial markets.

Cash flows beyond the five years period are extrapolated using zero growth rate.

Key assumptions used for the value in use calculations are the gross margin and revenue growth rate. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation of the trend of major telecommunication operators' capital expenditure. Revenue growth was budgeted based on the actual revenue achieved in the period immediately before the budget period. Management believes any reasonably possible change in the key assumptions would not cause the group of cash-generating units' carrying amount to exceed its recoverable amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 21. INTANGIBLE ASSETS

	2022 RMB'000	2021 RMB'000
Cost:		
As at 1 January	1,694,034	1,415,315
Additions	191,075	275,687
Transfer from construction in progress (note 19)	44,939	48,057
Disposals	(32,181)	(45,025)
As at 31 December	1,897,867	1,694,034
Accumulated amortisation:		
As at 1 January	1,010,557	879,605
Amortisation charge	181,571	174,321
Written back on disposals	(18,274)	(43,369)
As at 31 December	1,173,854	1,010,557
Net carrying value:		
As at 31 December	724,013	683,477
As at 1 January	683,477	535,710

Intangible assets mainly represent computer software.

## 22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2022 RMB'000	2021 RMB'000
Share of associates	1,204,430	1,190,683
Share of joint ventures	103,515	94,864
	1,307,945	1,285,547

The Group's associates and joint ventures are established and operated in the PRC. The Group's interests in associates and joint ventures are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

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

	2022 RMB'000	2021 RMB'000
The Group's share of profit of associates	84,569	87,775
The Group's share of total comprehensive income of associates	84,569	87,775
The Group's share of profit of joint ventures	8,178	4,148
The Group's share of total comprehensive income of joint ventures	8,178	4,148

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 23. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The equity instruments mainly represent ordinary shares of entities listed in stock exchanges of Mainland China. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing 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 realizing their performance potentials in the long run.

## 24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	31 December 2022 RMB'000	31 December 2021 RMB'000	31 December 2022 RMB'000	31 December 2021 RMB'000
Impairment losses, primarily for receivables and inventories	388,401	347,306	—	—
Tax losses	42,580	58,802	—	—
Changes in fair values of FVTPL and FVTOCI	195	—	(641,114)	(739,944)
Accrued expenses	540,479	356,715	—	—
Others	—	3,482	(21,409)	(13,125)
	971,655	766,305	(662,523)	(753,069)
Offsetting	(29,776)	(8,118)	29,776	8,118
Deferred tax assets/(liabilities)	941,879	758,187	(632,747)	(744,951)

Movements in deferred tax assets and liabilities for the year ended 31 December 2022 are as follows:

	As at 1 January 2022 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000 (note 11)	Others RMB'000	As at 31 December 2022 RMB'000
Impairment losses, primarily for receivables and inventories	347,306	41,095	—	—	388,401
Tax losses	58,802	(16,222)	—	—	42,580
Changes in fair value of FVTPL and FVTOCI	(739,944)	13,849	83,908	1,268	(640,919)
Accrued expenses	356,715	183,764	—	—	540,479
Others	(9,643)	(11,766)	—	—	(21,409)
	13,236	210,720	83,908	1,268	309,132



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 24. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	As at 1 January 2021 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000 (note 11)	Others RMB'000	As at 31 December 2021 RMB'000
Impairment losses, primarily for receivables and inventories	348,742	(1,436)	–	–	347,306
Tax losses	29,393	29,409	–	–	58,802
Changes in fair value of FVTPL and FVTOCI	(894,674)	(17,590)	172,320	–	(739,944)
Accrued expenses	327,476	29,239	–	–	356,715
Others	(6,111)	(3,532)	–	–	(9,643)
	(195,174)	36,090	172,320	–	13,236

Note:

As at 31 December 2022, the Group had not recognised deferred tax assets in respect of tax losses of RMB1,685.6 million (2021: RMB1,514.7 million) as it is not probable that future taxable profits, against which the losses can be utilized, will be available. According to the PRC enterprise income tax law and its relevant regulations, the tax losses of certain subsidiaries that are qualified as High and New Technology Enterprise can be carried forward for ten years from the year they are incurred. As for other subsidiaries, the tax losses can be carried forward for five years from the year they are incurred.

## 25. DEPOSITS AT FINANCIAL INSTITUTIONS WITH ORIGINAL MATURITY MORE THAN ONE YEAR

	2022 RMB'000	2021 RMB'000
Total deposits at financial institutions with original maturity more than one year	7,873,054	2,563,841
Less: Current portion	221,188	–
	7,651,866	2,563,841

## 26. OTHER NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Long-term receivables	586,620	515,280
Others	321,396	117,037
	908,016	632,317

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 27. INVENTORIES

	2022 RMB'000	2021 RMB'000
Goods for resale	713,013	849,760
Construction materials	572,673	585,109
Spare parts and consumables	81,625	57,142
	<b>1,367,311</b>	1,492,011

## 28. ACCOUNTS AND BILLS RECEIVABLE, NET

	2022 RMB'000	2021 RMB'000
Bills receivable	508,294	405,956
Accounts receivable	21,748,133	19,542,192
	<b>22,256,427</b>	19,948,148
Less: allowance for credit losses	(1,946,484)	(1,693,993)
	<b>20,309,943</b>	18,254,155

- (a) The amounts due from CTC Group, associates of CTC Group and associates of the Group (see note 46) are unsecured, interest-free and are expected to be recovered within one year.
- (b) The ageing analysis of accounts and bills receivable (net of allowance for credit losses) based on credit terms is as follows:

	2022 RMB'000	2021 RMB'000
Current	1,897,638	1,112,606
Within 1 year	15,650,729	14,636,676
After 1 year but less than 2 years	2,026,546	1,729,092
After 2 years but less than 3 years	513,913	542,481
After 3 years but less than 4 years	139,131	99,950
After 4 years but less than 5 years	33,512	36,257
Over 5 years	48,474	97,093
	<b>20,309,943</b>	18,254,155

## (c) Credit losses of accounts and bills receivable

Credit losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the credit loss is written off against accounts and bills receivable directly (see note 2(l)).

Details of impairment assessment of accounts receivable are set out in note 44(a).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 29. CONTRACT ASSETS, NET

	2022 RMB'000	2021 RMB'000
Telecommunications infrastructure services	21,099,704	17,771,357
Business process outsourcing services	1,114,789	1,381,365
Applications, contents and other services	3,337,797	2,621,771
	25,552,290	21,774,493
Less: allowance for credit losses	(283,469)	(239,748)
	25,268,821	21,534,745

The contract assets relate to the rights of the Group to considerations receivable for work completed and not billed because the rights are conditional upon the Group's future performance in achieving specified milestones on construction, design and other service contracts. The contract assets are transferred to accounts receivable when the rights become unconditional. The Group typically transfers the contract assets to accounts receivable within one year when the specific milestones are met.

## 30. PREPAYMENTS AND OTHER CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments in connection with construction work and equipment purchases	6,115,312	5,368,905
Other receivables	4,504,116	3,625,219
Input VAT deductible	834,169	1,074,711
Long-term receivables due within 1 year	718,425	477,580
Others	545,610	555,605
	12,717,632	11,102,020

Included in other receivables are mainly deposits. The amounts due from CTC Group, associates of CTC Group and associates of the Group (see note 46) are unsecured, interest free and are expected to be recovered within one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Equity instruments	337,360	171,943
Wealth management products	—	2,281,755
Structured deposits	—	1,022,186
	337,360	3,475,884
Analysed for reporting purpose as:		
Current assets	61,556	3,364,554
Non-current assets	275,804	111,330
	337,360	3,475,884

## 32. SHORT-TERM BANK DEPOSITS AND RESTRICTED CASH

Short-term bank deposits and restricted cash represent cash in bank pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects, and deposits with original maturity over three months and within one year. Short-term bank deposits and restricted cash carry interest at prevailing market interest rates.

## 33. CASH AND CASH EQUIVALENTS

	2022 RMB'000	2021 RMB'000
Cash at bank and in hand	17,070,073	15,116,312
Cash at China Telecom Group Finance Co., Ltd. ("China Telecom Finance")	5,013,495	5,964,400
Deposits at bank with original maturity less than three months	1,776	90,313
Cash and cash equivalents	22,085,344	21,171,025

Bank balances carry interest at prevailing market interest rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 34. INTEREST-BEARING BORROWINGS

The Group's short-term interest-bearing borrowings comprise:

	2022 RMB'000	2021 RMB'000
<b>RMB denominated</b>		
Borrowings from CTC Group		
– unsecured	–	13,280
Borrowings from banks		
– unsecured	77,017	33,330
– secured	8,055	21,033
Other RMB denominated borrowings		
– unsecured	8,634	–
<b>USD denominated</b>		
Borrowings from banks		
– unsecured	548,810	528,514
– secured (note)	20,058	18,478
<b>Other denominated</b>		
Borrowings from banks		
– unsecured	84,906	108,389
<b>Interest payable on short-term borrowings</b>	4,521	–
	<b>752,001</b>	<b>723,024</b>

Note:

As at 31 December 2022, the amount of secured USD denominated borrowings from banks, RMB20,058 thousand (31 December 2021: RMB18,478 thousand), was the current portion of long-term borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 34. INTEREST-BEARING BORROWINGS (Continued)

The Group's short-term borrowings bearing interest rate per annum are as follows:

	2022	2021
<b>RMB denominated</b>		
Borrowings from CTC Group		
– unsecured	N/A	2.39%
Borrowings from banks		
– unsecured	1.50%–3.80%	1.50%
– secured	3.50%–3.90%	4.00%
Other RMB denominated borrowings		
– unsecured	8.50%	N/A
<b>USD denominated</b>		
Borrowings from banks		
– unsecured	4.53%	2.50%
– secured	3.50%	3.50%
– unsecured (floating interest rate)	London Interbank Offered Rate ("Libor") +1.00%–1.35% AND Secured Overnight Financing Rate ("SOFR") +1.1%.p.a	Libor +1.00%–1.35%
<b>Other denominated</b>		
Borrowings from banks		
– unsecured	7.88%	6.25%–8.57%
– unsecured (floating interest rate)	Base Rate of Nepal Rastra Bank +3.00%	N/A

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 34. INTEREST-BEARING BORROWINGS (Continued)

The Group's long-term interest-bearing borrowings comprise:

	2022 RMB'000	2021 RMB'000
<b>USD denominated</b>		
Borrowings from banks		
– secured	149,178	108,286
Less: Current portion	(20,058)	(18,478)
	129,120	89,808

The Group's long-term borrowings bearing interest rate per annum are as follows:

	2022	2021
<b>USD denominated</b>		
Borrowings from banks		
– secured	3.50%	3.50%

The Group's borrowings were repayable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	752,001	723,024
After 1 year but within 2 years	20,058	18,362
After 2 years but within 5 years	109,062	71,446
	881,121	812,832

As at 31 December 2022, no borrowings from bank were subject to financial covenants (31 December 2021: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 35. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2022 RMB'000	2021 RMB'000
Accounts payable	40,985,965	32,759,611
Bills payable	3,625,330	3,560,369
	44,611,295	36,319,980

The ageing analysis of accounts and bills payable based on the invoice date is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	42,062,776	34,147,550
After 1 year but less than 2 years	1,414,963	1,226,760
After 2 years but less than 3 years	450,309	459,884
After 3 years	683,247	485,786
	44,611,295	36,319,980

The amounts due to CTC Group, associates of CTC Group and associates of the Group (see note 46) are unsecured, interest-free and are expected to be settled within one year.

## 36. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Lease liabilities payable:		
Within 1 year	513,223	490,859
After 1 year but within 2 years	393,882	310,607
After 2 years but within 5 years	450,084	474,133
After 5 years	222,926	287,204
	1,580,115	1,562,803
Less: Amount due for settlement within 12 months shown under current liabilities	513,223	490,859
Amount due for settlement after 12 months shown under non-current liabilities	1,066,892	1,071,944

The weighted average lessee's incremental borrowing rate applied to lease liabilities is 3.6% (2021: 3.6%).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 37. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Telecommunications infrastructure services	8,526,663	8,626,944
Other services	2,341,312	2,822,227
	10,867,975	11,449,171

When the Group receives advance payments from customers before the performance obligation is satisfied, the amounts will give rise to contract liabilities, until the performance obligation is satisfied.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities.

	Telecommunications infrastructure services RMB'000	Other services RMB'000
<b>For the year ended 31 December 2022</b>		
Revenue recognised that was included in the contract liability balance at the beginning of the year	7,960,808	2,524,162
<b>For the year ended 31 December 2021</b>		
Revenue recognised that was included in the contract liability balance at the beginning of the year	5,205,633	2,186,145

## 38. ACCRUED EXPENSES AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Wages and welfare payable	1,550,784	1,570,459
Output VAT payable	1,441,097	1,318,720
Other taxes payable	710,535	692,149
Amounts due to CTC Group, associates of CTC Group and associates of the Group (note (i))	373,530	415,858
Advance lease payments received	34,733	44,633
Dividend payable	7,156	11,716
Payables for construction and purchase of property, plant and equipment	4,244	40,582
Others (note (ii))	5,377,391	4,996,748
	9,499,470	9,090,865

Notes:

- (i) The amounts due to CTC Group, associates of the Group and associates of CTC Group (see note 46) are unsecured, interest-free and are expected to be settled within one year.
- (ii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 39. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities mainly represent the deferred income arising from government grants and termination benefits.

## 40. SHARE CAPITAL

	2022 RMB'000	2021 RMB'000
<b>Registered, issued and fully paid:</b>		
4,534,598,160 (31 December 2021: 4,534,598,160) domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2021: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018
	2022 Thousand shares	2021 Thousand shares
At 1 January and 31 December	6,926,018	6,926,018

All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally in all material respects.

## (a) Capital management

The Group's primary objectives of managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by strengthening their leading position as an integrated service provider to the telecommunications industry and achieving economies of scale in the market.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between 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.

The Group monitors its capital using a gearing ratio which is defined as total debts divided by the sum of total debts and equity attributable to equity shareholders of the Company. For this purpose, the Group defines total debts as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2022 was 2.1% (2021: 2.1%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares, return capital to shareholders or sell assets to reduce the gearing ratio.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 8% to 20% (2021: 8% to 20%) of the salaries, bonuses and certain allowances of the employees.

The Group has no other material obligations for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

## 42. SHARE APPRECIATION RIGHTS SCHEME

The Group implemented a share appreciation rights scheme for members of its management to provide incentives to them. 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 scheme. 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 dollars 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 dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

On 22 December 2021 (note (i)), the Company's remuneration Committee approved the granting of 207,270 thousand share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of 5 years from the date of grant and the exercise price is HKD3.68 per unit. Participants can only vest if certain performance standards are met.

A recipient of share appreciation rights cannot exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable cannot in aggregate exceed one-third, two-thirds and 100%, respectively, of the total share appreciation rights granted to such person.

The expense recognised in the Consolidated statement of profit or loss for the year ended 31 December 2022 was RMB827 thousand (2021: Not applicable).

The fair value of the accretive rights was determined using the Black-Scholes model using the following inputs as at 31 December 2022:

	31 December 2022
Share price at measurement date	HKD2.85
Expected volatility	34.97%
Dividend yield	—
Risk-free interest rate	4.77%
Carrying amount of liability	RMB826,837

None of the share appreciation rights had vested as at 31 December 2022.

Note:

- (i) The actual grant date of the share appreciation rights was 23 December 2022, because eligible employees signed an agreement with the Company on this day. The actual granted number of share appreciation rights was 207,270 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 43. COMMITMENTS AND CONTINGENT LIABILITIES

## (a) Capital commitments

As at 31 December 2022, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2022 RMB'000	2021 RMB'000
Contracted for but not provided	217,583	160,510

## (b) Contingent liabilities

As at 31 December 2022, the Group had no material contingent liabilities and no financial guarantees issued.

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

## (a) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to accounts receivable and contract assets arising from contracts with customers and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 47% of the total accounts and bills receivable as at 31 December 2022 (2021: 50%). The Group has no significant credit risk with any of these customers since they are large state-owned companies in the telecommunications industry.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit rankings, mainly the four large state-owned banks in the PRC, China Telecom Finance and other reputable commercial banks.

The amounts of cash and cash equivalents, short-term bank deposits and restricted cash, accounts and bills receivable, contract assets, other receivables and long-term receivables in the consolidated statement of financial position after deducting impairment allowance represent the Group's maximum exposure to the credit risk in relation to financial assets and contract assets.

The Group recognises a loss allowance for ECL on financial assets and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Assessment is performed and 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 as at the reporting date, as well as the forecasted future economic conditions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (a) Credit risk and impairment assessment (Continued)

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

The Group applied the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and contract assets. To measure the ECL, accounts receivable and contract assets have been grouped together based on their shared credit risk characteristics.

The contract assets relate to unbilled revenues due to the same group of customers reported as accounts receivable and have substantially the same risk characteristics as the accounts receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets.

The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on a provision matrix within lifetime ECL. Debtors with significant risk with gross carrying amounts of RMB811 million as at 31 December 2022 were assessed individually (31 December 2021: RMB998 million), the loss allowance provision was RMB734 million (31 December 2021: RMB623 million).

	2022			2021		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance provision RMB'000	Expected loss rate	Gross carrying amount RMB'000	Loss allowance provision RMB'000
<b>Telecommunications operators</b>						
Within 1 year	0.2%	9,622,233	(19,244)	0.2%	8,862,024	(17,724)
After 1 year but within 2 years	5.9%	948,956	(55,988)	5.9%	953,014	(56,228)
After 2 years but within 3 years	17.7%	305,456	(54,066)	17.7%	399,713	(70,749)
After 3 years but within 4 years	46.1%	160,310	(73,903)	46.1%	122,138	(56,306)
After 4 years but within 5 years	71.3%	73,902	(52,692)	71.3%	91,970	(65,575)
Over 5 years	100.0%	183,813	(183,813)	100.0%	162,397	(162,397)
		11,294,670	(439,706)		10,591,256	(428,979)
<b>Non-telecom operators</b>						
Within 1 year	0.5%	7,449,971	(37,250)	0.5%	6,265,049	(31,325)
After 1 year but within 2 years	14.1%	1,317,107	(185,712)	14.1%	966,096	(136,220)
After 2 years but within 3 years	36.3%	411,818	(149,490)	36.3%	332,021	(120,524)
After 3 years but within 4 years	63.0%	141,191	(88,950)	63.0%	73,321	(46,192)
After 4 years but within 5 years	73.6%	46,601	(34,298)	73.6%	35,699	(26,275)
Over 5 years	100.0%	275,915	(275,915)	100.0%	280,565	(280,565)
		9,642,603	(771,615)		7,952,751	(641,101)

Expected loss rates were assessed based on actual loss experienced over the past 1 to 5 years. These rates had been adjusted to reflect differences between economic conditions during the period over which the historic data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivable balances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (a) Credit risk and impairment assessment (Continued)

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

The Group adjusted the macro factors and weights in ECL model by taking into account the changes of the macro environment.

The following table shows the movement in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	2022 RMB'000	2021 RMB'000
<b>As at 1 January</b>	<b>1,693,284</b>	1,666,866
Changes due to financial assets recognised during the year		
– Impairment loss recognised	434,749	297,637
– Impairment loss reversed	(175,720)	(264,886)
– Uncollectible amounts written off	(6,651)	(6,333)
<b>As at 31 December</b>	<b>1,945,662</b>	1,693,284

The Group writes off an accounts receivable when there is information indicating that the specific debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy process.

The following table shows the movement in lifetime ECL that has been recognised for contract assets under the simplified approach.

	2022 RMB'000	2021 RMB'000
<b>As at 1 January</b>	<b>239,748</b>	220,019
Changes due to financial assets recognised during the year		
– Impairment loss recognised	70,967	69,120
– Impairment loss reversed	(27,150)	(49,181)
– Uncollectible amounts written off	(96)	(210)
<b>As at 31 December</b>	<b>283,469</b>	239,748

## (b) Interest rate risk

The Group is exposed to fair value interest rate risk primarily from its short-term and long-term debts carrying interests at fixed rates. The Group manages its exposure to fair value interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates of interest-bearing borrowings are disclosed in note 34.

The Group is also exposed to cash flow interest rate risk in relation to short-term debts carrying interests at variable rates. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (b) Interest rate risk (Continued)

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. As disclosed in note 34, the Group's Libor bank loans will not be subject to the interest rate benchmark reform since the loans will become mature within one year. The Group is closely monitoring the transition to new benchmark interest rates.

The management of the Group considers the fluctuation in interest rates on short-term debts carrying interests at variable rates is insignificant due to short maturity. Therefore, no sensitivity analysis is presented.

## (c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

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

	31 December 2022					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	More than 5 years RMB'000
Short-term interest-bearing borrowings (notes 34)	752,001	758,761	758,761	—	—	—
Long-term interest-bearing borrowings (notes 34)	129,120	142,049	—	23,713	66,926	51,410
Accounts and bills payable (notes 35)	44,611,295	44,611,295	44,611,295	—	—	—
Lease liabilities (notes 36)	1,580,115	1,709,303	565,121	419,942	491,272	232,968
Accrued expenses and other payables	5,746,964	5,746,964	5,746,964	—	—	—
	52,819,495	52,968,372	51,682,141	443,655	558,198	284,378

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (c) Liquidity risk (Continued)

	31 December 2021					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	More than 5 years RMB'000
Short-term interest-bearing borrowings (notes 34)	723,024	725,441	725,441	–	–	–
Long-term interest-bearing borrowings (notes 34)	89,808	101,439	3,144	21,345	60,178	16,772
Accounts and bills payable (notes 35)	36,319,980	36,319,980	36,319,980	–	–	–
Lease liabilities (notes 36)	1,562,803	1,714,253	538,064	341,098	525,115	309,976
Accrued expenses and other payables	5,438,856	5,438,856	5,438,856	–	–	–
	44,134,471	44,299,969	43,025,485	362,443	585,293	326,748

## (d) Currency 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. As at 31 December 2022, the Group's foreign currency risk exposure mainly relates to bank deposits and borrowings denominated primarily in USD, the aggregate net liabilities are RMB305 million. To manage the impact of currency exchange rate fluctuations, the Group continually assesses its exposure to foreign currency risks, and a portion of those risks is hedged by using derivative financial instruments, when management considers it necessary. The Group does not expect the appreciation or depreciation of the RMB against foreign currency will materially affect the Group's financial position and result of operations.

## (e) Price risk

The Group is exposed to equity price changes arising from equity investments at FVTPL and designated as at FVTOCI.

The Group's listed investments are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Listed investments held in the investment portfolio have been chosen based on their longer term growth potentials and are monitored regularly for performance against expectations.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (e) Price risk (Continued)

At 31 December 2022, it is estimated that an increase/(decrease) of 5% (2021: 5%) in the relevant share price (for listed investments) as applicable, with all other variables held constant, would have increased/(decreased) the Group's other components of consolidated equity as follows:

	2022		2021	
	Increase/ (decrease) in equity price	Effect on other components of equity RMB'000	Increase/ (decrease) in equity price	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:				
Increase	5%	126,368	5%	139,684
Decrease	(5%)	(126,368)	(5%)	(139,684)

The above sensitivity analysis indicates the instantaneous change in the Group's other components of consolidated equity that would result, assuming that the changes in the share price had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (f) Fair value

## (i) Financial instruments carried at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value at the end of each reporting period.

	2022			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial Assets</b>				
Equity instruments at fair value through other comprehensive income (note (i))	395,680	–	2,940,723	3,336,403
Financial assets at fair value through profit or loss				
– Equity instruments at fair value through profit or loss (note (ii))	42,018	–	295,342	337,360
	2021			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial Assets</b>				
Equity instruments at fair value through other comprehensive income (note (i))	435,963	–	3,236,509	3,672,472
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (iii))	–	–	3,303,941	3,303,941
– Equity instruments at fair value through profit or loss (note (ii))	–	–	171,943	171,943

Notes:

- (i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares held immediately following the initial public offering for a period of 5 years. At the end of each reporting period, the Group appointed an external valuer to determine the fair value of the listed equity security which was still within the restriction period. Based on the quoted price of the identical unrestricted shares traded on the stock exchange, adjusted to reflect the effect of restriction computed based on a discount rate determined by the external valuer. An increase in the discount rate attributable to lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa, and the discount rate is 4.10% (2021: 8.50%). The carrying amount is RMB2,925 million (2021: RMB3,222 million), and a 5% increase in the discount rate, holding all other variables constant, would have decreased the carrying amount of this equity instrument by RMB6 million as at 31 December 2022 (2021: RMB15 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (f) Fair value (Continued)

## (i) Financial instruments carried at fair value on a recurring basis (Continued)

Notes: (Continued)

- (ii) The invested entities in Level 3 were private companies. At the end of 31 December 2022, the Group appointed an external valuer to determine the fair value of the invested entity in Level 3 based on discounted cash flows. The future cash flows had been estimated based on long-term revenue growth rates, taking into management's experience and knowledge of market conditions.
- (iii) At the end of each reporting period, the Group determined the fair value of the wealth management products and structured deposits by estimating the discounted cash flow derived from them. The future cash flows had been estimated based on expected returns, and discounted at a rate that reflects the credit risk of various counterparties.

## (ii) Reconciliation of level 3 fair value measurement

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2022	3,236,509	3,303,941	171,943
Purchases	—	—	147,390
Disposals/settlements	(409)	(3,355,829)	—
Transferred to level 1	—	—	(35,880)
Total gains/(losses)			
– in profit or loss	—	51,888	11,889
– in other comprehensive income	(295,377)	—	—
As at 31 December 2022	2,940,723	—	295,342

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2021	4,316,673	3,098,634	64,567
Purchases	—	7,588,000	76,575
Disposals/settlements	(750)	(7,566,024)	—
Transferred to level 1	(430,260)	—	—
Total gains/(losses)			
– in profit or loss	—	183,331	30,801
– in other comprehensive income	(649,154)	—	—
As at 31 December 2021	3,236,509	3,303,941	171,943

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (f) Fair value (Continued)

## (iii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

## 45. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In addition to those disclosed in note 20, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

## (a) Revenue recognition of system integration services

The Group assesses the contracts for system integration services to identify each performance obligation contained in the contracts. Identifying the performance obligations requires judgment in some situations to determine whether multiple promised goods or services in a contract should be accounted for separately or as a group. For the 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 is the price of selling a piece of distinct goods or service underlying each performance obligation. 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.

## (b) Provision of ECL for accounts receivable and contract assets

Accounts receivable and contract assets with significant risk are assessed for ECL individually. In addition, the Group uses a provision matrix to calculate ECL for the accounts receivable and contract assets by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical loss rates, taking into consideration reasonable and supportable forward-looking information that is available without undue costs or efforts. At every reporting date, the historical loss rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The Group has considered the uncertainty under different macroeconomics scenarios and the risk of increased credit default rates appropriately. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 44(a), 28 and 29 respectively.

## (c) Fair value measurement of financial instruments

Certain of the Group's equity investments are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 44(f) for further disclosures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES

The Group has undertaken significant transactions and maintained relationships with members of CTC Group, the material related party transactions are as below:

**(a) Transactions with CTC Group**

Because of the relationship between the Group and CTC Group, the terms of these transactions were negotiated between the Group with GTC Group.

The principal transactions with CTC Group which were carried out in the ordinary course of business are as follows:

	2022 RMB'000	2021 RMB'000
Engineering related services revenue (note (i))	18,933,546	18,540,108
IT application services revenue (note (ii))	5,822,815	3,984,124
Provision of ancillary telecommunications services revenue (note (iii))	17,825,467	16,775,318
Provision of operation support services revenue (note (iv))	4,377,560	3,838,440
Supplies procurement services revenue (note (v))	3,121,815	2,769,531
Property leasing services revenue (note (vi))	186,562	139,361
Management fee income (note (vii))	386,733	403,877
Property leasing services charges (note (viii))	155,223	126,829
IT application services charges (note (ix))	331,278	97,067
Operation support services charges (note (x))	969,922	787,387
Supplies procurement services charges (note (xi))	2,636,383	2,482,872
Interest expenses (note (xii))	30,577	30,944
Net deposits placed with China Telecom Finance (note (xiii))	1,004,094	1,963,134
Interest income of deposits placed with China Telecom Finance (note (xiv))	56,098	12,829
Net lending funds (note (xv))	—	67,000
Interest income of lending funds (note (xvi))	2,366	1,819

Notes:

- (i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations), operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group.
- (v) The amount represents supplies procurement service such as warehousing, transportation and installation and other related services provided to CTC Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (a) Transactions with CTC Group (Continued)

Notes: (Continued)

- (vi) The amount represents rentals from operating leases in respect of business premises leased to CTC Group.
- (vii) The amount represents management fee in respect of headquarters management function services ("Centralised Services") provided to CTC Group.
- (viii) The amount represents rentals from short-term leases in respect of business premises paid and payable to CTC Group.
- (ix) The amount represents the charge paid and payable to CTC Group for basic telecommunications service, value-added service and information application service.
- (x) The amount represents the charge paid and payable to CTC Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.
- (xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xii) The amount represents the interest paid and payable to CTC Group in respect of the loans and lease liabilities from CTC Group.
- (xiii) The amount represents net deposit under deposit services provided by China Telecom Finance.
- (xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.
- (xv) The amount represents the net lending of funds to CTC Group.
- (xvi) The amount represents the interest income arising from lending funds to CTC Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (a) Transactions with CTC Group (Continued)

Amounts due from/to CTC Group included in respective balances are summarised as follows:

	2022 RMB'000	2021 RMB'000
Cash and cash equivalents	5,013,495	5,964,400
Accounts and bills receivable, net	7,562,052	7,259,911
Contract assets, net	11,549,415	9,947,108
Prepayments and other current assets	1,670,309	1,216,411
Deposits at financial institutions with original maturity more than one year	2,066,259	69,000
Other non-current assets	192,063	144,503
Total amounts due from CTC Group	28,053,593	24,601,333
Interest-bearing borrowings	—	13,280
Accounts and bills payable	500,729	261,457
Current portion of lease liabilities	172,001	161,904
Contract liabilities	595,613	845,854
Accrued expenses and other payables	288,931	335,403
Lease liabilities	614,489	699,814
Total amounts due to CTC Group	2,171,763	2,317,712

As at 31 December 2022, the Group had recognised credit losses of RMB399 million (2021: RMB391 million) in respect of amounts due from CTC Group.

For the year ended 31 December 2022, additional amount of RMB119 million of right-of-use assets had been recognised under new lease contracts entered into with CTC Group (2021: RMB560 million).

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are reasonable so far as the shareholders of the Company are concerned.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (a) Transactions with CTC Group (Continued)

The terms of the principal agreements agreed with CTC impacting the results of operations of the Group are summarised as follows:

- (1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support services, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through tender processes.
- (2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are negotiated based on market rates, with reference made to amounts stipulated by local price bureau.
- (3) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and provision of certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:
  - market price. In determining the market price, the Group primarily considers the following factors: (i) cost of services; (ii) prices of the same or similar type of services provided to CTC Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties previously by the Group.
  - in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. “Reasonable costs” means the costs confirmed by both parties after negotiations, and “reasonable profit” means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor costs, local commodity prices and economic development levels.
- (4) The Group has entered into agreement with CTC pursuant to which the Group takes up the role of providing headquarter management functions to manage assets of the telecommunications support businesses of provinces, municipalities and autonomous regions (“Centralised Services”). The aggregate administrative costs incurred by the Group for the provision of the Centralised Services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant parties.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (a) Transactions with CTC Group (Continued)

- (5) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, provision of agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation services. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:
- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
  - maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
  - market price. In determining the market price, the Group primarily considers the following factors: (i) cost of services; (ii) prices of the same or similar type of services provided to CTC Group or the Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties by the Group, or prices of the same or similar type of services provided to the Group by CTC Group and independent third parties;
  - in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes on sales and reasonable profits. “Reasonable costs” means the costs confirmed by both parties after negotiations, and “reasonable profit” means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor costs, local commodity prices and economic development levels.

The Group and China Telecom Finance entered into the Financial Services Framework Agreement, pursuant to which China Telecom Finance has agreed to provide financial services to the Group, including deposit services, loan services and other financial services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (b) Transactions with associates of the Group and associates of CTC Group

The Group has entered into transactions with associates over which the Group or CTC Group can exercise significant influence. The transactions entered into by the Group and the associates are as follows:

	2022 RMB'000	2021 RMB'000
Engineering related service revenue (note (i))	3,592,264	4,224,040
IT application service revenue (note (ii))	274,224	247,179
Provision of ancillary telecommunications service revenue (note (iii))	1,685,313	1,767,348
Provision of operation support service revenue (note (iv))	123,892	136,671
Supplies procurement service revenue (note (v))	180,319	230,189
Property leasing service revenue (note (vi))	5,864	3,584
Property leasing service charges (note (vii))	384	2,574
IT application service charges (note (viii))	857,144	479,203
Operation support service charges (note (ix))	2,871,019	2,574,729
Supplies procurement service charges (note (x))	127,469	66,064
Interest expenses (note (xi))	6	18

Notes:

- (i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to associates of the Group and associates of CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to associates of the Group and associates of CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution channels; fixed line and wireless value-added services; internet contents and information services provided to associates of the Group and associates of CTC Group.
- (iv) The amount represents facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to associates of the Group and associates of CTC Group.
- (v) The amount represents supplies procurement services such as warehousing, transportation and installation and other related services provided to associates of the Group and associates of CTC Group.
- (vi) The amount represents rental received/receivable from operating leases in respect of business premises entered into with associates of the Group and associates of CTC Group.
- (vii) The amount represents rentals from short-term lease in respect of business premises paid and payable to associates of the Group.
- (viii) The amount represents charges paid and payable to associates of the Group and associates of CTC Group for basic telecommunications services, value-added services and information application services.
- (ix) The amount represents charges paid and payable to associates of the Group and associates of CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.
- (x) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xi) The amount represents interest paid and payable to associates of CTC Group in respect of lease liabilities from associates of CTC Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (b) Transactions with associates of the Group and associates of CTC Group (Continued)

Amounts due from/to associates of the Group and associates of CTC Group included in respective account balances are summarised as follows:

	2022 RMB'000	2021 RMB'000
Accounts and bills receivable, net	282,770	250,307
Contract assets, net	375,710	292,757
Prepayments and other current assets	1,083,392	894,883
Other non-current assets	6	363
Total amounts due from associates of the Group and associates of CTC Group	1,741,878	1,438,310
Accounts and bills payable	1,451,956	1,009,561
Contract liabilities	343,193	391,765
Current portion of lease liabilities	85	104
Lease liabilities	—	206
Accrued expenses and other payables	84,599	80,455
Total amounts due to associates of the Group and associates of CTC Group	1,879,833	1,482,091

The directors of the Company are of the opinion that the above transactions undertaken with related parties were conducted on normal commercial terms in the ordinary course of business.

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

The Company is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its affiliates (note 46(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are 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
- Leasing of assets
- Depositing and borrowing money
- 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 rendered and products sold based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 46. RELATED PARTIES (Continued)

## (c) Transactions with other government-related entities in the PRC (Continued)

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

## (d) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	6,836	6,915
Retirement benefits	2,755	2,680
Discretionary bonuses	19,557	17,922
	29,148	27,517

## (e) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 46(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 47. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated comprehensive smart solutions in the field of informatization and digitalization. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 48. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2022 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and paid up capital	Principal activities
			31 December 2022 Directly %	31 December 2021 Directly %		
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB2,688 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Holdings Group Company Limited	Limited Liability Company	The PRC	100	100	RMB998 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB1,286 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB281 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB578 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 48. SUBSIDIARIES (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and paid up capital	Principal activities
			31 December 2022 Directly %	31 December 2021 Directly %		
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB131 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 48. SUBSIDIARIES (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and paid up capital	Principal activities
			31 December 2022 Directly %	31 December 2021 Directly %		
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	100	RMB550 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services International Limited	Limited Liability Company	Hong Kong	100	100	HKD846.87 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	60.38	60.38	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	60	60	USD25 million	Provision of integrated telecommunications support services
Ningxia Hui Autonomous Region Communications Industrial Services Company Limited	Limited Liability Company	The PRC	100	100	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 48. SUBSIDIARIES (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and paid up capital	Principal activities
			31 December 2022 Directly %	31 December 2021 Directly %		
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB100 million	Provision of integrated telecommunications support services in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	51	51	RMB327 million	Provision of submarine cable installation and other related services
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB141 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province
China Comservice Supply Chain Management Company Ltd.	Limited Liability Company	The PRC	73.985	73.985	RMB1,255 million	Provision of integrated telecommunications support services
Inner Mongolia Autonomous Region Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB10 million	Provision of integrated telecommunications support services in Inner Mongolia Autonomous Region
Comservice Capital Holding Company Limited	Limited Liability Company	The PRC	100	100	RMB500 million	Management of Group capital
China Comservice Smart Property Development Co., Ltd.	Limited Liability Company	The PRC	100	NA	RMB50 million	Provision of property services

China Comservice Supply Chain Management Company Ltd., Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The cumulative carrying amount of the Group's non-controlling interests was RMB1,263 million as at 31 December 2022 (2021: RMB1,203 million). The non-controlling interests were individually and in aggregate not material to the Group's financial conditions or results of operations for both 2021 and 2022.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2022 RMB'000	31 December 2021 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment, net	1,585,933	1,684,338
Investment properties	1,542,924	1,548,314
Construction in progress	158	16,517
Intangible assets	98,794	131,807
Investments in subsidiaries	14,237,534	13,897,534
Interests in associates and joint ventures	816,159	796,254
Deposits at financial institutions with original maturity more than one year	5,249,225	2,100,000
<b>Total non-current assets</b>	<b>23,530,727</b>	20,174,764
<b>Current assets</b>		
Inventories	310	312
Accounts and bills receivable, net	4,226	50
Current portion of deposits at financial institutions with original maturity more than one year	110,587	—
Prepayments and other current assets	2,018,186	2,167,319
Short-term bank deposits and restricted cash	185	503,015
Cash and cash equivalents	14,135,829	132,562
<b>Total current assets</b>	<b>16,269,323</b>	2,803,258
<b>Total assets</b>	<b>39,800,050</b>	22,978,022
<b>Current liabilities</b>		
Contract liabilities	481	481
Accrued expenses and other payables	20,894,588	4,412,537
Income tax payable	2,936	5,136
<b>Total current liabilities</b>	<b>20,898,005</b>	4,418,154
<b>Net current assets (note (i))</b>	<b>(4,628,682)</b>	(1,614,896)
<b>Total assets less current liabilities</b>	<b>18,902,045</b>	18,559,868
<b>Non-current liabilities</b>		
Other non-current liabilities	—	—
<b>Total non-current liabilities</b>	<b>—</b>	—
<b>Total liabilities</b>	<b>20,898,005</b>	4,418,154
<b>Equity</b>		
Share capital	6,926,018	6,926,018
Reserves	11,976,027	11,633,850
<b>Total equity</b>	<b>18,902,045</b>	18,559,868
<b>Total liabilities and equity</b>	<b>39,800,050</b>	22,978,022

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Note:

- (i) The current assets of the Company were less than the current liabilities as at December 31, 2022. The current liabilities of RMB20,855 million were debts arising from amounts due to the subsidiaries of the Group, the Company will be able to decide the repayment plans at its own discretion to enable the Company to meet the liabilities as they fall due and carry on the business without a significant curtailment of operations.

The movements of equity of the Company are as follows:

	Share capital RMB'000 (note 40)	Share premium RMB'000	Capital reserve RMB'000	Statutory Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2021	6,926,018	4,529,310	1,966,293	1,560,954	3,235,655	18,218,230
Profit for the year	–	–	–	–	1,451,186	1,451,186
Distribution of dividends (note 14(b))	–	–	–	–	(1,109,548)	(1,109,548)
Appropriations	–	–	–	145,119	(145,119)	–
At 31 December 2021	6,926,018	4,529,310	1,966,293	1,706,073	3,432,174	18,559,868
Profit for the year	–	–	–	–	1,541,764	1,541,764
Distribution of dividends (note 14(b))	–	–	–	–	(1,199,587)	(1,199,587)
Appropriations	–	–	–	154,176	(154,176)	–
At 31 December 2022	6,926,018	4,529,310	1,966,293	1,860,249	3,620,175	18,902,045

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriations made to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 50. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS AND NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standard which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these consolidated financial statements.

IFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2024

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 51. 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.

	As at 1 January 2022 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	Lease modified RMB'000	As at 31 December 2022 RMB'000
Borrowings (note 34)	812,832	–	43,061	25,228	–	881,121
Dividends payable	31,016	1,251,559	(1,257,596)	1,477	–	26,456
Lease liabilities (note 36)	1,562,803	672,516	(529,557)	–	(125,647)	1,580,115
	2,406,651	1,924,075	(1,744,092)	26,705	(125,647)	2,487,692

  

	As at 1 January 2021 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	Lease modified RMB'000	As at 31 December 2021 RMB'000
Borrowings (note 34)	704,401	–	128,500	(20,069)	–	812,832
Dividends payable	40,901	1,118,154	(1,130,717)	2,678	–	31,016
Lease liabilities (note 36)	1,169,289	1,067,021	(526,134)	–	(147,373)	1,562,803
	1,914,591	2,185,175	(1,528,351)	(17,391)	(147,373)	2,406,651