

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 smart solutions in the field of informatization and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 over-allotment 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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 (the "IASB"). IFRSs include all applicable individual IFRSs, International Accounting Standards ("IASs") and related interpretations. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and its interests in associates and joint ventures.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 43.

(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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(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.

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

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

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

(d) Goodwill

Goodwill represents the excess of

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

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

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

(e) Investment properties

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

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

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

(f) Property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(j)). Cost comprises direct costs of construction, capitalisation of interest charge and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

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

(h) Intangible assets (other than goodwill)

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

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

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

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

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(j)).

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

Both the period and method of amortisation are reviewed annually.

(i) Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, or modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

Except for short-term leases and leases of low-value assets, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at the commencement date of the lease. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

The lease payments include:

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

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

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

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessee (continued)

Covid-19-related rent concessions

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

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

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

The Group as a lessor

Classification and measurement of leases

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

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

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

Sublease

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessor (continued)

Lease modification

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

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

(j) Impairment of long-lived assets

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

- property, plant and equipment;
- right-of-use assets;
- investment properties;
- construction in progress;
- goodwill; and
- 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 cash-generating units) and then, to reduce the carrying amount of the other assets in the unit (or group of cash-generating units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable or zero.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

– 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.

(k) Inventories

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

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

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

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

(l) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* ("IFRS 3") applies.

(i) *Amortised cost and interest income*

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

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

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the fair value reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets (continued)

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

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

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

The Group always recognises lifetime ECL for accounts receivable, lease receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant 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 operators.

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

(i) Significant increase in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in the financial instrument's external (if available);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets (continued)

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

(ii) *Definition of default*

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

(iii) *Credit-impaired financial assets*

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

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

(iv) *Write-off policy*

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

(v) *Measurement and recognition of ECL*

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

(i) Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

(ii) Financial liabilities at amortised cost

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

(iii) Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Cash and cash equivalents

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

(n) Employee benefits

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

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

(ii) Termination benefits

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

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial recognition for a business combination, the tax effect is included in the accounting for the business combination.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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

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

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

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(q) Revenue from contracts with customers

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

A performance obligation represents a 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue from contracts with customers (continued)

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

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

As such, revenues from contracts with customers of major telecommunications support services, including construction, 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. Some construction service contracts with non-telecom operators do not meet any of the criteria for recognising revenue over time and thus revenues from these contracts are recognised at a point in time when the control over the services 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue from contracts with customers (continued)

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.

Existence of significant financing component

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

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

Principal versus agent

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Government grants

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

(s) Translation of foreign currencies

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.

(t) 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.

(u) Segment reporting

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

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

The Group principally has one operating segment and hence no segment information is provided (see note 45).

(v) Dividends or profit distributions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control 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.

3. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|--------------------------------|
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |

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

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. REVENUES

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|--------------------|-----------------|
| Revenue from telecommunications infrastructure services | 67,164,571 | 64,688,815 |
| Revenue from business process outsourcing services | 37,276,879 | 36,637,180 |
| Revenue from applications, content and other services | 18,207,494 | 16,087,094 |
| | 122,648,944 | 117,413,089 |

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 2020 amounted to RMB41,777 million and RMB19,285 million, respectively (2019: RMB40,633 million and RMB23,881 million, respectively), being 34.1% and 15.7% of the Group's total revenues, respectively (2019: 34.6% and 20.3%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2020 amounted to RMB3,095 million (2019: RMB3,266 million).

For the year ended 31 December 2020, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and system integration, the revenues from which amounted to RMB52,953 million, RMB15,794 million and RMB11,180 million, respectively (2019: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and supply chain, the revenues from which amounted to RMB50,735 million, RMB15,827 million and RMB10,320 million, respectively).

The Group's rental income for the year ended 31 December 2020 amounted to RMB670 million (2019: RMB714 million).

Revenue from contracts with non-telecom operators for construction services signed in 2020 but not yet completed on 31 December 2020 amounted to RMB6,772 million (2019: RMB5,733 million).

The Group generally recognises major telecommunications support services, including construction, management of infrastructure for information technology, design, logistics and warehousing in supply chain, as performance obligations 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 or enhances an asset that the customer controls as the Groups performs. Revenue is recognised for these services by measuring the progress towards complete satisfaction of each performance obligation mainly using output method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. REVENUES (continued)

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 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 |
|--|---|---|---|
| As at 31 December 2020 | | | |
| Within one year | 37,891,935 | 2,908,711 | 3,891,190 |
| More than one year but not more than two years | 11,497,911 | 767,858 | 1,054,434 |
| More than two years | 8,436,798 | 2,010,168 | 1,352,822 |
| | 57,826,644 | 5,686,737 | 6,298,446 |
| As at 31 December 2019 | | | |
| Within one year | 27,780,074 | 1,548,614 | 2,287,248 |
| More than one year but not more than two years | 9,039,588 | 705,149 | 576,260 |
| More than two years | 7,045,049 | 177,752 | 378,213 |
| | 43,864,711 | 2,431,515 | 3,241,721 |

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

5. COST OF REVENUES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|--------------------|-----------------|
| Depreciation and amortisation | 827,413 | 756,976 |
| Direct personnel costs | 8,300,338 | 9,111,016 |
| Expense relating to short-term leases and leases of low-value assets | 1,056,466 | 1,117,275 |
| Materials costs | 15,057,234 | 12,838,003 |
| Direct costs of products distribution | 4,067,599 | 4,167,579 |
| Subcontracting charges | 67,166,028 | 64,462,508 |
| Others | 12,436,230 | 11,272,773 |
| | 108,911,308 | 103,726,130 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. OTHER OPERATING INCOME

| | 2020 | 2019 |
|--|------------------|-----------|
| | RMB'000 | RMB'000 |
| Interest income | 290,493 | 245,370 |
| Dividend income from equity instruments at FVTOCI | 161,920 | 143,868 |
| Government grants | 349,498 | 283,910 |
| Gain on disposal of associates | – | 687 |
| Gain on disposal of property, plant and equipment, other intangible assets, leasehold lands, construction in progress and termination of lease contracts | 6,211 | 61,295 |
| Penalty income | 4,569 | 3,001 |
| Management fee income | 382,224 | 370,324 |
| Write-back of non-payable liabilities | 24,717 | 54,806 |
| Investment income and fair value gains on wealth management products and structured deposits | 189,592 | 216,349 |
| Others | 278,565 | 175,145 |
| | 1,687,789 | 1,554,755 |

7. OTHER OPERATING EXPENSES

| | 2020 | 2019 |
|--|----------------|---------|
| | RMB'000 | RMB'000 |
| Impairment losses on property, plant and equipment | 965 | – |
| Loss on disposal of property, plant and equipment, construction in progress and other intangible assets | 14,873 | 16,450 |
| Donations | 2,189 | 2,430 |
| Penalty charge and compensation | 56,006 | 199,790 |
| Net foreign exchange loss | 42,415 | 11,944 |
| Others | 100,354 | 102,685 |
| | 216,802 | 333,299 |

8. FINANCE COSTS

| | 2020 | 2019 |
|---------------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Interest on bank and other borrowings | 21,942 | 32,478 |
| Interest on lease liabilities | 41,540 | 36,410 |
| | 63,482 | 68,888 |

For the years ended 31 December 2020 and 2019, no borrowing costs were capitalised in relation to construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. PROFIT BEFORE TAX

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-----------------|
| (a) Staff costs: | | |
| Salaries, wages and other benefits | 15,209,385 | 14,948,888 |
| Contributions to defined contribution retirement schemes | 1,021,958 | 1,708,579 |
| | 16,231,343 | 16,657,467 |
| (b) Other items: | | |
| Depreciation | | |
| – Property, plant and equipment (note 16) | 668,398 | 682,691 |
| – Right-of-use assets (note 17) | 488,178 | 388,392 |
| – Investment properties (note 18) | 42,977 | 43,585 |
| Amortisation | | |
| – Other intangible assets (note 21) | 150,677 | 136,950 |
| Auditors' remuneration | 35,095 | 34,695 |
| Materials costs (note 26) | 15,057,234 | 12,838,003 |
| Direct costs of products distribution (note 26) | 4,067,599 | 4,167,579 |
| Write-down of inventories (note 26) | 64,267 | 56,174 |
| Reversal of write-down of inventories (note 26) | (3,668) | (18,186) |
| Impairment losses on accounts receivable, other receivables and contract assets | 579,422 | 560,178 |
| Reversal of impairment losses on accounts receivable, other receivables and contract assets | (452,235) | (295,548) |
| Investment income and fair value gains of financial instruments at fair value through profit or loss | (208,492) | (220,203) |
| Expense relating to short-term leases and leases of low-value assets | 1,268,302 | 1,329,436 |
| Research and development costs | 3,781,598 | 3,275,915 |

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,379 million, RMB8,930 million and RMB517 million (2019: RMB2,306 million, RMB8,482 million and RMB706 million), respectively for the year ended 31 December 2020. Research and development costs include RMB2,915 million (2019: RMB2,604 million) relating to staff costs, amount of which is also included in the staff costs disclosed in note 9(a).

10. INCOME TAX

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Current tax | | |
| PRC enterprise income tax | 373,271 | 466,882 |
| Overseas enterprise income tax | 41,926 | 55,224 |
| Deferred tax | | |
| Origination and reversal of temporary differences (note 24) | (16,919) | (58,304) |
| Total income tax | 398,278 | 463,802 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. INCOME TAX (continued)

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

| | 2020 | 2019 |
|--|------------------|-----------|
| | RMB'000 | RMB'000 |
| Profit before tax | 3,487,598 | 3,493,601 |
| Expected income tax expense at a statutory tax rate of 25% (2019: 25%) (note (i)) | 871,900 | 873,400 |
| Differential tax rates on subsidiaries' income (note (ii)) | (210,176) | (203,262) |
| Non-deductible expenses (note (ii)) | 221,891 | 137,586 |
| Non-taxable income | (121,044) | (73,091) |
| Tax losses not recognised | 102,781 | 93,957 |
| Utilisation of previously unrecognised tax losses | (8,775) | (25,231) |
| Over provision in respect of prior years | (20,360) | (30,567) |
| Others (note (iii)) | (437,939) | (308,990) |
| Income tax | 398,278 | 463,802 |

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 2020 and 2019, 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 INCOME

| | 2020 | 2019 |
|--|-----------------|----------|
| | RMB'000 | RMB'000 |
| Changes in fair value of equity instruments at FVTOCI recognised during the year | 274,265 | 350,651 |
| Deferred tax charged to other comprehensive income | (68,690) | (87,199) |
| Net movement in the fair value reserve during the year recognised in other comprehensive income | 205,575 | 263,452 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020 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 | 2020 Total RMB'000 |
|--|----------------|--|---|---|-----------------------|
| Executive Directors | | | | | |
| Zhang Zhiyong (chairman) | - | - | - | - | - |
| Huang Xiaoqing (appointed on 21 October 2020) | - | 60 | 82 | 13 | 155 |
| Si Furong (resigned on 21 October 2020) | - | 289 | 624 | 106 | 1,019 |
| Zhang Xu | - | 173 | 549 | 70 | 792 |
| | - | 522 | 1,255 | 189 | 1,966 |
| Non-Executive Directors | | | | | |
| Gao Tongqing (appointed on 15 June 2020) | - | - | - | - | - |
| Mai Yanzhou (appointed on 15 June 2020) | - | - | - | - | - |
| Li Zhengmao (resigned on 20 March 2020) | - | - | - | - | - |
| Shao Guanglu (resigned on 20 March 2020) | - | - | - | - | - |
| | - | - | - | - | - |
| Independent Non-Executive Directors | | | | | |
| Siu Wai Keung, Francis | 300 | - | - | - | 300 |
| Lv Tingjie | 170 | - | - | - | 170 |
| Wu Taishi | 170 | - | - | - | 170 |
| Liu linfei | 170 | - | - | - | 170 |
| | 810 | - | - | - | 810 |
| Supervisors | | | | | |
| Han Fang | - | - | - | - | - |
| Hai Liancheng | 85 | - | - | - | 85 |
| Si Jianfei | - | 194 | 519 | 69 | 782 |
| | 85 | 194 | 519 | 69 | 867 |
| Total directors' and supervisors' emoluments | | | | | 3,643 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2019 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 | 2019 Total RMB'000 |
|--|----------------|--|---|---|-----------------------|
| Executive Directors | | | | | |
| Zhang Zhiyong (chairman) | – | – | – | – | – |
| Si Furong | – | 280 | 917 | 128 | 1,325 |
| Zhang Xu | – | 167 | 448 | 83 | 698 |
| | – | 447 | 1,365 | 211 | 2,023 |
| Non-Executive Directors | | | | | |
| Li Zhengmao | – | – | – | – | – |
| Shao Guanglu | – | – | – | – | – |
| | – | – | – | – | – |
| Independent Non-Executive Directors | | | | | |
| Siu Wai Keung, Francis | 300 | – | – | – | 300 |
| Lv Tingjie | 170 | – | – | – | 170 |
| Wu Taishi | 170 | – | – | – | 170 |
| Liu linfei | 170 | – | – | – | 170 |
| | 810 | – | – | – | 810 |
| Supervisors | | | | | |
| Han Fang | – | – | – | – | – |
| Hai Liancheng | 85 | – | – | – | 85 |
| Si Jianfei | – | 183 | 517 | 102 | 802 |
| | 85 | 183 | 517 | 102 | 887 |
| Total directors' and supervisors' emoluments | | | | | 3,720 |

Note:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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:

| | 2020 | 2019 |
|---|------|------|
| 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Salaries, allowances and other benefits in kind | 1,995 | 2,514 |
| Discretionary bonuses | 4,972 | 4,265 |
| Pension scheme contributions | 477 | 744 |
| | 7,444 | 7,523 |

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

| | 2020 | 2019 |
|------------------------|------|------|
| RMB equivalent | | |
| 1,000,001 to 1,500,000 | 3 | 3 |
| 1,500,001 to 2,000,000 | 2 | 2 |

(b) Senior management's remuneration

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

| | 2020 | 2019 |
|------------------------|------|------|
| RMB equivalent | | |
| Nil to 1,000,000 | 18 | 16 |
| 1,000,001 to 2,000,000 | 3 | 5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. DIVIDENDS**(a) Dividends attributable to the year**

| | 2020 | 2019 |
|--|------------------|-----------|
| | RMB'000 | RMB'000 |
| Final dividend proposed after the end of reporting period of RMB0.1335 per share (2019: RMB0.1321 per share) | 924,623 | 914,927 |
| Special dividend proposed after the end of reporting period of RMB0.0267 per share (2019: RMB0.0264 per share) | 184,925 | 182,847 |
| | 1,109,548 | 1,097,774 |

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

| | 2020 | 2019 |
|---|------------------|-----------|
| | RMB'000 | RMB'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1321 per share (2019: RMB0.1257 per share) | 914,927 | 870,601 |
| Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0264 per share (2019: RMB0.0251 per share) | 182,847 | 173,843 |
| | 1,097,774 | 1,044,444 |

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 2020 of RMB3,081,475 thousand (2019: RMB3,049,229 thousand) and number of shares in issue during the year ended 31 December 2020 of 6,926,018 thousand shares (2019: 6,926,018 thousand shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020 | 3,920,051 | 764,773 | 1,557,242 | 3,989,967 | 10,232,033 |
| Transfer to investment properties (note 18) | (13,781) | – | – | – | (13,781) |
| Transfer from investment properties (note 18) | 989 | – | – | – | 989 |
| Transfer from construction in progress (note 19) | 94,123 | 25,915 | 2,542 | 100,638 | 223,218 |
| Additions | 25,315 | 20,164 | 101,745 | 293,537 | 440,761 |
| Disposals | (10,105) | (6,105) | (103,079) | (338,211) | (457,500) |
| As at 31 December 2020 | 4,016,592 | 804,747 | 1,558,450 | 4,045,931 | 10,425,720 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES | | | | | |
| As at 1 January 2020 | 1,530,065 | 602,134 | 1,034,219 | 2,696,364 | 5,862,782 |
| Transfer to investment properties (note 18) | (12,104) | – | – | – | (12,104) |
| Transfer from investment properties (note 18) | 913 | – | – | – | 913 |
| Depreciation charge | 144,593 | 69,518 | 121,613 | 332,674 | 668,398 |
| Depreciation written back on disposals | (5,571) | (2,256) | (99,023) | (319,117) | (425,967) |
| Impairment loss | – | – | – | 965 | 965 |
| As at 31 December 2020 | 1,657,896 | 669,396 | 1,056,809 | 2,710,886 | 6,094,987 |
| NET CARRYING VALUE | | | | | |
| As at 31 December 2020 | 2,358,696 | 135,351 | 501,641 | 1,335,045 | 4,330,733 |
| As at 1 January 2020 | 2,389,986 | 162,639 | 523,023 | 1,293,603 | 4,369,251 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2019 | 3,754,659 | 697,101 | 1,597,369 | 3,966,196 | 10,015,325 |
| Transfer to investment properties (note 18) | (80) | – | – | – | (80) |
| Transfer from investment properties (note 18) | 817 | – | – | – | 817 |
| Transfer from construction in progress (note 19) | 170,303 | 13,639 | 2,078 | 48,982 | 235,002 |
| Additions | 32,622 | 56,991 | 114,926 | 301,855 | 506,394 |
| Disposals | (38,270) | (2,958) | (157,131) | (327,066) | (525,425) |
| As at 31 December 2019 | 3,920,051 | 764,773 | 1,557,242 | 3,989,967 | 10,232,033 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES | | | | | |
| As at 1 January 2019 | 1,395,313 | 529,375 | 1,045,247 | 2,660,690 | 5,630,625 |
| Transfer to investment properties (note 18) | (39) | – | – | – | (39) |
| Transfer from investment properties (note 18) | 399 | – | – | – | 399 |
| Depreciation charge | 139,402 | 74,664 | 135,276 | 333,349 | 682,691 |
| Depreciation written back on disposals | (5,010) | (1,905) | (146,304) | (297,675) | (450,894) |
| As at 31 December 2019 | 1,530,065 | 602,134 | 1,034,219 | 2,696,364 | 5,862,782 |
| NET CARRYING VALUE | | | | | |
| As at 31 December 2019 | 2,389,986 | 162,639 | 523,023 | 1,293,603 | 4,369,251 |
| As at 1 January 2019 | 2,359,346 | 167,726 | 552,122 | 1,305,506 | 4,384,700 |

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 RMB296 million as at 31 December 2020 (2019: RMB286 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS

| | Leasehold lands RMB'000 | Buildings RMB'000 | Motor vehicles RMB'000 | Other equipment RMB'000 | Total RMB'000 |
|---|-------------------------------|----------------------|------------------------------|-------------------------------|------------------|
| As at 31 December 2020 | | | | | |
| Carrying amount | 878,477 | 1,100,535 | 1,670 | 65,323 | 2,046,005 |
| As at 31 December 2019 | | | | | |
| Carrying amount | 872,116 | 983,708 | 1,757 | 38,415 | 1,895,996 |
| For the year ended 31 December 2020 | | | | | |
| Depreciation charge | 24,698 | 437,240 | 1,358 | 24,882 | 488,178 |
| For the year ended 31 December 2019 | | | | | |
| Depreciation charge | 24,448 | 329,118 | 1,260 | 33,566 | 388,392 |
| | | | | 2020 | 2019 |
| | | | | RMB'000 | RMB'000 |
| Expense relating to short-term leases | | | | 1,234,860 | 1,223,446 |
| Expense relating to leases of low-value assets, excluding short-term leases of low value assets | | | | 33,442 | 105,990 |
| Total cash outflow for leases | | | | 1,768,649 | 1,867,601 |
| Additions to right-of-use assets | | | | 692,922 | 769,652 |

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

The Group entered into short-term leases mainly for buildings, motor vehicles and other equipment. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

As at 31 December 2020, the Group entered into new leases for buildings, motor vehicles and other equipment that have not yet commenced, the total future undiscounted cash flows over the non-cancellable period amounted to RMB655 million (2019: RMB1,519 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INVESTMENT PROPERTIES

| | 2020 | 2019 |
|---|------------------|-----------|
| | RMB'000 | RMB'000 |
| Cost | | |
| As at 1 January | 1,210,486 | 1,209,506 |
| Additions | 27,580 | 1,717 |
| Transfer from property, plant and equipment (note 16) | 13,781 | 80 |
| Transfer to property, plant and equipment (note 16) | (989) | (817) |
| Disposals | (72) | – |
| As at 31 December | 1,250,786 | 1,210,486 |
| Accumulated depreciation | | |
| As at 1 January | 646,666 | 603,441 |
| Transfer from property, plant and equipment (note 16) | 12,104 | 39 |
| Transfer to property, plant and equipment (note 16) | (913) | (399) |
| Depreciation charge | 42,977 | 43,585 |
| Depreciation written back on disposals | (70) | – |
| As at 31 December | 700,764 | 646,666 |
| Net carrying value | | |
| As at 31 December | 550,022 | 563,820 |
| As at 1 January | 563,820 | 606,065 |
| Fair value | 2,685,137 | 2,641,598 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INVESTMENT PROPERTIES (continued)

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------|-----------------|-----------------|
| Within one year | 142,256 | 120,525 |
| In the second year | 81,972 | 75,742 |
| In the third year | 60,070 | 61,088 |
| In the fourth year | 49,787 | 36,643 |
| In the fifth year | 41,241 | 26,750 |
| After five years | 129,943 | 90,170 |
| As at 31 December | 505,269 | 410,918 |

During the year ended 31 December 2020, RMB127 million (2019: RMB146 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB53 million (2019: RMB57 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 RMB50 million as at 31 December 2020 (2019: RMB25 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.

19. CONSTRUCTION IN PROGRESS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Cost: | | |
| As at 1 January | 282,365 | 342,427 |
| Additions | 3,478,159 | 304,235 |
| Disposals | (202) | (6,873) |
| Transfer to other intangible assets (note 21) | (69,010) | (120,622) |
| Transfer to property, plant and equipment (note 16) | (223,218) | (235,002) |
| Transfer to leasehold lands | – | (1,800) |
| As at 31 December | 3,468,094 | 282,365 |

As at 31 December 2020, construction in progress primarily comprise purchased property under renovation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. GOODWILL

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Cost and carrying amount | 103,005 | 103,005 |
| | 2020 RMB'000 | 2019 RMB'000 |
| Impairment testing for group of cash-generating units containing goodwill China International Telecommunications Construction Corporation ("CITCC") | 103,005 | 103,005 |

The recoverable amount of group of cash-generating units containing goodwill arising from the acquisition of CITCC is 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 11.46% (2019: 12.07%). The financial budgets and discount rate have been reassessed as at 31 December 2020 taking into consideration higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets.

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

Key assumptions used for the value in use calculations are the gross margin and revenue. 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. Management believes any reasonably possible change in the key assumptions would not cause the group of cash-generating units' carrying amount to exceed its recoverable amount.

21. OTHER INTANGIBLE ASSETS

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|-----------------|
| Cost: | | |
| As at 1 January | 1,254,562 | 978,116 |
| Additions | 116,994 | 171,473 |
| Transfer from construction in progress (note 19) | 69,010 | 120,622 |
| Disposals | (25,251) | (15,649) |
| As at 31 December | 1,415,315 | 1,254,562 |
| Accumulated amortisation: | | |
| As at 1 January | 749,284 | 622,777 |
| Amortisation charge | 150,677 | 136,950 |
| Written back on disposals | (20,356) | (10,443) |
| As at 31 December | 879,605 | 749,284 |
| Net carrying value: | | |
| As at 31 December | 535,710 | 505,278 |
| As at 1 January | 505,278 | 355,339 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------|------------------|-----------------|
| Share of net assets | 1,351,368 | 418,336 |

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

23. 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 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.

24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net balance | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
| Impairment losses, primarily for receivables and inventories | 348,742 | 346,229 | - | - | 348,742 | 346,229 |
| Revaluation of property, plant and equipment | - | - | (68) | (68) | (68) | (68) |
| Unused tax losses (note (i)) | 29,393 | 49,726 | - | - | 29,393 | 49,726 |
| Changes in fair value | - | - | (894,674) | (833,399) | (894,674) | (833,399) |
| Unpaid expenses | 319,121 | 290,904 | - | - | 319,121 | 290,904 |
| Others | 3,482 | 3,482 | (1,170) | (277) | 2,312 | 3,205 |
| Deferred tax assets (liabilities) | 700,738 | 690,341 | (895,912) | (833,744) | (195,174) | (143,403) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the year ended 31 December 2020 are as follows:

| | As at 1 January 2020 RMB'000 | Recognised in profit or loss RMB'000 (note 10(a)) | Recognised in other comprehensive income RMB'000 (note 11) | As at 31 December 2020 RMB'000 |
|--|---------------------------------------|--|---|---|
| Impairment losses, primarily for receivables and inventories | 346,229 | 2,513 | – | 348,742 |
| Revaluation of property, plant and equipment | (68) | – | – | (68) |
| Unused tax losses (note (i)) | 49,726 | (20,333) | – | 29,393 |
| Changes in fair value | (833,399) | 7,415 | (68,690) | (894,674) |
| Unpaid expenses | 290,904 | 28,217 | – | 319,121 |
| Others | 3,205 | (893) | – | 2,312 |
| Deferred tax assets (liabilities) | (143,403) | 16,919 | (68,690) | (195,174) |

| | As at 1 January 2019 RMB'000 | Recognised in profit or loss RMB'000 (note 10(a)) | Recognised in other comprehensive income RMB'000 (note 11) | As at 31 December 2019 RMB'000 |
|--|---------------------------------------|--|---|---|
| Impairment losses, primarily for receivables and inventories | 308,864 | 37,365 | – | 346,229 |
| Revaluation of property, plant and equipment | (68) | – | – | (68) |
| Unused tax losses (note (i)) | 30,343 | 19,383 | – | 49,726 |
| Changes in fair value | (741,215) | (4,985) | (87,199) | (833,399) |
| Unpaid expenses | 282,995 | 7,909 | – | 290,904 |
| Others | 4,573 | (1,368) | – | 3,205 |
| Deferred tax assets (liabilities) | (114,508) | 58,304 | (87,199) | (143,403) |

Notes:

(i) Expiry of recognised tax losses

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------|-----------------|-----------------|
| Year of expiry | | |
| 2020 | – | 1,558 |
| 2021 | – | 43,123 |
| 2022 | 2,152 | 78,715 |
| 2023 | 4,971 | 35,408 |
| 2024 | 136,343 | 172,650 |
| 2025 | 50,408 | – |
| | 193,874 | 331,454 |

(ii) As at 31 December 2020, the Group has not recognised deferred tax assets in respect of tax losses of RMB1,087.6 million (2019: RMB860.1 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 2021 to 2025 (2019: 2020 to 2024).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services.

26. INVENTORIES

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------|------------------|-----------------|
| Construction materials | 651,518 | 755,919 |
| Finished goods | 1,008,627 | 998,133 |
| Spare parts and consumables | 16,798 | 220,098 |
| | 1,676,943 | 1,974,150 |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------|-----------------|
| Carrying amount of inventories consumed and sold | | |
| – Materials costs | 15,057,234 | 12,838,003 |
| – Direct costs of products distribution | 4,067,599 | 4,167,579 |
| Reversal of write-down of inventories | (3,668) | (18,186) |
| Write-down of inventories | 64,267 | 56,174 |
| | 19,185,432 | 17,043,570 |

27. ACCOUNTS AND BILLS RECEIVABLE, NET

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------------|--------------------|-----------------|
| Bills receivable | 264,802 | 363,350 |
| Accounts receivable | 19,610,315 | 20,287,259 |
| | 19,875,117 | 20,650,609 |
| Less: allowance for credit losses | (1,666,866) | (1,557,784) |
| | 18,208,251 | 19,092,825 |

- (a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB8,040 million (2019: RMB9,286 million) as at 31 December 2020. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------------|-------------------|-----------------|
| Current | 852,540 | 844,908 |
| Within 1 year | 14,743,770 | 15,413,416 |
| After 1 year but less than 2 years | 2,016,517 | 2,038,087 |
| After 2 years but less than 3 years | 430,743 | 454,502 |
| After 3 years | 164,681 | 341,912 |
| | 18,208,251 | 19,092,825 |

(c) Credit losses of accounts and bills receivable

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

Details of impairment assessment of accounts receivable are set out in note 42(a).

28. CONTRACT ASSETS, NET

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------|-----------------|
| Telecommunications infrastructure services | 16,499,707 | 14,540,160 |
| Business process outsourcing services | 983,032 | 671,738 |
| Applications, content and other services | 2,523,856 | 2,201,628 |
| | 20,006,595 | 17,413,526 |
| Less: allowance for credit losses | (220,019) | (259,997) |
| | 19,786,576 | 17,153,529 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. PREPAYMENTS AND OTHER CURRENT ASSETS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------|-----------------|
| Advances to staff | 37,302 | 97,340 |
| Amounts due from CTC Group, associates of the Group and associates of CTC Group | 1,875,707 | 1,960,684 |
| Prepayments in connection with construction work and equipment purchases | 3,561,181 | 2,665,403 |
| Prepaid expenses and deposits | 1,526,301 | 1,399,747 |
| Others | 2,617,781 | 2,648,594 |
| | 9,618,272 | 8,771,768 |

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.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------------------------|------------------|-----------------|
| Wealth management products | 2,076,531 | 703,420 |
| Structured deposits | 1,022,103 | 3,864,404 |
| Equity instruments | 64,567 | 818,268 |
| | 3,163,201 | 5,386,092 |
| Analysed for reporting purpose as: | | |
| Current assets | 3,098,634 | 4,567,824 |
| Non-current assets | 64,567 | 818,268 |
| | 3,163,201 | 5,386,092 |

As at 31 December 2020 and 2019, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to foreign exchange rates, floating interest rates or the performance of underlying assets.

As at 31 December 2020 and 2019, 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.

31. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. CASH AND CASH EQUIVALENTS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-----------------|
| Cash at bank and in hand | 16,961,389 | 16,276,210 |
| Cash at China Telecom Group Finance Co., Ltd. ("China Telecom Finance") | 4,001,266 | 2,147,014 |
| Deposits at bank with original maturity less than three months | 45,835 | 797,540 |
| Cash and cash equivalents | 21,008,490 | 19,220,764 |

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.

33. INTEREST-BEARING BORROWINGS

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------------------|-----------------|-----------------|
| RMB denominated | | |
| Loan from CTC Group – unsecured | 13,280 | 13,280 |
| Borrowings from banks – unsecured | 10,000 | – |
| USD denominated | | |
| Borrowings from banks – unsecured | 546,656 | 350,903 |
| Other denominated | | |
| Borrowings from banks – unsecured | 134,465 | 147,051 |
| | 704,401 | 511,234 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. INTEREST-BEARING BORROWINGS (continued)

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

| | 2020 | 2019 |
|--|---|--|
| RMB denominated | | |
| Loan from CTC Group – unsecured | 2.39% | 2.39% |
| Borrowings from banks – unsecured | 4.35% | N/A |
| USD denominated | | |
| Borrowings from banks – unsecured (fixed interest rate) | N/A | 3.43%-4.90% |
| – unsecured (floating interest rate) | London Interbank Offered Rate ("Libor") +1.00%-1.35% | Libor +1.00%-1.70% |
| Other denominated | | |
| Borrowings from banks – unsecured (fixed interest rate) | 2.80%-10.33% | 2.91%-10.63% |
| – unsecured (floating interest rate) | N/A | Karachi Interbank Offered Rate +1.00% |

As at 31 December 2020 and 2019, no borrowings from bank were subject to financial covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------|-------------------|-----------------|
| Accounts payable | 30,987,698 | 28,773,659 |
| Bills payable | 2,376,088 | 1,900,960 |
| | 33,363,786 | 30,674,619 |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------------|-------------------|-----------------|
| Within 1 year | 30,759,309 | 28,596,463 |
| After 1 year but less than 2 years | 1,769,256 | 1,363,485 |
| After 2 years but less than 3 years | 428,587 | 433,210 |
| After 3 years | 406,634 | 281,461 |
| | 33,363,786 | 30,674,619 |

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,187 million (2019: RMB1,447 million) as at 31 December 2020. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. LEASE LIABILITIES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|-----------------|
| Lease liabilities payable: | | |
| Within 1 year | 400,627 | 343,281 |
| After 1 year but within 2 years | 267,119 | 241,228 |
| After 2 years but within 5 years | 382,229 | 282,353 |
| After 5 years | 119,314 | 166,591 |
| | 1,169,289 | 1,033,453 |
| Less: Amount due for settlement with 12 months shown under current liabilities | 400,627 | 343,281 |
| Amount due for settlement after 12 months shown under non-current liabilities | 768,662 | 690,172 |

The weighted average lessee's incremental borrowing rate applied to lease liabilities is 3.6% (2019: 3.6%).

36. CONTRACT LIABILITIES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------|-----------------|
| Telecommunications infrastructure services | 8,124,136 | 7,286,501 |
| Other services | 2,853,509 | 2,800,601 |
| | 10,977,645 | 10,087,102 |

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 relates to carried-forward contract liabilities.

| | Telecommunications infrastructure services RMB'000 | Other services RMB'000 |
|---|---|---------------------------|
| For the year ended 31 December 2020 | | |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 7,105,557 | 2,755,007 |
| For the year ended 31 December 2019 | | |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 6,745,270 | 1,757,644 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. ACCRUED EXPENSES AND OTHER PAYABLES

| | 2020 | 2019 |
|--|------------------|-----------|
| | RMB'000 | RMB'000 |
| Wages and welfare payable | 1,586,944 | 1,561,988 |
| Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i)) | 451,174 | 467,791 |
| Advance lease payments received | 44,541 | 42,274 |
| Other taxes payable | 764,731 | 591,905 |
| Special dividend and profit distribution payable to CTC Group (note (ii)) | 29,300 | 29,300 |
| Dividend payable | 11,601 | 15,896 |
| Payables for construction and purchase of property, plant and equipment | 588,852 | 20,384 |
| Others (note (iii)) | 6,022,629 | 6,000,697 |
| | 9,499,772 | 8,730,235 |

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 2020.

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 2020.

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

38. OTHER NON-CURRENT LIABILITIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. SHARE CAPITAL

| | 2020 RMB'000 | 2019 RMB'000 |
|--|----------------------------|----------------------------|
| Registered, issued and fully paid: | | |
| 4,534,598,160 (31 December 2019: 4,534,598,160) domestic shares of RMB1.00 each | 4,534,598 | 4,534,598 |
| 2,391,420,240 (31 December 2019: 2,391,420,240) H shares of RMB1.00 each | 2,391,420 | 2,391,420 |
| | 6,926,018 | 6,926,018 |
| | 2020 Thousand shares | 2019 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 borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2020 was 1.9% (2019: 1.5%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. 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 14% to 19% (2019: 14% to 20%) of the salaries, bonuses and certain allowances of the employees, while the PRC government resolved to waive certain proportion of such contributions during the specific period affected by Covid-19 in order to help enterprises withstand the pandemic and stabilise employment.

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

41. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2020, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Contracted for but not provided | 41,270 | 543,676 |

(b) Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities and no financial guarantees issued.

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk and impairment assessment

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

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 56% of the total accounts and bills receivable as at 31 December 2020 (2019: 60%). 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 and long-term receivables in the consolidated statement of financial position after deducting impairment allowance represent the Group's maximum exposure to the credit risk in relation to financial assets and contract assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk and impairment assessment (continued)

The Group recognises a loss allowance for ECL on financial assets and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix. 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.

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 2020 and 2019, 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 within lifetime ECL. Debtors with significant outstanding balances with gross carrying amounts of RMB861 million as at 31 December 2020 were assessed individually (2019: RMB1,089 million). In addition, 100% loss allowance provision has been made regarding balances due from telecommunications operators aged over 4 years of RMB228 million (2019: RMB248 million) and balances due from non-telecom operators aged over 3 years of RMB405 million (2019: RMB319 million) as at 31 December 2020.

| | 2020 | | | 2019 | | |
|-------------------------------------|--------------------|----------------------------------|-------------------------------------|--------------------|----------------------------------|-------------------------------------|
| | Expected loss rate | Gross carrying amount RMB'000 | Loss allowance provision RMB'000 | Expected loss rate | Gross carrying amount RMB'000 | Loss allowance provision RMB'000 |
| Telecommunications operators | | | | | | |
| Within 1 year | 0.2% | 9,770,960 | (19,542) | 0.3% | 10,823,868 | (32,472) |
| After 1 year but within 2 years | 1.7% | 1,240,785 | (21,093) | 2% | 1,493,459 | (29,869) |
| After 2 years but within 3 years | 21% | 384,204 | (80,683) | 20% | 394,278 | (78,856) |
| After 3 years but within 4 years | 60% | 155,452 | (93,271) | 50% | 137,940 | (68,970) |
| | | 11,551,401 | (214,589) | | 12,849,545 | (210,167) |
| Non-telecom operators | | | | | | |
| Within 1 year | 0.5% | 5,513,595 | (27,568) | 1% | 5,059,355 | (50,594) |
| After 1 year but within 2 years | 6.8% | 837,150 | (56,926) | 10% | 568,218 | (56,822) |
| After 2 years but within 3 years | 49% | 214,267 | (104,991) | 20% | 153,963 | (30,793) |
| | | 6,565,012 | (189,485) | | 5,781,536 | (138,209) |

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. The Group has considered the uncertainty caused by Covid-19 and the risk that a prolonged pandemic could lead to increased credit default rates appropriately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. 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 1 January 2019 | 1,414,533 |
| Changes due to financial assets recognised as at 1 January 2019: | |
| – Impairment loss recognised | 160,450 |
| – Impairment loss reversed | (188,527) |
| – Uncollectible amounts written off | (16,326) |
| New financial assets originated | 187,654 |
| As at 31 December 2019 | 1,557,784 |
| Changes due to financial assets recognised as at 1 January 2020: | |
| – Impairment loss recognised | 304,668 |
| – Impairment loss reversed | (285,121) |
| – Uncollectible amounts written off | (39,457) |
| New financial assets originated | 128,992 |
| As at 31 December 2020 | 1,666,866 |

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 of interest-bearing borrowings are disclosed in note 33.

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.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (“IBORs”) with alternative nearly risk-free rates. As listed in note 33, several of the Group’s Libor bank loans will be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

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 due to short maturity. Therefore, no sensitivity analysis is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

| | 31 December 2020 | | | | | |
|--|----------------------------|--|---------------------------------------|---|--|------------------------------|
| | Carrying amount RMB'000 | Total contractual undiscounted cash outflow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Short-term interest-bearing borrowings (note 33) | 704,401 | 709,818 | 709,818 | – | – | – |
| Accounts and bills payable (note 34) | 33,363,786 | 33,363,786 | 33,363,786 | – | – | – |
| Lease liabilities (note 35) | 1,169,289 | 1,255,781 | 415,050 | 286,698 | 408,586 | 145,447 |
| Accrued expenses and other payables (note 37) | 9,499,772 | 9,499,772 | 9,499,772 | – | – | – |
| | 44,737,248 | 44,829,157 | 43,988,426 | 286,698 | 408,586 | 145,447 |

| | 31 December 2019 | | | | | |
|--|----------------------------|--|---------------------------------------|---|--|------------------------------|
| | Carrying amount RMB'000 | Total contractual undiscounted cash outflow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Short-term interest-bearing borrowings (note 33) | 511,234 | 517,090 | 517,090 | – | – | – |
| Accounts and bills payable (note 34) | 30,674,619 | 30,674,619 | 30,674,619 | – | – | – |
| Lease liabilities (note 35) | 1,033,453 | 1,113,951 | 355,639 | 258,117 | 309,022 | 191,173 |
| Accrued expenses and other payables (note 37) | 8,730,235 | 8,730,235 | 8,730,235 | – | – | – |
| | 40,949,541 | 41,035,895 | 40,277,583 | 258,117 | 309,022 | 191,173 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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 mainly relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 96.1% (2019: 95.8%) of the Group's cash and cash equivalents and 3.3% (2019: 2.6%) of the Group's short-term debt and long-term debt as at 31 December 2020 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.

Exposure to currency risk

| | Exposure to foreign currencies (expressed in RMB) | | | | | |
|--|---|------------------------------|---------------------------|--------------------------------|---------------------------|-------------------|
| | 31 December 2020 | | | | | |
| | 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 | 432,435 | 79,485 | 58,642 | 38,029 | 172 | 217,610 |
| Accounts receivable | 175,552 | 85,627 | 13,527 | 87,327 | 5,431 | 204,208 |
| Contract assets | 315,817 | 83,553 | 179 | 141,334 | 22,619 | 250,976 |
| Accounts payable | (68,670) | (344,931) | (19,122) | (44,605) | (7,955) | (222,826) |
| Short-term interest-bearing borrowings | (546,656) | - | - | - | - | (134,465) |
| Overall net exposure | 308,478 | (96,266) | 53,226 | 222,085 | 20,267 | 315,503 |

| | Exposure to foreign currencies (expressed in RMB) | | | | | |
|--|---|------------------------------|---------------------------|--------------------------------|---------------------------|-------------------|
| | 31 December 2019 | | | | | |
| | 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 | 434,002 | 48,986 | 91,400 | 41,894 | 1,123 | 191,462 |
| Accounts receivable | 335,471 | 95,152 | 6,791 | 190,057 | 8,218 | 216,451 |
| Contract assets | 222,146 | 8,809 | 72 | 24,563 | 42,798 | 226,832 |
| Accounts payable | (189,945) | (360,260) | (25,288) | (58,355) | (24,554) | (189,536) |
| Short-term interest-bearing borrowings | (350,903) | - | - | - | - | (147,051) |
| Overall net exposure | 450,771 | (207,313) | 72,975 | 198,159 | 27,585 | 298,158 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

| | Average rate | | Spot rate | |
|-----------------------|--------------|------|-----------|------|
| | 2020 | 2019 | 2020 | 2019 |
| United States dollars | 6.75 | 6.92 | 6.52 | 6.98 |
| Hong Kong dollars | 0.87 | 0.89 | 0.84 | 0.90 |
| Nigerian Naira | 0.02 | 0.02 | 0.02 | 0.02 |
| Saudi Arabian Riyal | 1.80 | 1.84 | 1.74 | 1.86 |
| Ethiopian Birr | 0.20 | 0.23 | 0.17 | 0.22 |

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.

| | 2020 | | | 2019 | | |
|-----------------------|---|--|--|---|--|--|
| | 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% | 11,568 | – | 5% | 16,904 | – |
| | (5)% | (11,568) | – | (5)% | (16,904) | – |
| Hong Kong dollars | 5% | (3,610) | – | 5% | (7,774) | – |
| | (5)% | 3,610 | – | (5)% | 7,774 | – |
| Nigerian Naira | 5% | 1,996 | – | 5% | 2,737 | – |
| | (5)% | (1,996) | – | (5)% | (2,737) | – |
| Saudi Arabian Riyal | 5% | 8,328 | – | 5% | 7,431 | – |
| | (5)% | (8,328) | – | (5)% | (7,431) | – |
| Ethiopian Birr | 5% | 760 | – | 5% | 1,034 | – |
| | (5)% | (760) | – | (5)% | (1,034) | – |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group 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 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Price risk

The Group is exposed to equity price changes arising from equity investments at FVTPL and designated as at FVTOCI. Other than certain unquoted equity securities, 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.

At 31 December 2020, it is estimated that an increase/(decrease) of 5% (2019: 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:

| | 2020 | | 2019 | |
|---|---|--|---|--|
| | 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% | 163,294 | 5% | 153,016 |
| Decrease | (5%) | (163,294) | (5%) | (153,016) |

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.

| | 2020 | | | |
|---|--------------------|--------------------|--------------------|------------------|
| | 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 (ii)) | 45,796 | – | 4,316,673 | 4,362,469 |
| Financial assets at fair value through profit or loss | | | | |
| – Wealth management products and structured deposits (note (ii)) | – | – | 3,098,634 | 3,098,634 |
| – Equity instruments at fair value through profit or loss (note (iii)) | – | – | 64,567 | 64,567 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)**(f) Fair value (continued)***(i) Financial instruments carried at fair value on a recurring basis (continued)*

| | 2019 | | | |
|--|--------------------|--------------------|--------------------|------------------|
| | 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)) | 47,339 | – | 4,040,865 | 4,088,204 |
| Financial assets at fair value through profit or loss | | | | |
| – Wealth management products and structured deposits (note (ii)) | – | – | 4,567,824 | 4,567,824 |
| – Equity instruments at fair value through profit or loss (note (iv)) | – | – | 818,268 | 818,268 |

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 the end of each reporting period, 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, and the discount rate is 9.90% (2019: 11.50%). A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB24 million as at 31 December 2020 (2019: RMB26 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 returns, and discounted at a rate that reflects the credit risk of various counterparties.
- (iii) The invested entity was a private company. At the end of reporting period, the Group involves an external valuer to determine the fair value of the invested entity based on discounted cash flows. The future cash flows are estimated based on long-term revenue growth rates, taking into management's experience and knowledge of market conditions.
- (iv) One of the invested entities was China Telecom Finance. As at 31 December 2019, the Group involves external valuer to determine the fair value of China Telecom Finance based on P/B multiples of comparable companies and discount rate for lack of marketability. In October 2020, the board of directors of China Telecom Finance passed a resolution, which declared that the Group has the contractual right to appoint one out of the 6 directors to the board of directors of China Telecom Finance. Accordingly, the Group considers that it has significant influence over China Telecom Finance and transferred the investment in China Telecom Finance to interests in associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. 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 | Equity instruments at fair value through profit or loss RMB'000 |
|--|---|---|--|
| As at 1 January 2020 | 4,040,865 | 4,567,824 | 818,268 |
| Purchase | – | 10,978,985 | – |
| Settlements | – | (12,637,767) | – |
| Transferred to interests in associates | – | – | (772,708) |
| Total gains | | | |
| – in profit or loss | – | 189,592 | 19,007 |
| – in other comprehensive income | 275,808 | – | – |
| As at 31 December 2020 | 4,316,673 | 3,098,634 | 64,567 |

| | Equity instruments at fair value through other comprehensive income RMB'000 | Wealth management products and structured deposits RMB'000 | Equity instruments at fair value through profit or loss RMB'000 |
|---------------------------------|---|---|--|
| As at 1 January 2019 | 3,694,869 | 5,046,898 | – |
| Purchase | – | 9,950,000 | 64,430 |
| Transferred from deposit paid | – | – | 750,000 |
| Settlements | – | (10,450,000) | – |
| Total gains | | | |
| – in profit or loss | – | 20,926 | 3,838 |
| – in other comprehensive income | 345,996 | – | – |
| As at 31 December 2019 | 4,040,865 | 4,567,824 | 818,268 |

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

The directors of the Company are of the opinion that the fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. 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(q), 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

Accounts receivable and contract assets with significant balances are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the accounts receivable and contract assets by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical loss rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical loss rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The Group has considered the uncertainty caused by Covid-19 and the risk that a prolonged pandemic could led to increased credit default rates appropriately. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 42(a), 27 and 28 respectively.

(c) 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.

(d) 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 42(f) for further disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Engineering related services revenue (note (i)) | 17,667,912 | 16,386,268 |
| IT application services revenue (note (ii)) | 3,052,386 | 3,094,988 |
| Provision of ancillary telecommunications services revenue (note (iii)) | 14,887,858 | 14,758,217 |
| Provision of operation support services revenue (note (iv)) | 3,421,884 | 3,567,633 |
| Supplies procurement services revenue (note (v)) | 2,608,574 | 2,697,304 |
| Property leasing services revenue (note (vi)) | 138,167 | 128,729 |
| Management fee income (note (vii)) | 382,224 | 370,324 |
| Property leasing services charges (note (viii)) | 158,206 | 202,655 |
| IT application services charges (note (ix)) | 147,786 | 153,874 |
| Operation support services charges (note (x)) | 877,889 | 736,005 |
| Supplies procurement services charges (note (xi)) | 1,027,061 | 1,121,107 |
| Interest expenses (note (xii)) | 19,457 | 17,847 |
| Net deposit to China Telecom Finance (note (xiii)) | 1,854,252 | 2,147,014 |
| Interest income of deposits to China Telecom Finance (note (xiv)) | 8,086 | 3,020 |

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 short-term leases in respect of business premises paid and payable to CTC Group.
- (ix) The amount represents the charge paid and payable to CTC Group for basic telecommunications service, value-added service and information application service.
- (x) The amount represents the charge paid and payable to CTC Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.
- (xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xii) The amount represents the interest paid and payable to CTC Group in respect of the loans and lease liabilities from CTC Group.
- (xiii) The amount represents net deposit under deposit services provided by China Telecom Finance.
- (xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-----------------|
| Cash and cash equivalents | 4,001,266 | 2,147,014 |
| Accounts and bills receivable, net | 7,674,270 | 8,863,454 |
| Contract assets, net | 9,271,716 | 8,760,826 |
| Prepayments and other current assets | 635,041 | 759,769 |
| Total amounts due from CTC Group | 21,582,293 | 20,531,063 |
| Interest-bearing borrowings | 13,280 | 13,280 |
| Accounts and bills payable | 357,364 | 608,905 |
| Current portion of lease liabilities | 143,450 | 123,506 |
| Contract liabilities | 577,932 | 550,012 |
| Accrued expenses and other payables | 422,434 | 409,680 |
| Lease liabilities | 364,787 | 314,655 |
| Total amounts due to CTC Group | 1,879,247 | 2,020,038 |

As at 31 December 2020, the Group has recognised credit losses of RMB391 million (2019: RMB349 million) in respect of amounts due from CTC Group.

For the year ended 31 December 2020, additional amount of RMB250 million of right-of-use assets has been recognised under new lease contracts with CTC Group (2019: RMB226 million).

As at 31 December 2020, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Contracted for but not provided | – | 459,437 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. RELATED PARTIES (continued)**(a) Transactions with CTC Group (continued)**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2020, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB33,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB24,000 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 RMB4,000 million and RMB2,000 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 RMB4,300 million and RMB500 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 RMB240 million and RMB300 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 RMB6,500 million and RMB5,200 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. 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.

On 1 February 2019, the Group and China Telecom Finance entered into the Financial Services Framework Agreement, pursuant to which China Telecom Finance has agreed to provide financial services to the Group, including deposit services, loan services and other financial services.

According to the Financial Services Framework Agreement for the year ended 31 December 2020, the annual cap in respect of the maximum daily balance of the Group's deposits with China Telecom Finance (including the interest accrued thereon) under the deposit services was RMB8 billion.

The terms of the financial services offered to the Group by China Telecom Finance shall be equivalent to or more favorable than those offered to the Group by the major cooperative commercial banks of the Group for the financial services in the same period and of the same type.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Engineering related services revenue (note (i)) | 3,863,108 | 3,247,327 |
| IT application services revenue (note (ii)) | 165,374 | 83,571 |
| Provision of ancillary telecommunications services revenue (note (iii)) | 1,635,027 | 1,531,402 |
| Provision of operation support services revenue (note (iv)) | 94,883 | 73,501 |
| Supplies procurement services revenue (note (v)) | 286,980 | 171,621 |
| Property leasing services revenue (note (vi)) | 2,886 | 3,966 |
| Property leasing services charges (note (vii)) | 36,323 | 3,289 |
| IT application services charges (note (viii)) | 112,801 | 124,724 |
| Operation support services charges (note (ix)) | 1,993,509 | 1,727,336 |
| Supplies procurement service charges (note (x)) | 14,993 | 42,221 |
| Interest expenses (note (xi)) | 16 | 5 |

Notes:

- (i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to associates of the Group and associates of CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to associates of the Group and associates of CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution channels; fixed line and wireless value-added 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 the Group and associates of CTC Group.
- (vi) The amount represents rentals from operating leases in respect of business premises leased to associates of the Group and associates of CTC Group.
- (vii) The amount represents rentals from short-term lease in respect of business premises paid and payable to associates of the Group and associates of CTC 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 and associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xi) The amount represents the interest paid and payable associates of CTC Group in respect of lease liabilities from associates of CTC Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------|-----------------|
| Accounts and bills receivable, net | 365,759 | 422,635 |
| Contract assets, net | 274,771 | 225,008 |
| Prepayments and other current assets | 1,240,666 | 1,200,915 |
| Total amounts due from associates of the Group and associates of CTC Group | 1,881,196 | 1,848,558 |
| Accounts and bills payable | 829,503 | 838,139 |
| Current portion of lease liabilities | 604 | 125 |
| Contract liabilities | 737,413 | 742,458 |
| Accrued expenses and other payables | 58,040 | 87,411 |
| Lease liabilities | 41 | 113 |
| Total amounts due to associates of the Group and associates of CTC Group | 1,625,601 | 1,668,246 |

For the year ended 31 December 2020, additional amount of RMB681 thousand of right-of-use assets has been recognised under new lease contracts with associates of CTC Group (2019: RMB291 thousand).

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 44(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

44. 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------|-----------------|-----------------|
| Salaries and other emoluments | 6,905 | 5,914 |
| Retirement benefits | 1,829 | 2,642 |
| Discretionary bonuses | 17,230 | 16,619 |
| | 25,964 | 25,175 |

(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 14% to 19% (2019: 14% to 20%) 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 2020 and 2019, 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 44(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.

45. SEGMENT REPORTING

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2020 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 2020 Directly % | 31 December 2019 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 | RMB317 million | Provision of integrated telecommunications support services through its subsidiaries in Hubei Province |
| Jiangsu Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB578 million | Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province |
| Anhui Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB420 million | Provision of integrated telecommunications support services through its subsidiaries in Anhui Province |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. 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 2020 Directly % | 31 December 2019 Directly % | | |
| Jiangxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB200 million | Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province |
| Hunan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB886 million | Provision of integrated telecommunications support services through its subsidiaries in Hunan Province |
| Guangxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB192 million | Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region |
| Chongqing Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB209 million | Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality |
| Sichuan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB798 million | Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province |
| Guizhou Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB131 million | Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province |
| Yunnan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB238 million | Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. 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 2020 Directly % | 31 December 2019 Directly % | | |
| 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 |
| 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. 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 2020 Directly % | 31 December 2019 Directly % | | |
| 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 RMB469 million as at 31 December 2020 (2019: RMB474 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|--------------------------------|--------------------------------|
| Non-current assets | | |
| Property, plant and equipment, net | 24,168 | 15,548 |
| Construction in progress | 3,255,278 | 11,591 |
| Other intangible assets | 167,285 | 169,826 |
| Investments in subsidiaries | 13,772,534 | 13,772,534 |
| Interests in associates and joint ventures | 786,794 | 23,605 |
| Financial assets at fair value through profit or loss | – | 753,838 |
| Other non-current assets | 37,916 | – |
| Total non-current assets | 18,043,975 | 14,746,942 |
| Current assets | | |
| Inventories | 322 | 326 |
| Accounts and bills receivable, net | 179 | – |
| Prepayments and other current assets | 2,099,138 | 1,796,998 |
| Restricted deposits | 503,006 | 500,000 |
| Cash and cash equivalents | 105,732 | 1,251,013 |
| Total current assets | 2,708,377 | 3,548,337 |
| Total assets | 20,752,352 | 18,295,279 |
| Current liabilities | | |
| Interest-bearing borrowings | 1,147,000 | – |
| Accounts and bills payable | 229 | 50 |
| Contract liabilities | 481 | – |
| Accrued expenses and other payables | 1,318,239 | 1,188,969 |
| Income tax payable | 4,989 | 4,386 |
| Total current liabilities | 2,470,938 | 1,193,405 |
| Net current assets | 237,439 | 2,354,932 |
| Total assets less current liabilities | 18,281,414 | 17,101,874 |
| Non-current liabilities | | |
| Other non-current liabilities | 63,184 | – |
| Total non-current liabilities | 63,184 | – |
| Total liabilities | 2,534,122 | 1,193,405 |
| Equity | | |
| Share capital | 6,926,018 | 6,926,018 |
| Reserves | 11,292,212 | 10,175,856 |
| Total equity | 18,218,230 | 17,101,874 |
| Total liabilities and equity | 20,752,352 | 18,295,279 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

The movements of equity of the Company are as follows:

| | Share capital RMB'000 (note 39) | Share premium RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|--|-----------------------------|-------------------------------|--|---------------------------------|--------------------|
| At 1 January 2019 | 6,926,018 | 4,529,310 | 1,966,293 | 1,219,710 | 2,306,673 | 16,948,004 |
| Profit for the year | – | – | – | – | 1,198,314 | 1,198,314 |
| Distribution of dividend (see note 14(b)) | – | – | – | – | (1,044,444) | (1,044,444) |
| Appropriation | – | – | – | 119,831 | (119,831) | – |
| At 31 December 2019 | 6,926,018 | 4,529,310 | 1,966,293 | 1,339,541 | 2,340,712 | 17,101,874 |
| Profit for the year | – | – | – | – | 2,214,130 | 2,214,130 |
| Distribution of dividend (see note 14(b)) | – | – | – | – | (1,097,774) | (1,097,774) |
| Appropriation | – | – | – | 221,413 | (221,413) | – |
| At 31 December 2020 | 6,926,018 | 4,529,310 | 1,966,293 | 1,560,954 | 3,235,655 | 18,218,230 |

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.

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

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standard which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these consolidated financial statements.

| | |
|--|--|
| IFRS 17 | Insurance Contracts and the related Amendments ¹ |
| Amendments to IFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 ⁴ |
| 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 | Classification of Liabilities as Current or Non-current ¹ |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies ¹ |
| Amendments to IAS 8 | Definition of Accounting Estimates ¹ |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before Intended Use ² |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ² |
| Amendments to IFRS Standards | Annual Improvements to IFRS Standards 2018-2020 ² |

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

48. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS AND NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2020 (continued)

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards and new standard issued by the IASB which are not yet effective for the accounting period ended on 31 December 2020. So far the Group believes that the adoption of these amendments to standards and new standard is unlikely to have a significant impact on its financial position and the results of operations.

49. 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 2020 RMB'000 | Accruals RMB'000 | Financing cash flows RMB'000 | Foreign exchange translation RMB'000 | Lease modified RMB'000 | As at 31 December 2020 RMB'000 |
|-----------------------------|---------------------------------------|---------------------|------------------------------------|---|------------------------------|---|
| Borrowings (note 33) | 511,234 | – | 222,114 | (28,947) | – | 704,401 |
| Dividends payable (note 37) | 45,196 | 1,110,125 | (1,108,278) | (6,142) | – | 40,901 |
| Lease liabilities (note 35) | 1,033,453 | 660,221 | (467,840) | – | (56,545) | 1,169,289 |
| | 1,589,883 | 1,770,346 | (1,354,004) | (35,089) | (56,545) | 1,914,591 |

| | As at 1 January 2019 RMB'000 | Accruals RMB'000 | Financing cash flows RMB'000 | Foreign exchange translation RMB'000 | Lease modified RMB'000 | As at 31 December 2019 RMB'000 |
|-----------------------------|---------------------------------------|---------------------|------------------------------------|---|------------------------------|---|
| Borrowings (note 33) | 470,925 | – | 32,342 | 7,967 | – | 511,234 |
| Dividends payable (note 37) | 52,132 | 1,048,599 | (1,062,172) | 6,637 | – | 45,196 |
| Lease liabilities (note 35) | 950,908 | 554,267 | (350,303) | – | (121,419) | 1,033,453 |
| Others | – | 5,000 | (5,000) | – | – | – |
| | 1,473,965 | 1,607,866 | (1,385,133) | 14,604 | (121,419) | 1,589,883 |

50. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2020, 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.