For the year ended 31 December 2018

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 PRC that provides integrated comprehensive solutions in the field of informatisation 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, content 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 (as defined below) of CTC, a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring, the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the "Predecessor Operations") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

In connection with the Restructuring, the Predecessor Operations together with the related assets and liabilities that were to be transferred to the Group were segregated from CTC effective on 31 March 2006 (the "Restructuring"). The Restructuring comprised the following:

(i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1.00 each.

(iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

The above Restructuring procedures primarily resulted in an effect of the transfer from CTC to the Company of the operating assets and liabilities relating to the telecommunications related services carried on by the Predecessor Operations, which were previously owned or controlled by CTC prior to the Restructuring.

For the year ended 31 December 2018

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share upon the exercise of the overallotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by SSF was converted into H shares. On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. A total of 2,391,420,240 H shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC. Such acquisition was completed on 31 August 2007.

Pursuant to the Equity Transfer Agreements entered into by the Company and CTC and its subsidiaries on 26 May 2009, the Company acquired a 95.945% equity interest in Shanghai Tongmao Import & Export Co. Ltd ("Shanghai Tongmao") and a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent", now renamed as "Guoxun Innovation Software Technology Co., Ltd") for a total purchase price of RMB98.05 million.

For the year ended 31 December 2018

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC's subsidiaries on 20 June 2012, the Group completed acquisition on 30 June 2012 of (i) 100% equity interest in each of Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision"); and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") (collectively the "Target Interests"), for a consideration of RMB51.07 million.

Pursuant to the Equity Transfer Agreements entered into by the Group and China Telecommunications Corporation Industrial Assets Management Centre (a directly wholly-owned subsidiary of CTC) on 20 June 2012, the Group completed acquisition on 26 July 2012 of 51% equity interest in Sino-British Submarine Systems Co., Ltd. ("SBSS") and all the associated rights and obligations for a total consideration of RMB264.60 million.

The Company established China Comservice Supply Chain Management Company Ltd. in July 2015. The initial registered capital was RMB50 million. The Company paid the capital contribution of RMB10 million and RMB40 million respectively on 24 August 2015 and 30 March 2017. In December 2017, the registered capital of China Comservice Supply Chain Management Company Ltd was increased to RMB108.41 million. In 2018, the registered capital of China Comservice Supply Chain Management Company Ltd was increased to RMB928.73 million.

The Company established Inner Mongolia Autonomous Region Communications Services Company Limited in January 2016. The registered capital was RMB10 million. The Company paid the initial capital contribution of RMB5 million on 24 March 2016.

The Company established Comservice Capital Holding Company Limited in May 2017. The registered capital is RMB500 million. The Company paid the capital contribution of RMB100 million and RMB400 million respectively on 29 June 2017 and 29 June 2018.

In 2017, the Company's subsidiaries, Fujian Communications Services Company Limited, Hubei Communications Services Company Limited and Guizhou Communications Services Company Limited, made capital reduction of RMB30.41 million, RMB20 million and RMB8 million, respectively.

In 2018, the Company's subsidiaries, Guangdong Communications Services Company Limited, Zhejiang Communications Services Holdings Group Company Limited, Shanghai Communications Services Company Limited and Jiangsu Communications Services Company Limited, made capital reduction of RMB120 million, RMB100 million, RMB100.32 million and RMB100 million, respectively.

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 ("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 ("CO") 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 new and 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and its interests in associates and joint ventures.

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 leasing transactions that are within the scope of IAS 17 Leases, 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 44.

For the year ended 31 December 2018

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 as recorded by the enterprise being combined 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 cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

(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. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iii) Subsidiaries and non-controlling interests (continued)

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/IAS 39 Financial Instruments: Recognition and Measurement, 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.

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. Changes in net assets of associates or joint ventures other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

When the Group's share of losses exceeds its interest 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. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or joint venture.

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.

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 groups 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(k)).

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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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(k)). 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.

Rental income from investment properties is recognised over the term of the lease.

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

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.

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	20-30 years
Building improvements	5 years
Motor vehicles	5-10 years
Furniture, fixtures and other equipment	3-20 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(k)). 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's government authorities. Land use rights are carried at cost and are charged to profit or loss on a straight-line basis over the respective periods of the rights.

(i) 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(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other 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(k)).

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.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by Group under leases which do not transfer to the Group substantially all the risks and rewards of ownership are classified as being held under operating leases.

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) impairment of long-lived assets

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

– property, plant and equipment;

– investment properties;

– construction in progress;

– lease prepayments;

– goodwill; and

– other 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 units) and then, to reduce the carrying amount of the other assets in the unit (or group of 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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.

(m) 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 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) 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 fair value through profit or loss 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 (upon application of IFRS 9 in accordance with transitions in note 3.2)

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.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in 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 applies.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3.2) (continued)

(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 operating income" line item in profit or loss.

(iii) Financial assets at FVTPL

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

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 3.2)

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under IFRS 9 (including accounts receivable and financial assets included in prepayments and other current assets), lease receivables and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 3.2) (continued)

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 balances 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 operator.

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

(i) Significant increase in credit risk

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

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);
- 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).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 3.2) (continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. 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 adjusted by 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.

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 IAS 17 Leases.

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 receivable, contract assets, lease receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

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

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, available-for-sale ("AFS") financial assets and loans and receivables.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial assets is held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

– It has been acquired principally for the purpose of selling in the near term; or

– On initial recognition it is a 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 that is not designed and effective as hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

– Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit of loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

(ii) AFS financial assets

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

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

(ii) AFS financial assets (continued)

Investments in securities which do not fall into the above category are classified as available-for-sale securities carried at fair value. At each end of the reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from equity investments is recognised in profit or loss. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iii) Loans and receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts.

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

Investments in equity securities classified as available-for-sale securities and other current and non-current receivables that are stated at amortised cost are reviewed at each end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

– Significant financial difficulty of the debtor or the issuer;

– A breach of contract, such as default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

– For accounts receivable and other financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding what the amortised cost would have been determined had no impairment loss been recognised in prior years.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

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

– For available-for-sale securities carried at fair value that is considered to be impaired, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available for – sale equity securities carried at fair value are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When account and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Derecognition of financial assets

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

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition/initial application to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial liabilities and equity (continued)

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 classified as 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.

(n) 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 maturity at acquisition.

(o) 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 entity can no longer withdraw the offer of the termination benefit and when it recognised any related restructuring costs.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

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.

The carrying amount of a deferred tax asset is reviewed at each end of the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) 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.

(r) Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3.1)

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

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

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3.1) (continued)

As such, revenues from contracts with customers of major telecommunications support services, including construction, management of infrastructure for information technology and design are generally recognised over time during which the services are provided to customers.

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3.1) (continued)

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.

(s) Revenue recognition (before application of IFRS 15 on 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) Services rendered

Revenue from design services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period.

Revenue from other services rendered is recognised upon the delivery or performance of the services.

(iii) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (before application of IFRS 15 on 1 January 2018) (continued)

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) 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.

(u) Translation of foreign currencies

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 ("PBOC") 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. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) 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 46).

(x) Dividends or profit distributions

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

(y) 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.

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following new and amendments to IFRSs issued by IASB for the first time in the current year:

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

Except for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and the related Amendments as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 IFRS 15 Revenue from Contracts with Customers

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

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

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

(i) construction;

(ii) management of infrastructure for information technology; and

(iii) design.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 4 and 2(r) respectively.

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15

For the major service contracts of the Group, the timing of revenue recognition and the method to measure the progress towards complete satisfaction of the performance obligation generally remain the same under IFRS 15.

The Group assessed contracts with customers that were not completed at 1 January 2018. Certain contracts contained significant financing component under IFRS 15 and goods or services promised in certain contracts previously recognised separately under IAS 18 or IAS 11 were not distinct and accounted for as a single performance obligation under IFRS 15. The impacts of initial application of IFRS 15 on these contacts were neither individually nor collectively material.

The net effects arising from the initial application of IFRS 15 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB2 million.

The main adjustments made to the amounts recognised in the consolidated statement of financial position at 1 January 2018 were:

(i) At the date of initial application, unbilled revenues with net value of RMB7,550 million in respect of construction contracts previously included in unbilled revenues for contract work, and RMB4,137 million in respect of other service contracts previously included in accounts receivable were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balances were reclassified to contract assets.

(ii) As the date of initial application, advances from customers of RMB4,997 million in respect of construction contracts previously included in receipts in advances for contract work, and RMB3,293 million in respect of other service contracts previously included in accrued expenses and other payables, were reclassified to contract liabilities.

The impacts of applying IFRS 15 on the Group's consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for the current year were not material.

The main impacts on the amounts recognised in the consolidated statement of financial position at 31 December 2018 were:

(i) At 31 December 2018, unbilled revenues with net value of RMB15,665 million were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balance was classified as contract assets under IFRS 15, in contrast to being classified as unbilled revenues for contract work or accounts receivable under IAS 11 or IAS 18.

(ii) At 31 December 2018, advances from customers of RMB8,648 million was classified as contract liabilities under IFRS 15. In contrast, RMB5,517 million in respect of construction contracts would have been classified as receipts in advances for contract work under IAS 11, and RMB3,131 million in respect of other service contracts would have been classified as accrued expenses and other payables under IAS 18.

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3. CHANGES IN ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments

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

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

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

Accounting policies resulting from application of IFRS 9 are disclosed in note 2(m).

Summary of effects arising from initial application of IFRS 9

The classification and measurement (including impairment) of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018, are as followings:

(a) From available-for-sale financial assets to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale financial assets. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB852 million were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB795 million related to unlisted equity securities previously measured at cost less impairment under IAS 39. The fair value gain of RMB3,157 million relating to those unlisted equity instruments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and fair value reserve, and a corresponding deferred tax liabilities of RMB789 million have been recognised against fair value reserve as at 1 January 2018. The fair value gain of RMB35 million relating to those investments previously carried at fair value continued to accumulate in fair value reserve.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of wealth management products and structured deposits and these financial assets are mandatorily measured at FVTPL under IFRS 9, because the contractual terms of these financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As a result, the fair value of these investments of RMB1,262 million were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments (continued)

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

(c) Impairment under ECL model

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

Loss allowance for other financial assets at amortised cost mainly comprise of financial assets included in prepayments and other current assets, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB98 million related to accounts receivable and contract assets, and a corresponding deferred tax assets of RMB6 million have been recognised against retained earnings.

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

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

	31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Non-current assets				
Available-for-sale financial assets	851,560	–	(851,560)	–
Equity instruments at fair value through other comprehensive income	–	–	4,008,605	4,008,605
Deferred tax assets	542,672	–	5,818	548,490
Other non-current assets	240,523	3,493	–	244,016
Others with no adjustments	6,755,299	–	–	6,755,299
Total non-current asset	8,390,054	3,493	3,162,863	11,556,410
Current assets				
Inventories	2,275,735	10,314	–	2,286,049
Accounts and bills receivable, net	30,370,500	(11,703,674)	(47,257)	18,619,569
Contract assets, net	–	11,687,405	(50,473)	11,636,932
Others with no adjustments	29,698,562	–	–	29,698,562
Total current assets	62,344,797	(5,955)	(97,730)	62,241,112
Total assets	70,734,851	(2,462)	3,065,133	73,797,522

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

	31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Current liabilities				
Contract liabilities	–	8,289,875	–	8,289,875
Receipts in advance for contract work	4,997,284	(4,997,284)	–	–
Accrued expenses and other payables	11,320,729	(3,292,591)	–	8,028,138
Others with no adjustments	25,248,950	–	–	25,248,950
Total current liabilities	41,566,963	–	–	41,566,963
Net current assets	20,777,834	(5,955)	(97,730)	20,674,149
Total assets less current liabilities	29,167,888	(2,462)	3,065,133	32,230,559
Non-current liabilities				
Deferred tax liabilities	1,736	–	789,261	790,997
Others with no adjustments	346,501	–	–	346,501
Total non-current liabilities	348,237	–	789,261	1,137,498
Total liabilities	41,915,200	–	789,261	42,704,461
Equity				
Share capital	6,926,018	–	–	6,926,018
Reserves	21,403,080	(2,462)	2,276,259	23,676,877
Equity attributable to equity shareholders of the Company	28,329,098	(2,462)	2,276,259	30,602,895
Non-controlling interests	490,553	–	(387)	490,166
Total equity	28,819,651	(2,462)	2,275,872	31,093,061
Total liabilities and equity	70,734,851	(2,462)	3,065,133	73,797,522

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

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4. REVENUES

Revenues are derived from the provision of integrated telecommunications support services, net of sales taxes, and after allowance for sales discounts. The Group's revenues by business nature can be summarised as follows:

Disaggregation of revenue

	2018 RMB'000	2017 RMB'000
Revenue from telecommunications infrastructure services	57,359,436	50,510,988
Revenue from business process outsourcing services	35,102,822	32,763,685
Revenue from applications, content and other services	13,714,379	11,297,738
	106,176,637	94,572,411

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2018 amounted to RMB41,279 million and RMB21,219 million, respectively (2017: RMB41,568 million and RMB15,825 million, respectively), being 38.9% and 20.0% of the Group's total revenues, respectively (2017: 43.9% and 16.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2018 amounted to RMB3,155 million (2017: RMB2,836 million).

For the year ended 31 December 2018, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB42,863 million, RMB14,793 million and RMB10,605 million, respectively (2017: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB36,668 million, RMB12,829 million and RMB10,239 million, respectively).

The Group's rental income for the year ended 31 December 2018 amounted to RMB691 million (2017: RMB646 million).

The Group generally recognises major telecommunications support services, including construction, management of infrastructure for information technology and design, as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, or the Group's performance creates and 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 output method.

4. REVENUES (continued)

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Telecommunications infrastructure services RMB'000	Business process outsourcing services RMB'000	Applications, content and other services RMB'000
Within one year	24,689,360	1,157,455	1,218,627
More than one year but not more than two years	7,121,432	190,762	317,312
More than two years	7,417,621	86,278	230,202
	39,228,413	1,434,495	1,766,141

These amounts disclosed above do not include contracts with an original expected duration of one year or less.

5. COST OF REVENUES

	2018 RMB'000	2017 RMB'000
Depreciation and amortisation	466,096	472,621
Direct personnel costs	8,747,317	8,647,493
Operating lease charges	1,603,223	1,485,355
Materials costs	9,783,239	9,327,654
Direct costs of products distribution	4,629,177	6,594,772
Subcontracting charges	57,555,216	46,858,020
Others	10,507,403	8,974,136
	93,291,671	82,360,051

For the year ended 31 December 2018

6. OTHER OPERATING INCOME

	2018 RMB'000	2017 RMB'000
Interest income	**181,612**	202,679
Dividend income from equity instruments	**1,575**	77,732
Government grants	**279,285**	236,906
Gain on disposal of subsidiaries	**20,206**	11,759
Gain on disposal of property, plant and equipment, other intangible assets and lease prepayments	**78,641**	24,644
Penalty income	**3,929**	2,731
Management fee income	**329,335**	328,523
Write-back of non-payable liabilities	**37,184**	23,698
Investment income and fair value gains on wealth management products and structured deposits	**252,609**	47,875
Others	**60,513**	57,945
	1,244,889	1,014,492

7. OTHER OPERATING EXPENSES

	2018 RMB'000	2017 RMB'000
Loss on disposal of property, plant and equipment, construction in progress and other intangible assets	**30,053**	10,389
Donations	**1,264**	217
Penalty charge	**33,780**	28,017
Net foreign exchange loss	**23,899**	22,448
Others	**84,726**	65,207
	173,722	126,278

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	**25,179**	12,411
Interest for convertible preference shares and preference shares	**–**	34,708
	25,179	47,119

For the years ended 31 December 2018 and 2017, no borrowing costs were capitalised in relation to construction in progress.

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9. PROFIT BEFORE TAX

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

		2018 RMB'000	2017 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**14,213,728**	13,797,277
	Contributions to defined contribution retirement schemes	**1,395,705**	1,283,625
		15,609,433	15,080,902
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 16)	**659,181**	669,760
	– Investment properties (note 17)	**44,355**	43,595
	Amortisation		
	– Lease prepayments (note 19)	**26,727**	26,416
	– Other intangible assets (note 21)	**107,874**	88,670
	Auditors' remuneration	**34,495**	34,500
	Materials costs (note 27)	**9,783,239**	9,327,654
	Direct costs of products distribution (note 27)	**4,629,177**	6,594,772
	Write-down of inventories (note 27)	**30,819**	41,442
	Reversal of write-down of inventories (note 27)	**(2,875)**	(7,181)
	Impairment losses on accounts receivable, other receivables and contract assets	**611,430**	453,963
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(321,438)**	(286,998)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**(252,058)**	(17,362)
	Operating lease charges	**1,905,172**	1,775,369
	Research and development costs	**2,798,327**	2,554,834

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,071 million, RMB7,818 million and RMB722 million (2017: RMB1,689 million, RMB7,576 million and RMB620 million), respectively for the year ended 31 December 2018. Research and development costs include RMB2,290 million (2017: RMB2,041 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

10. INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Current tax		
PRC enterprise income tax	**521,154**	536,514
Overseas enterprise income tax	**34,782**	17,204
Deferred tax		
Origination and reversal of temporary differences (note 25)	**(58,531)**	(70,985)
Total income tax	**497,405**	482,733

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10. INCOME TAX (continued)

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**3,425,304**	3,231,811
Expected income tax expense at a statutory tax rate of 25% (2017: 25%) (note (i))	**856,326**	807,953
Differential tax rates on subsidiaries' income (note (i))	**(214,189)**	(233,706)
Non-deductible expenses (note (ii))	**132,397**	140,874
Non-taxable income	**(58,741)**	(44,655)
Tax losses not recognised	**51,879**	52,450
Utilisation of previously unrecognised tax losses	**(4,719)**	(27,819)
Over provision in respect of prior years	**(28,737)**	(38,012)
Effect of tax exemptions	**–**	(1,454)
Others (note (iii))	**(236,811)**	(172,898)
Income tax	**497,405**	482,733

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory 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 years ended 31 December 2018 and 2017, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

(ii) The amount includes personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iii) The amounts primarily represent the effect of additional deductions in research and development expense.

11. OTHER COMPREHENSIVE EXPENSE

Available-for-sale securities

	2018 RMB'000	2017 RMB'000
Changes in fair value recognised during the year	**–**	(14,826)
Net deferred tax charged to other comprehensive expense	**–**	2,223
Net movement in the fair value reserve during the year recognised in other comprehensive expense	**–**	(12,603)

Equity instruments at FVTOCI

	2018 RMB'000	2017 RMB'000
Changes in fair value recognised during the year	**(271,052)**	–
Net deferred tax charged to other comprehensive expense	**65,986**	–
Net movement in the fair value reserve during the year recognised in other comprehensive expense	**(205,066)**	–

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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 2018 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	2018 Total RMB'000
Executive Directors						
Zhang Zhiyong (chairman, appointed on 16 March 2018)	–	–	–	–	–	–
Sun Kangmin (chairman, resigned on 16 March 2018)	–	–	–	–	–	–
Si Furong	–	259	768	98	–	1,125
Zhang Xu (appointed on 13 December 2018)	–	25	46	13	–	84
Hou Rui (resigned on 13 December 2018)	–	165	662	84	–	911
	–	449	1,476	195	–	2,120
Non-Executive Directors						
Li Zhengmao	–	–	–	–	–	–
Shao Guanglu	–	–	–	–	–	–
	–	–	–	–	–	–
Independent Non-Executive Directors						
Zhao Chunjun (resigned on 13 December 2018)	150	–	–	–	–	150
Siu Wai Keung, Francis	280	–	–	–	–	280
Lv Tingjie	150	–	–	–	–	150
Wu Taishi	150	–	–	–	–	150
Liu linfei	150	–	–	–	–	150
	880	–	–	–	–	880
Supervisors						
Han Fang	–	–	–	–	–	–
Hai Liancheng	75	–	–	–	–	75
Si Jianfei	–	172	452	84	–	708
	75	172	452	84	–	783
Total directors' and supervisors' emoluments						3,783

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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 2017 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	2017 Total RMB'000
Executive Directors						
Sun Kangmin (chairman)	–	–	–	–	–	–
Si Furong	–	244	586	91	–	921
Hou Rui	–	177	536	84	–	797
	–	421	1,122	175	–	1,718
Non-Executive Directors						
Li Zhengmao	–	–	–	–	–	–
Shao Guanglu (appointed on 23 June 2017)	–	–	–	–	–	–
Zhang Junan (resigned on 10 March 2017)	–	–	–	–	–	–
	–	–	–	–	–	–
Independent Non-Executive Directors						
Zhao Chunjun	150	–	–	–	–	150
Siu Wai Keung, Francis	280	–	–	–	–	280
Lv Tingjie	150	–	–	–	–	150
Wu Taishi	150	–	–	–	–	150
Liu linfei	150	–	–	–	–	150
	880	–	–	–	–	880
Supervisors						
Han Fang	–	–	–	–	–	–
Hai Liancheng	75	–	–	–	–	75
Si Jianfei	–	155	399	76	–	630
	75	155	399	76	–	705
Total directors' and supervisors' emoluments						3,303

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12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Note:

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

The emoluments of executive directors, Mr. Zhang Zhiyong and Mr. Sun Kangmin, non-executive directors, Mr. Li Zhengmao, Mr. Shao Guanglu and Mr. Zhang Junan, and supervisor, Ms. Han Fang, were not borne by the Group.

The emoluments of executive directors, Mr. Si Furong, Ms. Zhang Xu and Ms. Hou Rui, were for their services 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 as directors of the Company.

The emoluments of a supervisor, Mr. Hai Liancheng were in connection with his services as a supervisor of the Company and the emoluments of a supervisor, Mr. Si Jianfei, were for his services 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:

	2018	2017
Directors and supervisors	**–**	–
Non-director and non-supervisor employees	**5**	5
	5	5

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

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and other benefits in kind	**2,420**	2,642
Discretionary bonuses	**4,420**	3,439
Pension scheme contributions	**504**	428
	7,344	6,509

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

	2018	2017
RMB equivalent		
1,000,001 to 1,500,000	**3**	4
1,500,001 to 2,000,000	**2**	1

(b) Senior management's remuneration

The number of the senior management (not including non-director and non-supervisor employees presented in note 13(a)) whose remuneration fell within the following bands:

	2018	2017
RMB equivalent		
Nil to 1,000,000	**16**	19
1,000,001 to 2,000,000	**5**	–

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14. DIVIDENDS

(a) Dividends attributable to the year

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1257 per share (2017: RMB0.1176 per share)	**870,601**	814,500
Special dividend proposed after the end of reporting period of RMB0.0251 per share (2017: RMB0.0235 per share)	**173,843**	162,761
	1,044,444	977,261

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

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1176 per share (2017: RMB0.1098 per share)	**814,500**	760,477
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0235 per share (2017: RMB0.0220 per share)	**162,761**	152,372
	977,261	912,849

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 2018 of RMB2,901,324 thousand (2017: RMB2,714,213 thousand) and number of shares in issue during the year ended 31 December 2018 of 6,926,018 thousand shares (2017: 6,926,018 thousand shares).

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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 2018	3,425,185	629,049	1,608,769	3,944,527	9,607,530
Transfer to investment properties (note 17)	(57,855)	–	–	(225)	(58,080)
Transfer from investment properties (note 17)	20,340	–	–	–	20,340
Transfer from construction in progress (note 18)	378,072	3,944	6,102	28,003	416,121
Additions	41,904	76,935	129,435	295,085	543,359
Disposals	(52,987)	(12,827)	(146,937)	(301,194)	(513,945)
As at 31 December 2018	3,754,659	697,101	1,597,369	3,966,196	10,015,325
Accumulated depreciation and impairment losses					
As at 1 January 2018	1,294,001	481,318	1,035,009	2,606,827	5,417,155
Transfer to investment properties (note 17)	(24,080)	–	–	–	(24,080)
Transfer from investment properties (note 17)	8,059	–	–	–	8,059
Depreciation charge	140,855	61,029	147,545	309,752	659,181
Depreciation written back on disposals	(23,522)	(12,972)	(137,307)	(252,211)	(426,012)
Impairment loss eliminated on disposals	–	–	–	(3,678)	(3,678)
As at 31 December 2018	1,395,313	529,375	1,045,247	2,660,690	5,630,625
Net carrying value					
As at 31 December 2018	2,359,346	167,726	552,122	1,305,506	4,384,700
As at 1 January 2018	2,131,184	147,731	573,760	1,337,700	4,190,375

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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
Cost					
As at 1 January 2017	3,308,068	584,034	1,599,665	3,848,020	9,339,787
Transfer to investment properties (note 17)	(131,767)	–	–	–	(131,767)
Transfer from investment properties (note 17)	5,453	–	–	–	5,453
Transfer from construction in progress (note 18)	115,255	10,426	5,640	32,609	163,930
Additions	146,397	41,609	115,520	300,530	604,056
Disposals	(18,221)	(7,020)	(112,056)	(236,632)	(373,929)
As at 31 December 2017	3,425,185	629,049	1,608,769	3,944,527	9,607,530
Accumulated depreciation and impairment losses					
As at 1 January 2017	1,217,764	434,308	987,482	2,484,617	5,124,171
Transfer to investment properties (note 17)	(48,580)	–	–	–	(48,580)
Transfer from investment properties (note 17)	4,877	–	–	–	4,877
Depreciation charge	126,756	54,030	150,410	338,564	669,760
Depreciation written back on disposals	(6,816)	(7,020)	(102,733)	(215,446)	(332,015)
Impairment loss eliminated on disposals	–	–	(150)	(908)	(1,058)
As at 31 December 2017	1,294,001	481,318	1,035,009	2,606,827	5,417,155
Net carrying value					
As at 31 December 2017	2,131,184	147,731	573,760	1,337,700	4,190,375
As at 1 January 2017	2,090,304	149,726	612,183	1,363,403	4,215,616

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

Up to the date of issue 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 RMB218 million as at 31 December 2018 (2017: RMB306 million). 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.

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17. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost		
As at 1 January	**1,185,369**	1,074,075
Additions	**–**	913
Transfer from property, plant and equipment (note 16)	**58,080**	131,767
Transfer to property, plant and equipment (note 16)	**(20,340)**	(5,453)
Disposals	**(13,603)**	(15,933)
As at 31 December	**1,209,506**	1,185,369
Accumulated depreciation		
As at 1 January	**547,502**	466,152
Transfer from property, plant and equipment (note 16)	**24,080**	48,580
Transfer to property, plant and equipment (note 16)	**(8,059)**	(4,877)
Depreciation charge	**44,355**	43,595
Depreciation written back on disposals	**(4,437)**	(5,948)
As at 31 December	**603,441**	547,502
Net carrying value		
As at 31 December	**606,065**	637,867
As at 1 January	**637,867**	607,923
Fair value	**2,390,014**	2,358,034

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

The fair value measurement of the Group's investment properties is categorised into 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 reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

The current use of the investment properties is their highest and best use.

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17. 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 under non-cancellable operating leases were as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	109,734	172,422
After 1 year but within 5 years	289,064	137,732
After 5 years	74,880	72,985
As at 31 December	473,678	383,139

During the year ended 31 December 2018, RMB143 million (2017: RMB132 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB53 million (2017: RMB33 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

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 value of approximately RMB32 million as at 31 December 2018 (2017: RMB37 million). 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.

18. CONSTRUCTION IN PROGRESS

	2018 RMB'000	2017 RMB'000
Cost:		
As at 1 January	539,359	454,339
Additions	286,700	349,184
Disposals	(1,424)	(2,838)
Transfer to other intangible assets (note 21)	(61,587)	(97,396)
Transfer to property, plant and equipment (note 16)	(416,121)	(163,930)
Transfer to lease prepayments (note 19)	(4,500)	–
As at 31 December	342,427	539,359

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19. LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
As at 1 January	**1,016,044**	1,011,485
Additions	**20,409**	6,644
Transfer from construction in progress (note 18)	**4,500**	–
Disposals	**(18,694)**	(2,085)
As at 31 December	**1,022,259**	1,016,044
Released to profit or loss:		
As at 1 January	**277,158**	251,245
Amortisation charge	**26,727**	26,416
Disposals	**(4,298)**	(503)
As at 31 December	**299,587**	277,158
Net carrying value:		
As at 31 December	**722,672**	738,886
As at 1 January	**738,886**	760,240

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights are located in the PRC and are with remaining terms ranging from 10 to 62 years as at 31 December 2018.

20. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost and carrying amount	**103,005**	103,005

	2018 RMB'000	2017 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of cash-generating units containing goodwill arising from the acquisition of CITCC are 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 rates is 10.44% (2017: 12.87%).

For the year ended 31 December 2018

20. GOODWILL (continued)

Cash flows beyond the five years period are extrapolated using zero growth rate. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amount are based would not cause these entities' carrying amounts to exceed their recoverable amounts.

Key assumptions used for the value in use calculations for these entities are the gross margin and revenue. 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 was based on the revenue in the period immediately before the budget period.

21. OTHER INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
Cost:		
As at 1 January	**864,157**	744,846
Additions	**76,707**	54,150
Transfer from construction in progress (note 18)	**61,587**	97,396
Disposals	**(24,335)**	(32,235)
As at 31 December	**978,116**	864,157
Accumulated amortisation:		
As at 1 January	**538,467**	473,653
Amortisation charge	**107,874**	88,670
Written back on disposals	**(23,564)**	(23,856)
As at 31 December	**622,777**	538,467
Net carrying value:		
As at 31 December	**355,339**	325,690
As at 1 January	**325,690**	271,193

Other intangible assets mainly represent computer software used in telecommunications infrastructure projects.

22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**318,059**	220,117

The Group's associates and joint ventures are unlisted, 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.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 RMB'000
Unlisted equity securities, at cost	795,223
Listed equity securities, at quoted market price	56,337
	851,560

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The equity instruments mainly represent ordinary shares of entities listed in 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 at initial application of IFRS 9 as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2018 RMB'000	31 December 2017 RMB'000	**31 December 2018 RMB'000**	31 December 2017 RMB'000	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Impairment losses, primarily for receivables and inventories	**308,864**	274,737	**–**	–	**308,864**	274,737
Revaluation of property, plant and equipment	**–**	–	**(68)**	(68)	**(68)**	(68)
Unused tax losses (note (i))	**30,343**	26,850	**–**	–	**30,343**	26,850
Changes in fair value	**–**	–	**(741,215)**	(6,878)	**(741,215)**	(6,878)
Unpaid expenses	**282,995**	241,085	**–**	–	**282,995**	241,085
Others	**–**	–	**1,091**	5,210	**1,091**	5,210
Deferred tax assets (liabilities)	**622,202**	542,672	**(740,192)**	(1,736)	**(117,990)**	540,936

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25. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the years ended 31 December 2018 and 2017 are as follows:

	As at 31 December 2017 RMB'000	Adjustments RMB'000 (note 3)	As at 1 January 2018 RMB'000 (restated)	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2018 RMB'000
Impairment losses, primarily for receivables and inventories	274,737	5,818	280,555	28,309	–	308,864
Revaluation of property, plant and equipment	(68)	–	(68)	–	–	(68)
Unused tax losses (note (i))	26,850	–	26,850	3,493	–	30,343
Changes in fair value	(6,878)	(789,261)	(796,139)	(11,062)	65,986	(741,215)
Unpaid expenses	241,085	–	241,085	41,910	–	282,995
Others	5,210	–	5,210	(4,119)	–	1,091
Deferred tax assets (liabilities)	540,936	(783,443)	(242,507)	58,531	65,986	(117,990)

	As at 1 January 2017 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2017 RMB'000
Impairment losses, primarily for receivables and inventories	250,571	24,166	–	274,737
Revaluation of property, plant and equipment	(10,066)	9,998	–	(68)
Unused tax losses (note (i))	21,374	5,476	–	26,850
Changes in fair value	(9,101)	–	2,223	(6,878)
Unpaid expenses	208,051	33,034	–	241,085
Others	6,899	(1,689)	–	5,210
Deferred tax assets (liabilities)	467,728	70,985	2,223	540,936

Notes:

(i) Expiry of recognised tax losses

	2018 RMB'000	2017 RMB'000
Year of expiry		
2018	–	18,285
2019	17,092	33,230
2020	2,439	881
2021	43,719	43,851
2022	79,068	80,936
2023	56,856	–
	199,174	177,183

(ii) As at 31 December 2018, the Group has not recognised deferred tax assets in respect of tax losses of RMB840.6 million (2017: RMB977.7 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2019 to 2023 (2017: 2018 to 2022).

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26. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the capital paid (see note 51), the long-term receivables arising from provision of telecommunications infrastructure services and prepaid rent for buildings and equipment.

27. INVENTORIES

	2018 RMB'000	2017 RMB'000
Construction materials	**817,973**	523,132
Finished goods	**1,333,760**	1,524,912
Spare parts and consumables	**101,294**	227,691
	2,253,027	2,275,735

The analysis of the amount of inventories recognised as costs and expenses is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories consumed and sold		
– Materials costs	**9,783,239**	9,327,654
– Direct costs of products distribution	**4,629,177**	6,594,772
Reversal of write-down of inventories	**(2,875)**	(7,181)
Write-down of inventories	**30,819**	41,442
	14,440,360	15,956,687

28. ACCOUNTS AND BILLS RECEIVABLE, NET

	2018 RMB'000	2017 RMB'000
Bills receivable	**276,034**	119,314
Accounts receivable	**19,806,523**	23,979,276
Unbilled revenues for contract work	**–**	7,615,867
	20,082,557	31,714,457
Less: allowance for credit losses	**(1,414,533)**	(1,343,957)
	18,668,024	30,370,500

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB10,620 million (2017: RMB20,023 million) as at 31 December 2018. The amounts due from CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be recovered within one year.

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28. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(b) The ageing analysis of accounts and bills receivable (net of allowance for credit losses) based on credit terms is as follows:

	2018 RMB'000	2017 RMB'000
Current	**1,736,665**	12,865,705
Within 1 year	**14,839,588**	15,273,116
After 1 year but less than 2 years	**1,376,626**	1,529,211
After 2 years but less than 3 years	**435,583**	488,983
After 3 years	**279,562**	213,485
	18,668,024	30,370,500

(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(m)).

For the year ended 31 December 2017, the movement in allowance for doubtful debts, including both specific and collective loss components, is as follows:

	2017 RMB'000
At 1 January	1,326,998
Impairment loss recognised	291,828
Reversal of impairment loss previously recognised	(244,957)
Uncollectible amounts written off	(29,912)
At 31 December	1,343,957

At 31 December 2017, accounts and bills receivable of RMB1,448 million were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB607 million were recognised for the year ended 31 December 2017.

Details of impairment assessment of accounts receivable for the year ended 31 December 2018 are set out in note 43(a).

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28. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(d) Accounts and bills receivable that is not impaired

At 31 December 2017, the ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2017 RMB'000
Neither past due nor impaired	12,865,705
Past due but not impaired	
Within 1 year	13,628,836
After 1 year but less than 2 years	820,597
After 2 years but less than 3 years	286,870
After 3 years	187,959
	27,789,967

At 31 December 2017, receivables that were neither past due nor impaired mainly relate to major telecommunications operators for whom there was no recent record of default.

At 31 December 2017, receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

29. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2017 are RMB15,626 million.

In respect of construction contracts in progress at the end of the reporting period, the amounts of retentions held by customers for contract work, recorded within "Accounts and bills receivable, net" at 31 December 2017 are RMB88 million.

30. CONTRACT ASSETS, NET

	As at 31 December 2018 RMB'000	As at 1 January 2018* RMB'000
Telecommunications infrastructure services	13,219,615	9,715,834
Business process outsourcing services	647,111	778,861
Applications, content and other services	2,028,796	1,258,425
	15,895,522	11,753,120
Less: allowance for credit losses	(230,764)	(116,188)
	15,664,758	11,636,932

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

The contract assets relate to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date 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.

Details of the impairment assessment are set out in note 43(a).

For the year ended 31 December 2018

31. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018 RMB'000	2017 RMB'000
Advances to staff	**86,002**	111,689
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,726,998**	1,825,722
Prepayments in connection with construction work and equipment purchases	**2,722,854**	2,582,519
Prepaid expenses and deposits	**1,397,136**	1,256,574
Wealth management products and structured deposits	**–**	3,750,000
Others	**2,713,133**	2,288,625
	8,646,123	11,815,129

The amounts due from CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be recovered within one year.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2018 and 2017, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to gold price, foreign exchange rates or floating interest rate.

	2018 RMB'000	2017 RMB'000
Wealth management products	**–**	557,579
Structured deposits	**5,046,898**	704,830
Foreign currency forward contract	**–**	105
	5,046,898	1,262,514

As at 31 December 2018 and 2017, the Group has the rights to redeem the wealth management products and structured deposits at expected maturity dates within 12 months after the end of reporting period.

33. RESTRICTED DEPOSITS

Restricted deposits 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. Restricted deposits carry interest at prevailing market interest rates.

34. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash at bank and in hand	**16,011,556**	12,557,327
Deposits at bank with original maturity less than three months	**94,690**	709,304
Cash and cash equivalents	**16,106,246**	13,266,631

Bank balances carry interest at prevailing market interest rates.

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

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35. INTEREST-BEARING BORROWINGS

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

	2018 RMB'000	2017 RMB'000
RMB denominated		
Loan from CTC Group		
– unsecured	13,280	13,280
USD denominated		
Borrowings from banks		
– unsecured	393,947	284,218
Other denominated		
Borrowings from banks		
– unsecured	54,776	11,378
	462,003	308,876

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

	2018	2017
RMB denominated		
Loan from CTC Group		
– unsecured	2.39%	2.39%
USD denominated		
Borrowings from banks		
– unsecured (fixed interest rate)	3.43%-4.90%	3.43%-4.08%
– unsecured (floating interest rate)	London Interbank Offered Rate ("Libor") +1.00%-1.35%	Libor +2.81%-3.31%
Other denominated		
Borrowings from banks		
– unsecured	2.45%-9.24%	7.95%-9.20%

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

	2018 RMB'000	2017 RMB'000
USD denominated		
Borrowings from banks		
– unsecured	8,922	17,642

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

	2018	2017
USD denominated		
Borrowings from banks		
– unsecured	3.43%-3.83%	3.43%-3.83%

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35. INTEREST-BEARING BORROWINGS (continued)

The Group's borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**462,003**	308,876
After 1 year but within 2 years	**8,922**	9,148
After 2 years but within 5 years	**–**	8,494
	470,925	326,518

As at 31 December 2018 and 2017, no borrowings from bank were subject to financial covenants.

36. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2018 RMB'000	2017 RMB'000
Accounts payable	**27,067,452**	23,723,340
Bills payable	**1,212,081**	877,341
	28,279,533	24,600,681

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**25,945,423**	22,989,350
After 1 year but less than 2 years	**1,651,120**	1,029,424
After 2 years but less than 3 years	**364,176**	308,399
After 3 years	**318,814**	273,508
	28,279,533	24,600,681

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,118 million (2017: RMB1,146 million) as at 31 December 2018. The amounts due to CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be settled within one year.

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37. CONTRACT LIABILITIES

	As at 31 December 2018 RMB'000	As at 1 January 2018* RMB'000
Telecommunications infrastructure services	**6,865,112**	6,823,157
Other services	**1,782,948**	1,466,718
	8,648,060	8,289,875

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

When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to contract liabilities, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

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

	Telecommunications infrastructure services RMB'000	Other services RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**6,792,991**	1,441,206

38. ACCRUED EXPENSES AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Wages and welfare payable	**1,587,977**	1,639,626
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	**443,187**	1,430,565
Advance lease payments received	**29,364**	–
Receipts in advance from third parties	**–**	2,303,211
Other taxes payable	**650,481**	690,908
Special dividend and profit distribution payable to CTC Group (note (ii))	**29,300**	34,514
Dividend payable	**22,832**	24,299
Payables for construction and purchase of property, plant and equipment	**33,758**	40,218
Others (note (iii))	**6,220,528**	5,157,388
	9,017,427	11,320,729

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38. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

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

(ii) Special dividend and profit distribution payable to CTC Group

As disclosed in the Prospectus of the Company dated 27 November 2006, in accordance with the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance and a resolution passed on 1 November 2006, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 1 April 2006 to 29 August 2006, being the calendar day immediately preceding to the date of incorporation of the Company. In the same resolution, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 30 August 2006 to the calendar day immediately preceding the date of its listing on the Stock Exchange (i.e. 7 December 2006) (together, the "2006 special dividend").

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB533 million special dividend to CTC and its subsidiaries by 31 December 2018.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB170 million has been paid to CTC and its subsidiaries by 31 December 2018.

(iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

39. OTHER NON-CURRENT LIABILITIES

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

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40. SHARE CAPITAL

	2018 RMB'000	2017 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2017: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2017: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2018 Thousand shares	2017 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 with regard to the Company's residual assets.

(a) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by strengthening their leading position as 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 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 debt as the sum of short-term interest bearing borrowings and long-term interest bearing. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2018 was 1.4% (2017: 1.1%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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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 13% to 27% (2017: 18% to 22%) of the salaries, bonuses and certain allowances of the employees.

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

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2018, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2018 RMB'000	2017 RMB'000
Contracted for but not provided	**500,340**	421,950

(b) Operating lease commitments

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**508,960**	430,716
After 1 year but within 5 years	**630,437**	438,698
After 5 years	**162,405**	93,711
	1,301,802	963,125

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities and no material financial guarantees issued.

For the year ended 31 December 2018

43. 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 and movements in its own equity share price.

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 67% of the total accounts and bills receivable as at 31 December 2018 (2017: 74%). 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 cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on wealth management products and structured deposits is limited because the counterparties are reputable financial institutions.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, contract assets, other receivables, available-for-sale financial assets 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.

The Group recognises a loss allowance for ECL upon application of IFRS 9 (2017: incurred loss model) 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 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.

43. 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 based on shared credit risk characteristics.

The contract assets relate to unbilled revenues 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. As at 31 December 2018, the credit loss allowance of contract assets was not material.

The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL. Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB1,984 million as at 31 December 2018 were assessed individually. In addition, 100% loss allowance provision has been made regarding balances due from telecommunications operators aged over 4 years of RMB243 million and balances due from non-telecom operator aged over 3 years of RMB261 million as at 31 December 2018.

	Expected loss rate	Gross Carrying amount RMB'000	Loss Allowance provision RMB'000
Telecommunications operators			
Within 1 year	0.3%	11,367,532	(34,103)
After 1 year but within 2 years	2%	984,086	(19,682)
After 2 years but within 3 years	20%	309,931	(61,986)
After 3 years but within 4 years	50%	76,110	(38,055)
		12,737,659	(153,826)
Non-telecom operator			
Within 1 year	1%	4,008,595	(40,086)
After 1 year but within 2 years	10%	400,721	(40,072)
After 2 years but within 3 years	20%	171,995	(34,399)
		4,581,311	(114,557)

Expected loss rates are based on actual loss experience over the past 1 to 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

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

	RMB'000
As at 31 December 2017 – under IAS 39	1,343,957
Adjustment upon application of IFRS 15	(65,715)
Adjustment upon application of IFRS 9	47,257
As at 1 January 2018 – As restated	1,325,499
Changes due to financial assets recognised as at 1 January:	
– Impairment loss recognised	246,561
– Impairment loss reversed	(255,339)
– Uncollectible amounts written off	(44,305)
New financial assets originated	142,117
As at 31 December 2018	**1,414,533**

The Group writes off an accounts receivable when there is information indicating that the 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 proceedings.

(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 are disclosed in note 35.

The Group is also exposed to cash flow interest rate risk in relation to wealth management products and structured deposits, and 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 rate.

The management of the Group considers the fluctuation in interest rates on wealth management products and structured deposits, and short-term debts carrying interests at variable rates is insignificant. Therefore, no sensitivity analysis is presented.

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43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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 term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial 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 can be required to pay:

	2018		2017	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000
Short-term interest-bearing borrowings (note 35)	**467,332**	**462,003**	313,144	308,876
Accounts and bills payable (note 36)	**28,279,533**	**28,279,533**	24,600,681	24,600,681
Contract liabilities (note 37)	**8,648,060**	**8,648,060**	–	–
Receipt in advance for contract work	**–**	**–**	4,997,284	4,997,284
Accrued expenses and other payables (note 38)	**9,017,427**	**9,017,427**	11,320,729	11,320,729
	46,412,352	**46,407,023**	41,231,838	41,227,570

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 95.3% (2017: 94.7%) of the Group's cash and cash equivalents and 2.8% (2017: 4.1%) of the Group's short-term debt and long-term debt as at 31 December 2018 are denominated in RMB.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

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43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk

	Exposure to foreign currencies (expressed in RMB) 31 December 2018					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	313,705	83,530	96,929	91,751	4,058	163,371
Accounts receivable	319,950	82,539	4,848	133,615	4,424	234,293
Contract assets	90,031	32,777	–	61,374	45,887	210,747
Accounts payable	(61,963)	(315,046)	(24,878)	(44,009)	(32,893)	(159,448)
Short-term interest-bearing borrowings	(393,947)	–	–	–	–	(54,776)
Long-term interest-bearing borrowings	(8,922)	–	–	–	–	–
Overall net exposure	258,854	(116,200)	76,899	242,731	21,476	394,187

	Exposure to foreign currencies (expressed in RMB) 31 December 2017					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	378,339	57,190	77,734	27,380	7,867	155,708
Accounts receivable	247,197	107,280	24,096	134,835	28,729	412,053
Accounts payable	(55,904)	(192,188)	(22,583)	(36,152)	(27,902)	(67,640)
Short-term interest-bearing borrowings	(284,218)	–	–	–	–	(11,378)
Long-term interest-bearing borrowings	(17,642)	–	–	–	–	–
Overall net exposure	267,772	(27,718)	79,247	126,063	8,694	488,743

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2018	2017	2018	2017
United States dollars	6.70	6.74	6.86	6.53
Hong Kong dollars	0.86	0.87	0.88	0.84
Nigerian Naira	0.02	0.02	0.02	0.02
Saudi Arabian Riyal	1.79	1.80	1.83	1.74
Ethiopian Birr	0.24	0.28	0.24	0.24

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43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2018			2017		
	Strengthen/ (weaken) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Strengthen/ (weaken) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	5%	9,707	–	5%	10,041	–
	(5)%	(9,707)	–	(5)%	(10,041)	–
Hong Kong dollars	5%	(4,358)	–	5%	(1,039)	–
	(5)%	4,358	–	(5)%	1,039	–
Nigerian Naira	5%	2,884	–	5%	2,972	–
	(5)%	(2,884)	–	(5)%	(2,972)	–
Saudi Arabian Riyal	5%	9,102	–	5%	4,727	–
	(5)%	(9,102)	–	(5)%	(4,727)	–
Ethiopian Birr	5%	805	–	5%	326	–
	(5)%	(805)	–	(5)%	(326)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(e) Price risk

The Group is exposed to equity price changes arising from listed equity investments designated as at FVTOCI (2017: available-for-sale securities). Other than certain unquoted equity securities held for long term strategic purposes, all of these investments are listed.

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 potential and are monitored regularly for performance against expectations.

The price risk on wealth management products and structured deposits is limited because maturity period of these investments is short.

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43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Price risk (continued)

At 31 December 2018, it is estimated that an increase/(decrease) of 5% (2017: 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:

	2018		2017	
	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%	139,843	5%	2,394
Decrease	(5%)	(139,843)	(5%)	(2,394)

The sensitivity analysis indicates the instantaneous change in the Group's other components of consolidated equity that would arise 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.

(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.

	2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	42,684	–	3,694,869	3,737,553
Financial assets at fair value through profit or loss – Wealth management products and structured deposits (note (ii))	–	–	5,046,898	5,046,898

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43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

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

	2018			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading financial liabilities				
– Foreign currency forward contract	**–**	**192**	**–**	**192**

	2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Available-for-sale securities				
– Listed equity securities	56,337	–	–	56,337
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	1,262,409	1,262,409
– Trading financial assets				
– Foreign currency forward contract	–	105	–	105
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading financial liabilities				
– Foreign currency forward contract	–	702	–	702

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 immediately following the initial public offering. At 31 December 2018, the Group involves external valuer to determine the fair value of the listed equity security that is within the restricted period, based on the quoted price of the identical unrestricted shares traded in stock exchange and adjusted to reflect the effect of restriction. An increase in the discount rate of lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa. A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB30 million.

(ii) At the end of each reporting period, the Group determines the fair value of the wealth management products and structured deposits by estimating the discounted cash flow upon them. The future cash flows are estimated based on expected recoverable amounts, and discounted at a rate that reflects the credit risk of various counterparties.

For the year ended 31 December 2018

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(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
As at 1 January 2018	**3,952,268**	**1,262,409**
Purchase	**–**	**10,650,000**
Settlements	**–**	**(6,900,000)**
Total gains (losses)		
– in profit or loss	**–**	**34,489**
– in other comprehensive income	**(257,399)**	**–**
As at 31 December 2018	**3,694,869**	**5,046,898**

	Wealth management products and structured deposits RMB'000
As at 1 January 2017	–
Purchase	1,250,000
Total gains	
– in profit or loss	12,409
As at 31 December 2017	1,262,409

(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.

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44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 20, other significant accounting estimates and judgements are summarised as follows:

(a) Revenue recognition of construction service

As explained in note 2(r), revenue from construction service are recognised over time. Revenue recognition of construction service on an uncompleted project is dependent on estimating the progress towards complete satisfaction of the performance obligation, which is based on output method. Actual outputs may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue recognised in future years as an adjustment to the amounts recorded to date.

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

The Group uses provision matrix to calculate ECL for the accounts receivable and contract assets. The provision rates are based on nature of debtors as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, accounts receivable and contract assets with significant balances and credit impaired are assessed for ECL individually. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 43(a), 28 and 30 respectively.

(c) Impairment of long-lived assets other than goodwill

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in note 2(k). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(d) Depreciation and amortisation

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

For the year ended 31 December 2018

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Deferred tax assets

The recognition of deferred tax assets requires assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets are included within the consolidated statement of financial position. Deferred tax assets are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income. Recognition therefore, involves the management's judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised and interpretation of country specific tax law and the likelihood of settlement. However, the actual tax assets could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit or loss.

(f) 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 43(f) for further disclosures.

45. RELATED PARTIES

The Group is part of companies under CTC Group and has significant transactions and relationships with members of CTC Group. Apart from the transactions and balances disclosed in the consolidated financial statements set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Because of the relationships between the Group and CTC Group, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

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

	2018 **RMB'000**	2017 RMB'000
Income from related parties:		
Engineering related services (note (i))	**18,646,185**	21,155,069
IT application services (note (ii))	**2,386,995**	2,382,179
Provision of ancillary telecommunications services (note (iii))	**13,975,887**	11,041,170
Provision of operation support services (note (iv))	**3,092,211**	2,791,206
Supplies procurement services (note (v))	**3,079,803**	4,093,562
Property leasing services (note (vi))	**97,532**	104,823
Management fee (note (vii))	**329,335**	328,523
Expenses paid to related parties:		
Property leasing services (note (viii))	**237,519**	199,920
IT application services (note (ix))	**285,363**	267,508
Operation support services (note (x))	**703,993**	949,854
Supplies procurement services (note (xi))	**1,811,076**	2,121,726
Interest (note (xii))	**1,403**	3,477

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45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

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.

(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 operating 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/payable to CTC Group in respect of the loans from CTC Group.

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

	2018 **RMB'000**	2017 RMB'000
Accounts and bills receivable, net	**10,279,477**	19,645,020
Contract assets, net	**9,086,987**	–
Prepayments and other current assets	**776,901**	1,028,318
Total amounts due from CTC Group	**20,143,365**	20,673,338
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**449,365**	594,455
Contract liabilities	**650,723**	–
Receipts in advance for contract work	**–**	221,555
Accrued expenses and other payables	**392,438**	603,262
Total amounts due to CTC Group	**1,505,806**	1,432,552

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45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

As at 31 December 2018, the Group has recognised credit losses of RMB243 million (2017: RMB221 million) in respect of amounts due from CTC Group.

As at 31 December 2018, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2018 RMB'000	2017 RMB'000
Contracted for but not provided	446,466	346,003

As at 31 December 2018, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	133,571	114,948
After 1 year but within 5 years	202,647	169,098
After 5 years	64,383	38,546
	400,601	322,592

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.

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (v) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ended 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ended 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2016 and increased annual caps of several framework agreements. On 29 September 2015, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group under Engineering Framework Agreement for the year ended 31 December 2015 to RMB24,000 million, and the annual cap for the service charges payable by the Company to CTC Group under Operation Support Service Framework Agreement for the year ended 31 December 2015 ("2015 Agreements ") to RMB800 million, and signed agreements which extended the expiry date of all agreements to 31 December 2018 and increased annual caps of several framework agreements. On 28 September 2018, the Company entered into the 2018 Supplemental Agreements with CTC based on the 2015 Agreements to renew each of the 2015 Agreements for a further term of three years from 1 January 2019 to 31 December 2021.

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45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2018, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB24,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB15,600 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement were RMB3,600 million and RMB1,100 million; respectively (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement were RMB2,900 million and RMB490 million respectively; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB450 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement were RMB220 million and RMB240 million respectively; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement were RMB10,000 million and RMB7,000 million respectively. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(i) 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 service, 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 a tender.

(ii) 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 based on market rate, with reference to amounts stipulated by local price bureau.

(iii) 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 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 service; (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 cost, local commodity prices and economic development levels.

For the year ended 31 December 2018

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

(iv) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. 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 party.

(v) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. 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 service; (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 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 cost, local commodity prices and economic development levels.

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45. 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:

	2018 RMB'000	2017 RMB'000
Income from related parties:		
Engineering related services (note (i))	**3,217,170**	3,746,707
IT application services (note (ii))	**54,935**	86,977
Provision of ancillary telecommunications services (note (iii))	**1,565,142**	1,207,694
Provision of operation support services (note (iv))	**68,366**	69,312
Supplies procurement services (note (v))	**149,113**	245,476
Property leasing services (note (vi))	**2,543**	2,441
Expenses paid to related parties:		
Property leasing services (note (vii))	**6,200**	5,669
IT application services (note (viii))	**3,078**	44,920
Operation support services (note (ix))	**350,278**	69,138
Supplies procurement service (note (x))	**188**	–

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 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 associates of the Group and associates of CTC Group.

(iv) The amount represents the 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 service such as warehousing, transportation and installation and other related services provided to associates of CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to associates of CTC Group.

(vii) The amount represents rentals from operating leases in respect of business premises paid and payable to associates of the Group.

(viii) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for basic telecommunications service, value-added service and information application service.

(ix) The amount represents the charge 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 for supplies procurement services, warehousing, transportation and installation services.

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45. 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 balances are summarised as follows:

	2018 RMB'000	2017 RMB'000
Accounts and bills receivable, net	**340,641**	378,224
Contract assets, net	**173,010**	–
Prepayments and other current assets	**950,097**	797,404
Total amounts due from associates of the Group and associates of CTC Group	**1,463,748**	1,175,628
Accounts and bills payable	**668,839**	551,232
Contract liabilities	**761,110**	–
Receipts in advance for contract work	**–**	235,263
Accrued expenses and other payables	**80,049**	861,817
Total amounts due to associates of the Group and associates of CTC Group	**1,509,998**	1,648,312

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.

(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 45(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

– Lease 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 and products 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.

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

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45. RELATED PARTIES (continued)

(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:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	6,737	6,679
Retirement benefits	2,069	1,715
Discretionary bonuses	17,148	14,415
	25,954	22,809

(e) Contributions to defined contribution retirement plans

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 13% to 27% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 31 December 2018 and 2017, there was no material outstanding contribution to post-employment benefit plans.

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

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 45(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section to the annual report.

46. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated telecommunications support services in the informatisation sector. 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.

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47. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2018 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 2018 Directly %	31 December 2017 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	RMB876 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	RMB297 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
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

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47. 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 2018 Directly %	31 December 2017 Directly %		
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
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

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47. SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2018 Directly %	31 December 2017 Directly %	Issued and paid up capital	Principal activities
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
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	100	100	RMB929 million	Provision of integrated telecommunications support services
Inner Mongolia Autonomous Region Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB5 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

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 Group's cumulative non-controlling interest is RMB498 million as at 31 December 2018 (2017: RMB491 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for both years.

For the year ended 31 December 2018

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets		
Property, plant and equipment, net	17,230	20,316
Construction in progress	36,028	23,951
Other intangible assets	96,909	108,359
Investments in subsidiaries	13,572,534	12,772,534
Interests in associates and joint ventures	28,284	24,600
Other non-current assets	750,000	–
Total non-current assets	14,500,985	12,949,760
Current assets		
Inventories	329	333
Prepayments and other current assets	2,304,791	2,861,360
Cash and cash equivalents	228,791	505,624
Total current assets	2,533,911	3,367,317
Total assets	17,034,896	16,317,077
Current liabilities		
Accrued expenses and other payables	83,320	74,414
Income tax payable	3,572	1,942
Total current liabilities	86,892	76,356
Net current assets	2,447,019	3,290,961
Total assets less current liabilities	16,948,004	16,240,721
Total liabilities	86,892	76,356
Equity		
Share capital	6,926,018	6,926,018
Reserves	10,021,986	9,314,703
Total equity	16,948,004	16,240,721
Total liabilities and equity	17,034,896	16,317,077

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48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movements of shareholders' 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 2017	6,926,018	4,529,310	1,966,293	951,760	1,785,234	16,158,615
Profit for the year	–	–	–	–	994,955	994,955
Distribution of dividend (see note 14(b))	–	–	–	–	(912,849)	(912,849)
Appropriation	–	–	–	99,496	(99,496)	–
At 31 December 2017	6,926,018	4,529,310	1,966,293	1,051,256	1,767,844	16,240,721
Profit for the year	**–**	**–**	**–**	**–**	**1,684,544**	**1,684,544**
Distribution of dividend (see note 14(b))	**–**	**–**	**–**	**–**	**(977,261)**	**(977,261)**
Appropriation	**–**	**–**	**–**	**168,454**	**(168,454)**	**–**
At 31 December 2018	**6,926,018**	**4,529,310**	**1,966,293**	**1,219,710**	**2,306,673**	**16,948,004**

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 appropriation to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

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49. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretation which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these consolidated financial statements.

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

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49. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2018 (continued)

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Under IAS 17, the Group has already recognised lease prepayments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,302 million as disclosed in note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.

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

For the year ended 31 December 2018

50. 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 2018 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	As at 31 December 2018 RMB'000
Borrowings (note 35)	326,518	–	132,963	11,444	470,925
Dividends payable	58,813	990,850	(1,013,058)	15,527	52,132
Others	–	5,615	(5,615)	–	–
	385,331	996,465	(885,710)	26,971	523,057

	As at 1 January 2017 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	As at 31 December 2017 RMB'000
Borrowings (note 35)	64,040	–	267,058	(4,580)	326,518
Convertible preference shares and preference shares	693,700	–	(659,658)	(34,042)	–
Dividends payable	83,967	924,615	(938,242)	(11,527)	58,813
Others	–	(28,958)	28,958	–	–
	841,707	895,657	(1,301,884)	(50,149)	385,331

51. EVENT AFTER THE REPORTING PERIOD

The Company, CTC and China Telecom Corporation Limited entered into an agreement on 22 June 2018, to jointly establish China Telecom Group Finance Co., Ltd., a non-banking financial institution, which is approved by China Banking and Insurance Regulatory Commission. The Company paid the capital subscribed of RMB750 million in 2018 and China Telecom Group Finance Co., Ltd. was legally established on 8 January 2019.

52. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2018, the directors of the Company consider the immediate and ultimate holding company of the Group to be CTC, a state-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.