

## SECTION VIII FINANCIAL REPORTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 1. PRINCIPAL ACTIVITIES AND ORGANISATION

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

## 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (the "IASB"). IFRS Accounting Standards comprise the following authoritative literature:

- IFRS Accounting Standards
- IAS Standards
- Interpretations developed by the IFRS Interpretations Committee or its predecessor body, the Standing Interpretations Committee

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

As at 31 December 2023, the total current liabilities of the Group had exceeded the total current assets by RMB135,573 million (31 December 2022: RMB140,665 million). Management of the Company have assessed the Group's available sources of funds as follows: 1) the Group's continuous net cash inflow to be generated from its operating activities; 2) the unutilised credit facilities amounting to RMB205,452 million (31 December 2022: RMB233,639 million); and 3) the Group's other available sources of financing from domestic banks in mainland China and other financial institutions in view of the Group's good credit history. Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2023 have been prepared on a going concern basis.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on historical experience and various other factors that management believes are reasonable under certain circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

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

#### 2.2 Application of amendments to IFRS Accounting Standards

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

- IFRS 17 "*Insurance Contracts*"
- Amendments to IAS 1 "*Presentation of Financial Statement*" and IFRS Practice Statement 2 "*Making Materiality Judgements*" — Disclosure of Accounting Policies
- Amendments to IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*" — Definition of Accounting Estimates
- Amendments to IAS 12 "*Income tax*" — Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 "*Income tax*" — International Tax Reform — Pillar Two model rules

The application of the above amendments to IFRS Accounting Standards in the current year has had no material effect on the Group's consolidated financial statements.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

## 2.3 Possible impact of new standards and amendments to standards issued but not yet effective for the annual accounting period ended 31 December 2023

Up to the date of issue of the consolidated financial statements, the IASB has issued the following new standards and amendments to standards which are not yet effective and not early adopted by the Group for the annual accounting period ended 31 December 2023:

	Effective for accounting periods beginning on or after
Amendments to IAS 1 " <i>Presentation of Financial Statement</i> " — Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1 " <i>Presentation of Financial Statement</i> " — Non-current Liabilities with Covenants	1 January 2024
Amendments to IFRS 16 " <i>Leases</i> " — Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 7 " <i>Statement of Cash Flows</i> " and IFRS 7 " <i>Financial Instruments: Disclosures</i> " — Supplier finance arrangements	1 January 2024
Amendments to IAS 21 " <i>The effects of changes in foreign exchange rates</i> " — Lack of exchangeability	1 January 2025
Amendments to IFRS 10 " <i>Consolidated Financial Statements</i> " and IAS 28 " <i>Investments in Associates and Joint ventures</i> " — Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of the impact that will result from adopting the new standards and amendments to standards issued by the IASB which are not yet effective for the accounting period ended 31 December 2023. So far, the Group believes that the adoption of these new standards and amendments to standards is unlikely to have a significant impact on its financial position and the results of operations.

## 3. MATERIAL ACCOUNTING POLICY INFORMATION

## (a) Basis of consolidation and equity accounting

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

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

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

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(b) Property, plant and equipment**

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

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

Depreciation is provided to write off the cost of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value are reviewed annually and any change will be accounted for as change in accounting estimate.

**(c) Construction in progress**

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

No depreciation is provided in respect of construction in progress.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (d) Goodwill

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

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

#### (e) Intangible assets

The Group's intangible assets are primarily software.

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

#### (f) Impairment of goodwill and long-lived assets

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(f) Impairment of goodwill and long-lived assets (continued)**

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

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

**(g) Financial instruments**

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

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 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (g) Financial instruments (continued)

##### Financial assets

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

- (i) Financial assets measured subsequently at amortised cost

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

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

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

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(g) Financial instruments (continued)****Financial assets (continued)****Classification and subsequent measurement of financial assets (continued)**

## (iii) Financial assets at FVTPL

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (g) Financial instruments (continued)

##### Financial assets (continued)

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

##### (i) Significant increase in credit risk

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

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

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

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

##### (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).

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(g) Financial instruments (continued)****Financial assets (continued)****Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)**

## (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 the historical data and forward-looking information. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (g) Financial instruments (continued)

##### Financial assets (continued)

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

##### (v) Measurement and recognition of ECL (continued)

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

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

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

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

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

##### Derecognition of financial assets

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(g) Financial instruments (continued)****Financial liabilities and equity****Classification as debt or equity**

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

**Equity instruments**

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

**Financial liabilities**

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

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

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

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

**(h) Revenue from contract with customers**

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

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(h) Revenue from contract with customers (continued)**

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer but the right is conditioned on the Group's future performance. A contract asset is transferred to accounts receivable when the right becomes unconditional. A contract asset is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to a contract liability, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(h) Revenue from contract with customers (continued)****Contracts with multiple performance obligations (including allocation of transaction price)**

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

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

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

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

**Principal versus agent**

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(h) Revenue from contract with customers (continued)****Consideration payable to a customer**

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

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

**Incremental costs of obtaining a contract**

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

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

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

**Costs to fulfil a contract**

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(h) Revenue from contract with customers (continued)****Costs to fulfil a contract (continued)**

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

**(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.

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

**The Group as a lessee**

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

**Allocation of consideration to components of a contract**

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

**Short-term leases and leases of low-value assets**

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

**Right-of-use assets**

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (i) Leases (continued)

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

##### Right-of-use assets (continued)

- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

##### Lease liabilities

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

The lease payments include:

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

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(i) Leases (continued)****The Group as a lessee (continued)****Lease liabilities (continued)**

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

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

**Lease modifications**

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

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

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

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

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (i) Leases (continued)

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

##### Classification and measurement of leases (continued)

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

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

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

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease components 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.

##### Lease modifications

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

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

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(j) Income tax**

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

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

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

**(k) Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (k) Related parties (continued)

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

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

#### (l) Segment reporting

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources and assess performance of the segment. The CODM has been identified as the Executive Directors of the Company. For the years presented, management has determined that the Group has one operating segment as the Group is only engaged in the integrated telecommunications business. The Group's assets located outside mainland China and operating revenues derived from activities outside mainland China are less than 10% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amount is immaterial. No single external customer accounts for 10% or more of the Group's operating revenues.

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(m) Foreign currencies translation**

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

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

**(n) Interests in joint operations**

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

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

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

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

**(o) Inventories**

Inventories consist of materials and supplies used in maintaining the telecommunications network and goods for resale. Inventories are valued at cost using the specific identification method or the weighted average cost method, less a provision for obsolescence.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs to make the sale and the related tax expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

#### (p) Cash and cash equivalents

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

#### (q) Net finance costs

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

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

#### (r) Research and development expense

Research and development expenditure is expensed as incurred if the criteria of recognition as intangible assets were not met. For the year ended 31 December 2023, research and development expense, other than those related personnel expenses and depreciation was RMB4,203 million (2022: RMB4,199 million). Research and development related personnel expenses and depreciation for the year ended 31 December 2023 amounted to RMB8,713 million (2022: RMB6,237 million) and RMB136 million (2022: RMB124 million), respectively.

#### (s) Employee benefits

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

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

#### (t) Government grants

Government grants shall only be recognised until there is reasonable assurance that:

- the Group will comply with all the conditions attaching to them; and
- the grants will be received.

Government grants that compensate expenses incurred are recognised in the consolidated statement of comprehensive income in the same periods in which the expenses are incurred.

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)****(t) Government grants (continued)**

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

**(u) Provisions and contingent liabilities**

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

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

**(v) Value-added tax ("VAT")**

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

Output VAT is excluded from operating revenues while input VAT is excluded from operating expenses or the original cost of equipment purchased and can be netted against the output VAT, arriving at the net amount of VAT recoverable or payable. As the VAT obligations are borne by branches and subsidiaries of the Company, input and output VAT are set off at branches and subsidiaries levels which are not offset at the consolidation level. Such net amount of VAT recoverable or payable is recorded in the financial statement line items of prepayments and other current assets and accrued expenses and other payables, respectively, in the consolidated statement of financial position.

**(w) Dividends**

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 4. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and improvements RMB million	Communications network plant and equipment RMB million	Furniture, fixture, motor vehicles and other equipment RMB million	Total RMB million
<b>Cost/Deemed cost:</b>				
<b>Balance as at 1 January 2022</b>	107,198	894,314	30,152	1,031,664
Additions	1,054	528	365	1,947
Transferred from construction in progress	2,303	72,836	1,890	77,029
Retirement and disposal	(1,541)	(85,846)	(2,688)	(90,075)
<b>Balance as at 31 December 2022</b>	109,014	881,832	29,719	1,020,565
Additions	<b>586</b>	<b>293</b>	<b>296</b>	<b>1,175</b>
Transferred from construction in progress	<b>2,780</b>	<b>71,442</b>	<b>2,039</b>	<b>76,261</b>
Retirement and disposal	<b>(1,139)</b>	<b>(62,783)</b>	<b>(2,310)</b>	<b>(66,232)</b>
<b>Balance as at 31 December 2023</b>	<b>111,241</b>	<b>890,784</b>	<b>29,744</b>	<b>1,031,769</b>
<b>Accumulated depreciation and impairment:</b>				
<b>Balance as at 1 January 2022</b>	(67,624)	(525,237)	(22,822)	(615,683)
Depreciation charge for the year	(3,777)	(66,975)	(1,978)	(72,730)
Provision for impairment loss	—	(68)	(2)	(70)
Written back on retirement and disposal	1,392	77,958	2,531	81,881
<b>Balance as at 31 December 2022</b>	(70,009)	(514,322)	(22,271)	(606,602)
Depreciation charge for the year	<b>(3,760)</b>	<b>(69,537)</b>	<b>(1,937)</b>	<b>(75,234)</b>
Written back on retirement and disposal	<b>1,037</b>	<b>56,773</b>	<b>2,200</b>	<b>60,010</b>
<b>Balance as at 31 December 2023</b>	<b>(72,732)</b>	<b>(527,086)</b>	<b>(22,008)</b>	<b>(621,826)</b>
<b>Net book value as at 31 December 2023</b>	<b>38,509</b>	<b>363,698</b>	<b>7,736</b>	<b>409,943</b>
<b>Net book value as at 31 December 2022</b>	39,005	367,510	7,448	413,963

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 5. CONSTRUCTION IN PROGRESS

	RMB million
<b>Balance as at 1 January 2022</b>	51,457
Additions	89,736
Transferred to property, plant and equipment	(77,029)
Transferred to intangible assets	(5,721)
<b>Balance as at 31 December 2022</b>	58,443
Additions	<b>96,000</b>
Transferred to property, plant and equipment	<b>(76,261)</b>
Transferred to intangible assets	<b>(5,944)</b>
<b>Balance as at 31 December 2023</b>	<b>72,238</b>

## 6. RIGHT-OF-USE ASSETS

	Leasehold land	Buildings	Communications towers and related assets	Equipment	Others	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
<b>As at 31 December 2023</b>						
Carrying amount	22,693	14,496	30,938	8,312	469	76,908
<b>As at 31 December 2022</b>						
Carrying amount	21,499	15,895	40,013	9,302	346	87,055
<b>For the year ended 31 December 2023</b>						
Depreciation charge	(829)	(5,518)	(7,744)	(2,823)	(143)	(17,057)
<b>For the year ended 31 December 2022</b>						
Depreciation charge	(769)	(5,309)	(8,237)	(2,879)	(119)	(17,313)
<b>For the year ended 31 December 2023</b>						
Provision for impairment loss	—	(3)	—	—	—	(3)
<b>For the year ended 31 December 2022</b>						
Provision for impairment loss	—	—	—	—	—	—

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

The Group regularly entered into short-term leases for buildings and other assets. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expenses disclosed in this note.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

For the year ended 31 December 2023, expenses relating to short-term leases amounting to RMB966 million (2022: RMB863 million), expenses relating to leases of low value assets (excluding short-term leases of low value assets) amounting to RMB100 million (2022: RMB112 million) and variable lease payments not included in the measurement of lease liabilities amounting to RMB5,057 million (2022: RMB4,950 million), are recognised in profit or loss.

For the year ended 31 December 2023, total cash outflow for leases was RMB23,068 million (2022: RMB24,748 million), and additions to right-of-use assets were RMB13,286 million (2022: RMB47,154 million).

### 7. GOODWILL

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Cost:		
Goodwill arising from acquisition of mobile communications business	<b>29,923</b>	29,922

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

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

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of mobile communications business was allocated to the appropriate cash-generating unit of the Group, which is the Group's integrated telecommunications business. The recoverable amount of the Group's integrated telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period, revenue growth rate between 2.7% to 3.6% (2022: 3.6% to 4.5%) and a pre-tax discount rate of 9.8% (2022: 9.8%). Cash flows beyond the five-year period are extrapolated using a steady 1.5% growth rate (2022: 1.5%). The Group performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. The Group believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**8. INTANGIBLE ASSETS**

	<b>Software RMB million</b>
<b>Cost:</b>	
<b>Balance as at 1 January 2022</b>	55,740
Additions	2,462
Transferred from construction in progress	5,721
Retirement and disposal	(3,144)
<b>Balance as at 31 December 2022</b>	60,779
Additions	<b>3,486</b>
Transferred from construction in progress	<b>5,944</b>
Retirement and disposal	<b>(2,029)</b>
<b>Balance as at 31 December 2023</b>	<b>68,180</b>
<b>Accumulated amortisation and impairment:</b>	
<b>Balance as at 1 January 2022</b>	(35,987)
Amortisation charge for the year	(6,889)
Written back on retirement and disposal	2,877
<b>Balance as at 31 December 2022</b>	(39,999)
Amortisation charge for the year	<b>(7,411)</b>
Written back on retirement and disposal	<b>1,932</b>
<b>Balance as at 31 December 2023</b>	<b>(45,478)</b>
<b>Net book value as at 31 December 2023</b>	<b>22,702</b>
<b>Net book value as at 31 December 2022</b>	20,780

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 9. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the operating results, assets and liabilities of the Group as at 31 December 2023 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/issued capital (in RMB million unless otherwise stated)	Principal activity
China Telecom Digital Intelligence Technology Co., Ltd.	Limited Company	13 September 2001	PRC	3,000	Provision of system integration and consulting services
China Telecom Global Limited	Limited Company	25 February 2000	Hong Kong Special Administrative Region of the PRC	HK\$168 million	Provision of telecommunications services
China Telecom Best Tone Information Service Co., Ltd.	Limited Company	15 August 2007	PRC	350	Provision of Best Tone information services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
iMUSIC Culture & Technology Co., Ltd.	Limited Company	9 June 2013	PRC	250	Provision of music production and related information services
Tianyi Capital Holding Co., Ltd.	Limited Company	30 November 2017	PRC	5,000	Capital investment and provision of consulting services
China Telecom Group Finance Co., Ltd. ("Finance Company")	Limited Company	8 January 2019	PRC	5,000	Provision of capital and financial management services
China Telecom Cloud Technology Co., Ltd.	Limited Company	1 July 2021	PRC	4,764	Provision of cloud products and services
E-surfing Digital Life Technology Co., Ltd.	Limited Company	6 July 2021	PRC	900	Provision of comprehensive solutions related to the digital life
Lingang Suanli (Shanghai) Technology Co., Ltd.	Limited Company	29 April 2021	PRC	900	Provision of computing power services
Shanghai Information Industry (Group) Co., Ltd.	Limited Company	14 December 1994	PRC	297	Provision of communication engineering design and system terminal development services
Tianyi IoT Technology Co., Ltd.	Limited Company	2 February 2019	PRC	1,000	Provision of IoT services
China Telecom Intelligent Network Technology Co., Ltd.	Limited Company	26 January 2022	PRC	900	Provision of operation and support technical services
Tianyi Safety Technology Co., Ltd.	Limited Company	9 September 2021	PRC	500	Provision of network information security services

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 9. INVESTMENTS IN SUBSIDIARIES (continued)

Except Finance Company which is 70% owned by the Company, and China Telecom Cloud Technology Co., Ltd. which is 89% owned by the Company, all of the above subsidiaries are directly or indirectly wholly-owned by the Company. No subsidiaries of the Group have material non-controlling interests. None of the subsidiaries had issued any debt securities at the end of the year.

## 10. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2023	2022
	RMB million	RMB million
Cost of investment in associates and joint ventures	36,986	36,964
Share of post-acquisition changes in net assets	6,172	5,256
	<b>43,158</b>	42,220

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

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

## Notes:

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

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

## China Tower

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Current assets	<b>78,083</b>	49,706
Non-current assets	<b>247,924</b>	255,854
Current liabilities	<b>63,934</b>	65,158
Non-current liabilities	<b>64,379</b>	46,811

	<b>2023</b>	2022
	<b>RMB million</b>	RMB million
Operating revenues	<b>94,009</b>	92,170
Profit for the year	<b>9,750</b>	8,787
Other comprehensive income for the year	<b>6</b>	—
Total comprehensive income for the year	<b>9,756</b>	8,787
Dividend received from China Tower	<b>1,166</b>	947

Reconcile to the Group's interests in the associate:

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Net assets of China Tower	<b>197,694</b>	193,591
Non-controlling interests of China Tower	<b>—</b>	—
The Group's effective interest in China Tower	<b>20.5%</b>	20.5%
The Group's share of net assets of China Tower	<b>40,527</b>	39,686
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	<b>(317)</b>	(415)
Carrying amount of the interest in China Tower in the consolidated financial statements of the Group	<b>40,210</b>	39,271
Fair value of China Tower calculated based on quoted price	<b>26,816</b>	27,078

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

## China Tower (continued)

As at 31 December 2023, the fair value of investment in China Tower was RMB26,816 million (31 December 2022: RMB27,078 million) based on its quoted market price, which was below its carrying amount by 33.3% (31 December 2022: 31.0%). The management of the Group performed an impairment assessment and determined the recoverable amount of the investment based on the present value of expected future cash flows. The calculation has considered pre-tax cash flow projections of China Tower in five years with an extrapolation made to perpetuity. The discount rate used in projecting present value of future cash flows was based on cost of capital used to evaluate investments of similar nature in mainland China. Management judgement is required in estimating the future cash flows of China Tower. The key assumptions above are determined with reference to external sources of information. Based on the management's assessment result, there was no impairment of the investment as at 31 December 2023.

## Shanghai Info-investment

	<b>31 December</b>	
	<b>2023</b>	2022
	<b>RMB million</b>	RMB million
Current assets	<b>5,127</b>	5,769
Non-current assets	<b>7,622</b>	6,556
Current liabilities	<b>2,019</b>	1,857
Non-current liabilities	<b>2,424</b>	2,559

	<b>2023</b>	2022
	<b>RMB million</b>	RMB million
Operating revenues	<b>1,368</b>	1,403
Profit for the year	<b>454</b>	739
Other comprehensive income for the year	<b>7</b>	(2)
Total comprehensive income for the year	<b>461</b>	737
Dividend received from Shanghai Info-investment	<b>36</b>	18

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

#### Shanghai Info-investment (continued)

Reconcile to the Group's interests in the associate:

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Net assets of Shanghai Info-investment	<b>8,306</b>	7,909
Non-controlling interests of Shanghai Info-investment	<b>(46)</b>	(17)
The Group's effective interest in Shanghai Info-investment	<b>24.0%</b>	24.0%
The Group's share of net assets of Shanghai Info-investment	<b>1,982</b>	1,894
Carrying amount of the interest in Shanghai Info-investment in the consolidated financial statements of the Group	<b>1,982</b>	1,894

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

	<b>2023</b>	2022
	<b>RMB million</b>	RMB million
The Group's share of profit of these associates and joint ventures	<b>(101)</b>	(86)
The Group's share of total comprehensive income of these associates and joint ventures	<b>(101)</b>	(86)

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Aggregate carrying amount of interests in these associates and joint ventures in the consolidated financial statements of the Group	<b>966</b>	1,055

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

	Notes	31 December 2023 RMB million	2022 RMB million
Equity securities of listed companies	(i)	1,371	759
Unlisted equity securities	(ii)	55	126
		<b>1,426</b>	885

Notes:

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

## 12. DEFERRED TAX ASSETS AND LIABILITIES

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

	Deferred tax assets		Deferred tax liabilities	
	31 December 2023 RMB million	31 December 2022 RMB million	31 December 2023 RMB million	31 December 2022 RMB million
Accrued salaries, wages and other benefits	2,264	2,115	—	—
Temporary receipts of demolition and modification and deferred revenues	2,745	2,627	—	—
Depreciation, write-off and impairment of property, plant and equipment, etc.	2,809	2,536	(41,932)	(35,479)
Allowance for expected credit loss of accounts receivable	1,889	1,404	—	—
Subscriber points reward program	997	1,064	—	—
Right-of-use assets	—	—	(11,714)	(14,323)
Lease liabilities	12,550	15,054	—	—
Equity instruments at fair value through other comprehensive income	30	9	(266)	(110)
Others	950	979	—	—
Deferred tax assets/(liabilities)	<b>24,234</b>	25,788	<b>(53,912)</b>	(49,912)

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

As at 31 December 2023, the offsetting amount of deferred tax assets and deferred tax liabilities was RMB22,887 million (31 December 2022: RMB21,967 million). As at 31 December 2023, net deferred tax assets and deferred tax liabilities after offsetting were RMB1,347 million (31 December 2022: RMB3,821 million) and RMB31,025 million (31 December 2022: RMB27,945 million), respectively.

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

	Balance as at 1 January 2023 RMB million	Recognised in consolidated statement of comprehensive income RMB million	Balance as at 31 December 2023 RMB million
Accrued salaries, wages and other benefits	2,115	149	2,264
Temporary receipts of demolition and modification and deferred revenues	2,627	118	2,745
Depreciation, write-off and impairment of property, plant and equipment, etc.	2,536	273	2,809
Allowance for expected credit loss of accounts receivable	1,404	485	1,889
Subscriber points reward program	1,064	(67)	997
Lease liabilities	15,054	(2,504)	12,550
Equity instruments at fair value through other comprehensive income	9	21	30
Others	979	(29)	950
Deferred tax assets	25,788	(1,554)	24,234
Depreciation, write-off and impairment of property, plant and equipment, etc.	(35,479)	(6,453)	(41,932)
Right-of-use assets	(14,323)	2,609	(11,714)
Equity instruments at fair value through other comprehensive income	(110)	(156)	(266)
Deferred tax liabilities	(49,912)	(4,000)	(53,912)

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

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

	Balance as at 1 January 2022 RMB million	Recognised in consolidated statement of comprehensive income RMB million	Balance as at 31 December 2022 RMB million
Accrued salaries, wages and other benefits	1,416	699	2,115
Temporary receipts of demolition and modification and deferred revenues	2,286	341	2,627
Depreciation, write-off and impairment of property, plant and equipment, etc.	2,675	(139)	2,536
Allowance for expected credit loss of accounts receivable	1,140	264	1,404
Subscriber points reward program	1,058	6	1,064
Lease liabilities	9,856	5,198	15,054
Equity instruments at fair value through other comprehensive income	—	9	9
Others	944	35	979
Deferred tax assets	19,375	6,413	25,788
Depreciation, write-off and impairment of property, plant and equipment, etc.	(30,202)	(5,277)	(35,479)
Right-of-use assets	(9,011)	(5,312)	(14,323)
Equity instruments at fair value through other comprehensive income	(151)	41	(110)
Deferred tax liabilities	(39,364)	(10,548)	(49,912)

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

In 2019, the Group adopted IFRS 16 "Leases", and applied the requirements of IAS 12 "Income tax" to the leasing transaction as a whole, with temporary differences relating to right-of-use assets and lease liabilities assessed on a net basis. The Group has applied amendments to IAS 12 "Income tax" — Deferred Tax related to Assets and Liabilities arising from a Single Transaction, and recognised deferred tax assets and deferred tax liabilities respectively for the equal amounts of deductible and taxable temporary differences arising from the above transactions since 1 January 2023. The application of the amendments to accounting standards has had no material effect on the Group's financial position and result of operations, except for increasing the amount of deferred tax assets and deferred tax liabilities before offsetting, respectively.

Deferred tax assets are recognised for deductible temporary differences and tax losses carry-forwards only to the extent that the realisation of the related tax benefit through future taxable profits is probable. Certain subsidiaries of the Group did not recognise deferred tax assets of RMB1,467 million (31 December 2022: RMB826 million) in respect of deductible temporary differences and tax losses amounting to RMB9,269 million (31 December 2022: RMB5,130 million) that can be carried forward against future taxable profits as at 31 December 2023. The deductible tax losses are allowed to be carried forward within next five years against future taxable profits, while those of high-tech enterprises are allowed to be within next ten years.

### 13. OTHER ASSETS

	Notes	31 December 2023 RMB million	2022 RMB million
Contract costs	(i)	1,486	1,503
Other long-term prepaid expenses and receivables	(ii)	8,423	7,632
		<b>9,909</b>	9,135

Notes:

(i) Contract costs capitalised as at 31 December 2023 and 2022 mainly relate to the direct cost of the provision of wireline terminals to subscribers for the provision of Wireline and Smart Family services of the Group. The amount of capitalised costs recognised in profit or loss for the year ended 31 December 2023 was RMB1,348 million (2022: RMB1,752 million). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during this year.

(ii) Other long-term prepaid expenses and receivables mainly include prepayments of construction and materials, etc.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 14. JOINT OPERATION

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

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

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

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

## 15. INVENTORIES

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Materials and supplies	<b>346</b>	433
Goods for resale	<b>3,071</b>	3,080
	<b>3,417</b>	3,513

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 16. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	Note	31 December 2023 RMB million	2022 RMB million
Third parties		37,861	27,714
China Telecom Group	(i)	1,670	2,073
China Tower		24	23
Other telecommunications operators in the PRC		893	619
		<b>40,448</b>	30,429
Less: Allowance for credit losses		<b>(8,238)</b>	(6,117)
		<b>32,210</b>	24,312

Note:

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

As at 31 December 2023 and 2022, the gross carrying amounts of accounts receivable from contracts with customers amounted to RMB40,353 million, and RMB30,350 million.

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

	31 December 2023 RMB million	2022 RMB million
Current, within 1 month	6,073	6,405
1 to 3 months	2,554	2,040
4 to 6 months	905	807
7 to 12 months	1,469	1,234
Over 12 months	1,604	1,317
	<b>12,605</b>	11,803
Less: Allowance for credit losses	<b>(3,944)</b>	(3,335)
	<b>8,661</b>	8,468

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 16. ACCOUNTS RECEIVABLE, NET (continued)

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

	31 December	
	2023	2022
	RMB million	RMB million
Within 6 months	17,601	11,817
7 to 12 months	5,540	3,537
1 to 2 years	2,663	1,709
2 to 3 years	913	677
Over 3 years	1,126	886
	<b>27,843</b>	18,626
Less: Allowance for credit losses	<b>(4,294)</b>	(2,782)
	<b>23,549</b>	15,844

Details of impairment assessment of accounts receivable for the years ended 31 December 2023 and 2022 are set out in Note 40.

## 17. CONTRACT ASSETS

	31 December	
	2023	2022
	RMB million	RMB million
Third parties	4,768	2,937
China Telecom Group	161	180
China Tower	1	—
	<b>4,930</b>	3,117
Less: Provision for impairment loss	<b>(265)</b>	(75)
	<b>4,665</b>	3,042

Contract assets mainly arise from contracts for the provision of Industrial Digitalisation and Wireline and Smart Family services. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle which is generally within a year.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 18. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	31 December 2023 RMB million	2022 RMB million
Amounts due from China Telecom Group	(i)	9,067	8,846
Amounts due from China Tower		227	43
Amounts due from other telecommunications operators in the PRC		189	199
Other receivables		8,146	5,582
Less: Allowance for credit losses		(774)	(722)
Prepayments in connection with terminal equipment purchases		4,236	6,296
Prepaid expenses and deposits		3,557	3,657
VAT recoverable		10,932	9,850
		<b>35,580</b>	<b>33,751</b>

Note:

- (i) As at 31 December 2023, amounts due from China Telecom Group included short-term loans granted to China Telecom Group and its subsidiaries by Finance Company (31 December 2023: RMB8,080 million, and an impairment allowance recognised at RMB162 million; 31 December 2022: RMB8,071 million, and an impairment allowance recognised at RMB161 million). Of the above loans, the interest rate for loans of RMB80 million is 4.0% per annum, the interest rate for loans of RMB8,000 million is 2.9% per annum, both with a maturity period of one year.

### 19. CASH AND CASH EQUIVALENTS

	31 December 2023 RMB million	2022 RMB million
Cash at bank and in hand	78,740	65,234
Time deposits with original maturity within three months	2,306	7,231
	<b>81,046</b>	<b>72,465</b>

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

Short-term debts comprise:

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Loans from banks — unsecured	<b>2,867</b>	2,840

The weighted average interest rate of the Group's total short-term debts as at 31 December 2023 was 3.0% (31 December 2022: 3.3%) per annum, and the loans bear interests at rates ranging from 2.7% to 3.4% (31 December 2022: 3.0% to 4.1%) per annum, which are repayable within one year.

Long-term debts comprise:

		<b>31 December 2023</b>	2022
		<b>RMB million</b>	RMB million
	<b>Interest rates and final maturity</b>		
<b>Bank loans — unsecured</b>			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 2.60% per annum with maturities through 2036	<b>6,029</b>	5,321
US Dollars denominated	Interest rates of 2.00% per annum mainly, with maturities through 2028	<b>160</b>	178
Euro denominated	Interest rate of 2.30% per annum mainly, with maturities through 2032	<b>86</b>	97
		<b>6,275</b>	5,596
<b>Other loans — unsecured</b>			
Renminbi denominated		—	1
Company bonds — unsecured (Note (ii))		—	2,047
Total long-term debts		<b>6,275</b>	7,644
Less: Current portion		<b>(1,133)</b>	(3,160)
Non-current portion		<b>5,142</b>	4,484

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

Long-term debts comprise (continued):

Notes:

- (i) The loans from banks include long-term RMB denominated government loans with below-market interest rates ranging from 1.08% to 1.20% per annum obtained by the Group through banks (the "Low-interest Loans"). The Group recognised the Low-interest Loans at their fair value on initial recognition, and accreted the discount to profit or loss using the effective interest rate method. The difference between the fair value and face value of the Low-interest Loans was recognised as government grants in accrued expenses and other payables and other non-current liabilities.
- (ii) On 10 March 2020, the Group issued three-year RMB denominated company bonds, amounting to RMB2,000 million, to qualified investors on Shanghai Stock Exchange, with interest rate of 2.90% per annum. The company bonds are unsecured and have been fully repaid on 9 March 2023.

The aggregate maturities of the Group's long-term debts subsequent to 31 December 2023 are as follows:

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Within 1 year	<b>1,133</b>	3,160
Between 1 to 2 years	<b>1,143</b>	1,079
Between 2 to 3 years	<b>1,036</b>	1,045
Between 3 to 4 years	<b>394</b>	743
Between 4 to 5 years	<b>1,604</b>	328
Thereafter	<b>965</b>	1,289
	<b>6,275</b>	7,644

The Group's short-term and long-term debts do not contain any financial covenants. As at 31 December 2023, the Group had unutilised credit facilities amounting to RMB205,452 million (31 December 2022: RMB233,639 million).

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**21. ACCOUNTS PAYABLE**

Accounts payable are analysed as follows:

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Third parties	<b>111,025</b>	98,076
China Telecom Group	<b>26,444</b>	23,971
China Tower	<b>7,505</b>	4,340
Other telecommunications operators in the PRC	<b>898</b>	873
	<b>145,872</b>	127,260

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

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

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Due within 1 month or on demand	<b>40,068</b>	22,078
Due after 1 month but within 3 months	<b>30,859</b>	28,308
Due after 3 months but within 6 months	<b>35,261</b>	33,280
Due after 6 months	<b>39,684</b>	43,594
	<b>145,872</b>	127,260

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 22. ACCRUED EXPENSES AND OTHER PAYABLES

	<b>31 December 2023</b>	2022
	RMB million	RMB million
Amounts due to China Telecom Group	<b>29,969</b>	19,841
Amounts due to China Tower	<b>1,875</b>	1,590
Amounts due to other telecommunications operators in the PRC	<b>14</b>	19
Accrued expenses	<b>22,648</b>	25,404
VAT payable	<b>948</b>	952
Deposits and rental receipt in advance	<b>5,643</b>	5,844
Accrued salaries, wages and other benefits	<b>13,163</b>	11,579
	<b>74,260</b>	65,229

### 23. CONTRACT LIABILITIES

	<b>31 December 2023</b>	2022
	RMB million	RMB million
Third parties	<b>65,171</b>	67,570
China Telecom Group	<b>245</b>	271
China Tower	<b>1</b>	—
	<b>65,417</b>	67,841

Majority of contract liabilities as at 31 December 2022 was recognised as operating revenues for the year ended 31 December 2023.

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**24. LEASE LIABILITIES**

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Within one year	<b>13,399</b>	14,488
Within a period of more than one year but not more than two years	<b>12,976</b>	13,225
Within a period of more than two years but not more than five years	<b>25,780</b>	35,655
Within a period of more than five years	<b>3,894</b>	3,528
	<b>56,049</b>	66,896
Less: Current portion	<b>(13,399)</b>	(14,488)
Non-current portion	<b>42,650</b>	52,408

**25. SHARE CAPITAL**

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
<b>Registered, issued and fully paid</b>		
77,629,728,699 A shares of RMB1.00 each	<b>77,630</b>	77,630
13,877,410,000 H shares of RMB1.00 each	<b>13,877</b>	13,877
	<b>91,507</b>	91,507

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 26. RESERVES

## The Group

	Capital reserve RMB million (Note (ii))	Share premium RMB million	Surplus reserves RMB million (Note (iii))	General risk reserve RMB million (Note (v))	Other reserves RMB million (Note (ii))	Exchange reserves RMB million	Retained earnings RMB million	Total RMB million
Balance as at 1 January 2022	17,892	47,687	82,277	97	298	(1,170)	190,090	337,171
Total comprehensive income for the year	—	—	—	—	(172)	712	27,593	28,133
Consideration for entity combination under common control	(3)	—	—	—	—	—	—	(3)
Acquisition of non-controlling interests	(1)	—	—	—	—	—	—	(1)
Contribution from non- controlling interests	1,824	—	—	—	—	—	—	1,824
Share of associates and joint ventures' other changes in reserves and others	(2)	—	—	—	—	—	(3)	(5)
Dividends (Note 37)	—	—	—	—	—	—	(26,537)	(26,537)
Appropriations to statutory surplus reserve (Note (iii))	—	—	2,624	—	—	—	(2,624)	—
Appropriations to general risk reserve (Note (v))	—	—	—	86	—	—	(86)	—
Balance as at 31 December 2022	19,710	47,687	84,901	183	126	(458)	188,433	340,582
Total comprehensive income for the year	—	—	—	—	378	63	30,446	30,887
Share of associates and joint ventures' other changes in reserves and others	12	—	—	—	—	—	(3)	9
Dividends (Note 37)	—	—	—	—	—	—	(20,059)	(20,059)
Appropriations to statutory surplus reserve (Note (iii))	—	—	2,860	—	—	—	(2,860)	—
Appropriations to general risk reserve (Note (v))	—	—	—	204	—	—	(204)	—
Balance as at 31 December 2023	19,722	47,687	87,761	387	504	(395)	195,753	351,419

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 26. RESERVES (continued)

## The Company

	Capital reserve RMB million (Note (i))	Share premium RMB million	Surplus reserves RMB million (Note (iii))	Other reserves RMB million (Note (ii))	Retained earnings RMB million (Note (iv))	Total RMB million
Balance as at 1 January 2022	28,761	47,687	82,277	177	158,723	317,625
Total comprehensive income for the year	—	—	—	(123)	26,244	26,121
Share of associates and joint ventures' other changes in reserves	(2)	—	—	—	—	(2)
Dividends (Note 37)	—	—	—	—	(26,537)	(26,537)
Appropriations to statutory surplus reserve (Note (iii))	—	—	2,624	—	(2,624)	—
Balance as at 31 December 2022	28,759	47,687	84,901	54	155,806	317,207
Total comprehensive income for the year	—	—	—	470	28,599	29,069
Share of associates and joint ventures' other changes in reserves	12	—	—	—	—	12
Dividends (Note 37)	—	—	—	—	(20,059)	(20,059)
Appropriations to statutory surplus reserve (Note (iii))	—	—	2,860	—	(2,860)	—
Balance as at 31 December 2023	28,771	47,687	87,761	524	161,486	326,229

## Notes:

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 26. RESERVES (continued)

Notes (continued):

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

*According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS Accounting Standards, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the years ended 31 December 2023 and 2022, the net profit of the Company determined in accordance with China Accounting Standards for Business Enterprises and IFRS Accounting Standards are the same. For the year ended 31 December 2023, the Company transferred RMB2,860 million (2022: RMB2,624 million), being 10% of the year's net profit, to this reserve. As at 31 December 2023, the amount of statutory surplus reserve was RMB41,682 million (31 December 2022: RMB38,822 million).*

*The Company did not make any appropriations to discretionary surplus reserve for the years ended 31 December 2023 and 2022. As at 31 December 2023 and 2022, the amount of discretionary surplus reserve was RMB46,079 million.*

*The statutory and discretionary surplus reserves are non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilised for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining statutory surplus reserve balance after such issue is not less than 25% of the registered capital.*

- (iv) *According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount of the Company's retained earnings determined in accordance with China Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS Accounting Standards. As at 31 December 2023, the amount of retained earnings available for distribution was RMB161,486 million (31 December 2022: RMB155,806 million), being the amount determined in accordance with IFRS Accounting Standards. Final dividend of approximately RMB8,236 million in respect of the financial year 2023 proposed after the end of the reporting period has not been recognised as a liability in the consolidated financial statements at the end of the reporting period (Note 37).*
- (v) *Pursuant to "Requirements on Impairment Allowance for Financial Institutions" (Caijin [2012] No. 20) issued by the Ministry of Finance of the PRC effective on 1 July 2012 (the "Requirements"), the Group's subsidiaries, mainly Finance Company, established a general risk reserve within equity, through appropriation of retained earnings, to address unidentified potential losses relating to risk assets. The general risk reserve balance should not be less than 1.5% of the ending balance of risk assets, as defined in the Requirements.*

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 27. OPERATING REVENUES

## Disaggregation of revenue

	Notes	2023 RMB million	2022 RMB million
<b>Type of goods or services</b>			
Service revenues		<b>464,965</b>	434,928
Mobile communications service revenues	(i)	<b>195,660</b>	191,026
Wireline and Smart Family service revenues	(ii)	<b>123,063</b>	118,534
Industrial Digitalisation service revenues	(iii)	<b>138,890</b>	117,756
Other service revenues	(iv)	<b>7,352</b>	7,612
Sales of goods and others	(v)	<b>48,586</b>	46,520
<b>Total operating revenues</b>		<b>513,551</b>	481,448
Revenue from customer contracts		<b>505,531</b>	472,952
Revenue from other sources and others		<b>8,020</b>	8,496
<b>Total operating revenues</b>		<b>513,551</b>	481,448
<b>Timing of revenue recognition</b>			
A point in time		<b>42,563</b>	40,039
Over time		<b>470,988</b>	441,409
<b>Total operating revenues</b>		<b>513,551</b>	481,448

## Notes:

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

As at 31 December 2023 and 2022, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts represents revenue expected to be recognised in the future when services are provided over the contract terms over the next 1 to 3 years.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 28. NETWORK OPERATIONS AND SUPPORT

	Note	2023 RMB million	2022 RMB million
Operating and maintenance		102,270	88,682
Utility		19,516	18,055
Network resources usage and related fees	(i)	29,018	28,173
Others		9,607	12,679
		<b>160,411</b>	147,589

Note:

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

## 29. SELLING, GENERAL AND ADMINISTRATIVE

	Note	2023 RMB million	2022 RMB million
Channel commission and customer services expenses		47,773	47,290
Advertising and promotion expenses		2,882	2,804
Property and transportation related expenses		3,128	2,982
Research and development expenses	(i)	4,203	4,199
Auditors' remuneration			
— Audit services		56	59
— Non-audit services		4	6
Others		8,758	6,937
		<b>66,804</b>	64,277

Note:

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 30. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	2023 RMB million	2022 RMB million
Network operations and support	55,052	53,347
Selling, general and administrative	37,753	31,425
	<b>92,805</b>	84,772

## 31. OTHER OPERATING EXPENSES

	Notes	2023 RMB million	2022 RMB million
Interconnection charges	(i)	13,910	13,052
Cost of goods sold	(ii)	40,819	39,592
Donations		17	6
Others	(iii)	1,955	1,801
		<b>56,701</b>	54,451

Notes:

- (i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.
- (ii) Cost of goods sold primarily represents cost of communications equipment sold.
- (iii) Others mainly include tax and surcharges other than VAT and income tax.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 32. NET FINANCE COSTS

	2023 RMB million	2022 RMB million
Interest expense on lease liabilities	2,130	1,425
Interest expense on short-term and long-term debts	504	556
Less: Interest expense capitalised*	(89)	(100)
Net interest expense	2,545	1,881
Interest income	(2,368)	(1,808)
Net foreign exchange gain or loss and others	155	(66)
	332	7
* Interest expense was capitalised in construction in progress at the following rates per annum	2.9%–3.6%	3.4%–3.6%

### 33. INCOME TAX

Income tax in the profit or loss comprises:

	2023 RMB million	2022 RMB million
Provision for PRC income tax	3,121	3,676
Provision for income tax in other tax jurisdictions	236	177
Deferred taxation	5,419	4,185
	8,776	8,038

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 33. INCOME TAX (continued)

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

	Notes	2023 RMB million	2022 RMB million
Profit before taxation		39,204	35,714
Expected income tax expense at statutory tax rate of 25%	(i)	9,801	8,929
Impact of tax incentives and reduction including additional deduction for qualified research and development costs, etc.		(1,238)	(1,061)
Differential tax rate on mainland China subsidiaries' and branches' income	(i)	(858)	(764)
Differential tax rate on other subsidiaries' income	(ii)	(69)	(54)
Non-deductible expenses	(iii)	928	821
Non-taxable income	(iv)	(626)	(568)
Tax effect of deductible temporary difference and deductible tax loss for which no deferred tax asset was recognised		1,028	803
Others	(v)	(190)	(68)
Income tax expense		8,776	8,038

## Notes:

- (i) Except for certain subsidiaries and branches which are mainly taxed at the preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of mainland China.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 38%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts represent share of profits of associates and joint ventures and miscellaneous income which are not subject to income tax.
- (v) Amounts primarily represent settlement of tax filing differences of prior year annual tax return, etc.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 34. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

2023	Directors'/ supervisors' fees RMB thousand	Salaries, allowances and benefits in kind RMB thousand	Discretionary bonuses <sup>10</sup> RMB thousand	Retirement scheme contributions RMB thousand	Share-based payments RMB thousand	Total RMB thousand
<b>Executive directors</b>						
Ke Ruiwen	—	240	360	144	—	744
Shao Guanglu	—	240	360	136	—	736
Liu Guiqing	—	216	324	135	—	675
Tang Ke	—	214	321	134	—	669
Xia Bing <sup>1</sup>	—	214	321	134	—	669
Li Yinghui <sup>1</sup>	—	214	321	134	—	669
Li Jun <sup>2</sup>	—	143	214	95	—	452
<b>Non-executive director</b>						
Chen Shengguang	—	—	—	—	—	—
<b>Independent non-executive directors<sup>3</sup></b>						
Tse Hau Yin, Aloysius <sup>4</sup>	8	—	—	—	—	8
Xu Erming <sup>4</sup>	4	—	—	—	—	4
Wang Hsuehming <sup>5</sup>	108	—	—	—	—	108
Ng Kar Ling Johnny <sup>6</sup>	492	—	—	—	—	492
Yeung Chi Wai, Jason	317	—	—	—	—	317
Chen Dongqi <sup>6</sup>	—	—	—	—	—	—
Lyu Wei <sup>7</sup>	—	—	—	—	—	—
<b>Supervisors</b>						
Dai Bin <sup>8</sup>	—	68	337	48	—	453
Xu Shiguang <sup>8</sup>	—	48	111	37	—	196
Han Fang	—	485	663	121	218	1,487
Zhang Jianbin	—	261	801	122	—	1,184
Guan Lixin <sup>9</sup>	—	119	522	81	330	1,052
Luo Zhendong <sup>9</sup>	—	96	396	68	220	780
Wang Yibing	—	—	—	—	—	—
	<b>929</b>	<b>2,558</b>	<b>5,051</b>	<b>1,389</b>	<b>768</b>	<b>10,695</b>

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

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

- 1 *Mr. Xia Bing and Mr. Li Yinghui were appointed as executive directors of the Company on 6 January 2023.*
- 2 *Mr. Li Jun was appointed as an executive director of the Company on 23 May 2023.*
- 3 *The independent non-executive directors' remunerations were for their services as directors of the Company.*
- 4 *Mr. Tse Hau Yin, Aloysius and Mr. Xu Erming resigned as independent non-executive directors of the Company on 6 January 2023.*
- 5 *Madam Wang Hsuehming resigned from position as independent non-executive director of the Company on 23 May 2023.*
- 6 *Mr. Ng Kar Ling Johnny and Mr. Chen Dongqi were appointed as independent non-executive directors of the Company on 6 January 2023.*
- 7 *Madam Lyu Wei was appointed as an independent non-executive director of the Company on 23 May 2023.*
- 8 *Mr. Dai Bin and Mr. Xu Shiguang resigned as supervisors of the Company on 23 May 2023.*
- 9 *Madam Guan Lixin and Mr. Luo Zhendong were appointed as supervisors of the Company on 23 May 2023.*
- 10 *The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance.*
- 11 *During year 2023, the Company also settled the bonus for year 2022, including RMB355 thousand for Ke Ruiwen, RMB334 thousand for Shao Guanglu, RMB320 thousand for Liu Guiqing, RMB310 thousand for Tang Ke, RMB310 thousand for Xia Bing, RMB258 thousand for Li Yinghui, RMB124 thousand for Li Jun, and settled special incentives of RMB130 thousand for Han Fang, RMB500 thousand for Zhang Jianbin.*
- 12 *The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year. None of the directors or supervisors received any inducements for joining the Company or compensation for loss of office, or waived or agreed to waive any emoluments during this year.*

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

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

1 Mr. Li Zhengmao resigned as an executive director of the Company on 12 July 2022.

2 Mr. Tang Ke was appointed as an executive director of the Company on 22 March 2022.

3 The independent non-executive directors' remunerations were for their services as directors of the Company.

4 Mr. Tse Hau Yin, Aloysius ("Mr. Tse") and Mr. Xu Erming ("Mr. Xu") resigned from position as independent non-executive directors of the Company on 16 August 2022. The resignation of Mr. Tse and Mr. Xu took effect on the date of election of the proposed independent non-executive directors at the extraordinary general meeting of the Company convened on 6 January 2023. Prior to that, Mr. Tse and Mr. Xu continued to carry out their duties as independent non-executive directors.

5 Mr. Sui Yixun and Mr. You Minqiang resigned as supervisors of the Company on 22 March 2022.

6 Madam Han Fang and Madam Wang Yibing were appointed as supervisors of the Company on 22 March 2022.

7 The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance.

8 During year 2022, the Company also settled the bonus for year 2021, including RMB1,080 thousand for Ke Ruiwen, RMB727 thousand for Shao Guanglu, RMB970 thousand for Liu Guiqing, RMB254 thousand for Tang Ke.

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 35. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION

## (a) Five highest paid individuals

None of the five highest paid individuals of the Group for the years ended 31 December 2023 and 2022 were directors of the Company.

The aggregate of the emoluments in respect of the five (2022: five) individuals (non-directors) with the highest emoluments are as follows:

	2023 RMB thousand	2022 RMB thousand
Salaries, allowances and benefits in kind	7,091	7,218
Discretionary bonuses	5,370	5,599
Retirement scheme contributions	1,181	777
	<b>13,642</b>	13,594

The emoluments of the five (2022: five) individuals (non-directors) with the highest emoluments are within the following bands:

	2023 Number of individuals	2022 Number of individuals
RMB0 — RMB1,000,000	—	—
RMB1,000,001 — RMB1,500,000	—	—
RMB1,500,001 — RMB2,000,000	—	—
More than RMB2,000,001	5	5

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 35. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT REMUNERATION (continued)

#### (b) Senior management remuneration

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

	<b>2023</b> Number of individuals	2022 Number of individuals
RMB0 — RMB1,000,000	<b>19</b>	17
RMB1,000,001 — RMB1,500,000	<b>3</b>	2
RMB1,500,001 — RMB2,000,000	—	—

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

For the year ended 31 December 2023, the consolidated profit attributable to equity holders of the Company includes a profit of RMB28,599 million which has been dealt with in the stand-alone financial statements of the Company.

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

### 37. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on 26 March 2024, a final dividend of RMB0.090 per share (pre-tax) totalling approximately RMB8,236 million for the year ended 31 December 2023 was proposed for shareholders' approval at the Annual General Meeting. The dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2023.

The 2022 Annual General Meeting considered and approved the authorisation to the Board of Directors to decide on the interim profit distribution plan of the Company for year 2023. Pursuant to a resolution at the Board of Directors' meeting on 8 August 2023, an interim dividend of RMB0.1432 (equivalent to HK\$0.156524) per share (pre-tax) totalling approximately RMB13,104 million in respect of the six-month period ended 30 June 2023 was declared. The dividend of RMB11,117 million for A shares was paid on 31 August 2023, and the dividend of RMB1,987 million for H shares was paid on 28 September 2023.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

**37. DIVIDENDS (continued)**

Pursuant to the shareholders' approval at the Annual General Meeting held on 23 May 2023, a final dividend of RMB0.076 (equivalent to HK\$0.085065) per share (pre-tax) totalling approximately RMB6,955 million in respect of the year ended 31 December 2022 was declared. The dividend of RMB5,900 million for A shares was paid on 9 June 2023, and the dividend of RMB1,055 million for H shares was paid on 21 July 2023.

The 2021 Annual General Meeting considered and approved the authorisation to the Board of Directors to decide on the interim profit distribution plan of the Company for year 2022. Pursuant to a resolution at the Board of Directors' meeting on 16 August 2022, an interim dividend of RMB0.120 (equivalent to HK\$0.139523) per share (pre-tax) totalling approximately RMB10,981 million in respect of the six-month period ended 30 June 2022 was declared. The dividend of RMB9,316 million for A shares was paid on 8 September 2022, and the dividend of RMB1,665 million for H shares was paid on 14 October 2022.

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

**38. EARNINGS PER SHARE**

The calculation of basic earnings per share for the years ended 31 December 2023 and 2022 is based on the profit attributable to equity holders of the Company of RMB30,446 million and RMB27,593 million, respectively, divided by 91,507,138,699 shares in issue.

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

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

As at 31 December 2023 and 2022, the Group had capital commitments as follows:

	<b>31 December 2023</b>	2022
	RMB million	RMB million
Contracted for but not provided		
Property	<b>1,912</b>	1,584
Telecommunications network plant and equipment	<b>21,015</b>	15,023
	<b>22,927</b>	16,607

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 39. COMMITMENTS AND CONTINGENCIES (continued)

#### Contingent liabilities

- (a) The Group, with the assistance of its legal counsels, assessed and concluded that no material contingent liabilities existed as at 31 December 2023.
- (b) As at 31 December 2023 and 2022, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

#### Legal contingencies

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

### 40. FINANCIAL INSTRUMENTS

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

#### (a) Fair Value Measurements

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

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 40. FINANCIAL INSTRUMENTS (continued)

## (a) Fair Value Measurements (continued)

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

The listed equity securities investments included in the Group's equity instruments at fair value through other comprehensive income and financial assets at fair value through profit or loss are categorised as level 1 financial instruments. As at 31 December 2023, the fair value of the Group's listed equity securities investments is RMB1,373 million (31 December 2022: RMB762 million), based on quoted market price on PRC stock exchanges. The Group's investments in unlisted equity securities, included in financial assets at fair value through profit or loss and equity instruments at fair value through other comprehensive income, are classified as financial instruments categorised as level 3. As at 31 December 2023, the fair value of these financial instruments categorised as level 3 is RMB450 million (31 December 2022: RMB525 million). For these financial instruments which are not traded in active markets, the Group establishes fair value by using valuation techniques. The valuation methods or models used primarily include net asset value method and market comparable company model, etc. The input values of valuation models mainly include net asset value and expected yield rates, comparable company valuation multiples, etc.

The fair value of long-term debts is estimated by discounting future cash flows using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities. The fair value measurement of long-term debts is categorised as level 2. The interest rates used by the Group in estimating the fair values of long-term debts, having considered the foreign currency denomination of the debts, ranged from 4.2% to 4.9% (31 December 2022: 2.9% to 4.9%). As at 31 December 2023 and 2022, the carrying amounts and fair values of the Group's long-term debts were as follows:

	31 December 2023		31 December 2022	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
Long-term debts	6,275	6,124	7,644	7,613

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 40. FINANCIAL INSTRUMENTS (continued)

#### (b) Risks

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

#### (i) Credit risk

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

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

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

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

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 40. FINANCIAL INSTRUMENTS (continued)

## (b) Risks (continued)

## (i) Credit risk (continued)

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

The Group measures loss allowances for accounts receivable and contract assets at an amount equal to lifetime ECL, which is calculated using a provision matrix, or individually assessed for those debtors with significant balances or credit-impaired debtors. As different loss patterns were indicated during the analysis of the Group's historical credit loss experience between telephone and Internet subscribers and enterprise customers, the following tables provide information about the Group's exposure to credit risk and ECL for accounts receivable and contract assets from telephone and Internet subscribers and enterprise customers, respectively, as at 31 December 2023 and 2022:

Accounts receivable from telephone and Internet subscribers:

	31 December 2023		
	Expected loss rate %	Gross carrying amount RMB million	Loss allowance RMB million
Current, within 1 month	2	5,803	115
1 to 3 months	20	2,552	506
4 to 6 months	59	905	538
7 to 12 months	80	1,469	1,175
Over 12 months	100	1,596	1,596
		<b>12,325</b>	<b>3,930</b>

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 40. FINANCIAL INSTRUMENTS (continued)

#### (b) Risks (continued)

##### (i) Credit risk (continued)

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

Accounts receivable and contract assets from enterprise customers:

	31 December 2023		
	Expected loss rate %	Gross carrying amount RMB million	Loss allowance RMB million
Within 6 months	3	12,742	439
7 to 12 months	23	3,657	834
1 to 2 years	68	1,812	1,239
2 to 3 years	100	587	587
Over 3 years	100	894	894
		<b>19,692</b>	<b>3,993</b>

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

As at 31 December 2023, the loss allowance for accounts receivable and contract assets was RMB8,238 million and RMB265 million (2022: RMB6,117 million and RMB75 million), respectively. Loss allowance of RMB292 million as at 31 December 2023 (2022: RMB466 million), which was not calculated collectively in the above tables, was made individually on debtors with significant balances or credit-impaired debtors.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 40. FINANCIAL INSTRUMENTS (continued)

## (b) Risks (continued)

## (i) Credit risk (continued)

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

Expected loss rates are based on actual loss experience over the past 1 to 3 years. These rates are adjusted to reflect differences among economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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

	2023 RMB million	2022 RMB million
At beginning of year	6,117	5,051
Impairment losses for ECL	3,124	2,027
Written off and others	(1,003)	(961)
At end of year	8,238	6,117

## (ii) Liquidity risk

Liquidity risk refers to the risk that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group manages liquidity risk by maintaining sufficient cash balances and adequate amount of committed banking facilities to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments, capital expenditures and new investments for a set minimum period of between 3 to 6 months.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 40. FINANCIAL INSTRUMENTS (continued)

#### (b) Risks (continued)

##### (ii) Liquidity risk (continued)

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

	31 December 2023					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than	More than	More than 5 years
				1 year but less than 2 years	2 years but less than 5 years	
				RMB million	RMB million	
Short-term debts	2,867	2,909	2,909	—	—	—
Long-term debts	6,275	7,152	1,207	1,272	3,422	1,251
Accounts payable	145,872	145,872	145,872	—	—	—
Accrued expenses and other payables	50,819	51,610	51,610	—	—	—
Lease liabilities	56,049	60,458	14,922	14,113	27,215	4,208
Other non-current liabilities	182	189	—	189	—	—
	<b>262,064</b>	<b>268,190</b>	<b>216,520</b>	<b>15,574</b>	<b>30,637</b>	<b>5,459</b>

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

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 40. FINANCIAL INSTRUMENTS (continued)

## (b) Risks (continued)

## (iii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term debts, long-term debts and deposits with Finance Company. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The following table sets out the interest rate profile of the Group's debts at the end of the reporting period:

	31 December 2023		31 December 2022	
	Effective interest rate%	RMB million	Effective interest rate%	RMB million
<b>Fixed rate debts</b>				
Short-term debts	3.0	2,847	3.3	2,403
Long-term debts	1.1	5,677	1.4	7,644
		8,524		10,047
<b>Variable rate debts</b>				
Short-term debts	3.1	20	3.5	437
Long-term debts	2.6	598	—	—
		618		437
Total debts		9,142		10,484
Fixed rate debts as a percentage of total debts		93.2%		95.8%

Management does not expect the increase or decrease in interest rate will materially affect the Group's financial position and result of operations because the interest rates of 93.2% (31 December 2022: 95.8%) of the Group's short-term and long-term debts as at 31 December 2023 are fixed as set out above.

In addition, The deposit interest rates provided by Finance Company to China Telecom Group are fixed and shall comply with the relevant requirements of the People's Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the deposit interest rates of the same type of deposit services for the same period offered by the major cooperative commercial banks of China Telecom Group and are conducted on normal commercial terms or better. The management of the Group does not expect the high level of fair value interest rate risk as such interest rates are immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 40. FINANCIAL INSTRUMENTS (continued)

#### (b) Risks (continued)

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

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

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 93.6% (31 December 2022: 94.3%) of the Group's cash and cash equivalents and 97.3% (31 December 2022: 97.4%) of the Group's short-term and long-term debts as at 31 December 2023 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 20.

### 41. CAPITAL MANAGEMENT

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

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

Management monitors its capital structure on the basis of total debts to total assets ratio. For this purpose the Group defines total debts as the sum of short-term debts and long-term debts. Total debts do not include balance of deposits received by Finance Company from China Telecom Group amounting to RMB24,107 million and lease liabilities amounting to RMB56,049 million as at 31 December 2023 (31 December 2022: RMB17,427 million and RMB66,896 million). As at 31 December 2023, the Group's total debt to total assets ratio was 1.1% (31 December 2022: 1.3%), which is within the range of management's expectation.

Except for Finance Company, which is subject to certain capital requirements imposed by National Financial Regulatory Administration (formerly known as "China Banking and Insurance Regulatory Commission"), neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Short-term debts RMB million	Long-term debts RMB million	Payables in respect of instalment purchase of equipment RMB million	Lease liabilities RMB million	Dividend payable RMB million	Deposits with Finance Company RMB million (Note (i))	Total RMB million
Balance as at 1 January 2022	2,821	13,675	—	42,404	4	13,016	71,920
Financing cash flows	19	(6,115)	173	(15,897)	(26,627)	4,411	(44,036)
Foreign exchange gain or loss	—	18	—	94	—	—	112
New leases	—	—	—	44,961	—	—	44,961
Lease modifications	—	—	—	(4,666)	—	—	(4,666)
Distribution to non-controlling interests	—	—	—	—	89	—	89
Dividends declared	—	—	—	—	26,537	—	26,537
Additions of equipment	—	—	1,356	—	—	—	1,356
Others	—	66	—	—	—	—	66
Balance as at 31 December 2022	2,840	7,644	1,529	66,896	3	17,427	96,339
Financing cash flows	29	(1,507)	(3,773)	(14,647)	(20,138)	6,680	(33,356)
Foreign exchange gain or loss	—	8	—	5	—	—	13
New leases	—	—	—	11,019	—	—	11,019
Lease modifications	—	—	—	(7,224)	—	—	(7,224)
Distribution to non-controlling interests	—	—	—	—	78	—	78
Dividends declared	—	—	—	—	20,059	—	20,059
Additions of equipment	—	—	4,811	—	—	—	4,811
Others	(2)	130	—	—	—	—	128
Balance as at 31 December 2023	2,867	6,275	2,567	56,049	2	24,107	91,867

## Notes:

- (i) As at 31 December 2023, the balance of deposits with Finance Company amounting to RMB24,107 million (31 December 2022: RMB17,427 million) were included in amounts due to China Telecom Group in accrued expenses and other payables (Note 22).
- (ii) For the year ended 31 December 2023, other than the net financing cash outflows totalling RMB33,356 million (2022: RMB44,036 million) as presented above, other primary financing activities include Finance Company's placing statutory deposit reserves amounting to RMB121 million (2022: RMB541 million) at the People's Bank of China which was included in the balance of short-term bank deposits and restricted cash as at 31 December 2023.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 43. RELATED PARTY TRANSACTIONS

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

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

The principal transactions with China Telecom Group which were carried out in the ordinary course of business are as follows. These transactions constitute continuing connected transactions under the Listing Rules and the Company has complied with the relevant disclosure requirements under Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Continuing Connected Transactions" in the "Significant Events".

	Notes	2023 RMB million	2022 RMB million
Construction engineering and design services	(i)	19,031	16,993
Receiving ancillary services	(ii)	22,627	22,309
Interconnection revenues*	(iii)	47	48
Interconnection charges*	(iii)	87	102
Receiving community services	(iv)	4,526	4,340
Centralised services transaction revenues	(v)	3,909	3,572
Centralised services transaction expenses	(v)	806	870
Property and land use right lease income	(vi)	60	51
Property and land use right lease related expenses	(vii)	779	715
Addition to right-of-use assets	(vii)	673	463
Interest expense on lease liabilities	(vii)	29	21
Provision of IT services	(viii)	2,294	1,944
Receiving IT services	(viii)	6,584	4,834
Purchases of telecommunications equipment, materials and procurement services	(ix)	4,306	4,249
Sales of telecommunications equipment, materials and procurement services	(ix)	4,950	4,692
Internet applications channel services revenues	(x)	62	57
Payment and digital finance related services	(xi)	994	1,068
Communications resources lease expenses	(xii)	517	442
Net outflow of deposit by China Telecom Group with Finance Company*	(xiii)	6,680	4,411
Interest expense on the deposit by China Telecom Group with Finance Company*	(xiii)	282	238
Short-term loans granted by Finance Company to China Telecom Group	(xiii)	8,100	8,105
China Telecom Group's repayments of short-term loans granted by Finance Company	(xiii)	8,091	2,034
Interest income from loans granted by Finance Company to China Telecom Group	(xiii)	245	201
Receiving finance lease services	(xiv)	5,973	2,212
License income for intellectual property*	(xv)	18	—

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 43. RELATED PARTY TRANSACTIONS (continued)

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

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

Notes:

- (i) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (ii) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (iii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
- (v) Represent related revenues and expenses shared between the Company and China Telecom Group for centralised services.
- (vi) Represent amounts of property lease fees received and receivable from China Telecom Group for leasing of properties and land use rights.
- (vii) Represent amounts in respect of the leasing of properties and land use rights from China Telecom Group, which include the fees for short-term leases, leases of low-value assets, variable lease payments not depending on an index or a rate, fees for non-lease components, and right-of-use assets and related expenses recognised for leases.
- (viii) Represent IT services provided to and received from China Telecom Group.
- (ix) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (x) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of communications channel and applications support platform and billing and deduction services, etc.
- (xi) Represent amounts paid and payable to China Telecom Group in respect of payment and digital finance related services.
- (xii) Represent amounts in respect of the leasing of related communications resources from China Telecom Group, including transmission network communications resources, wireless network communications resources and wireline access network communications resources, etc.
- (xiii) Represent amounts related to financial services provided by Finance Company to China Telecom Group, including loan service, deposit service and other financial services.
- (xiv) Represent amounts related to finance lease services provided by China Telecom Group, including finance lease services such as sale and leaseback, direct lease, etc., and related finance lease consulting services.
- (xv) Represent amounts related to license income of intellectual property granted by the Group to China Telecom Group and its subsidiaries.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 43. RELATED PARTY TRANSACTIONS (continued)

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

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

	<b>31 December 2023</b>	2022
	<b>RMB million</b>	RMB million
Accounts receivable	<b>1,670</b>	2,073
Contract assets	<b>161</b>	180
Prepayments and other current assets	<b>9,067</b>	8,846
Other assets	<b>135</b>	92
Accounts payable	<b>26,444</b>	23,971
Accrued expenses and other payables	<b>29,969</b>	21,370
Contract liabilities	<b>245</b>	271
Lease liabilities	<b>1,051</b>	652

Amounts due from/to China Telecom Group, other than short-term loans granted by Finance Company included in prepayments and other current assets (Note 18(i)) and deposit with Finance Company included in accrued expenses and other payables (Note 42(i)), are unsecured, non-interest bearing and are receivable or repayable in accordance with contractual terms which are similar to those terms offered by third parties.

Short-term loans granted by Finance Company to China Telecom Group (Note 18(i)) are conducted on normal commercial terms or better.

The deposit interest rates provided by Finance Company to China Telecom Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the deposit interest rates of the same type of deposit services for the same period offered by the major cooperative commercial banks of China Telecom Group and are conducted on normal commercial terms or better.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 43. RELATED PARTY TRANSACTIONS (continued)

## (b) Transactions with China Tower

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

	Notes	2023 RMB million	2022 RMB million
Tower assets lease related expenses	(i)	12,361	12,193
Addition to right-of-use assets	(i)	3,170	2,239
Interest expenses on lease liabilities	(i)	1,164	387
Provision of IT services	(ii)	40	30
Addition to right-of-use assets due to lease modification	(i) (iii)	—	33,518

Notes:

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 43. RELATED PARTY TRANSACTIONS (continued)

#### (b) Transactions with China Tower (continued)

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

	31 December 2023	2022
	RMB million	RMB million
Accounts receivable	24	23
Contract assets	1	—
Prepayments and other current assets	227	43
Accounts payable	7,505	4,340
Accrued expenses and other payables	1,875	1,590
Contract liabilities	1	—
Lease liabilities	31,755	40,339

Amounts due from/to China Tower are unsecured, non-interest bearing and are receivable or repayable in accordance with contractual terms which are similar to those terms offered by third parties.

#### (c) Key management personnel compensation

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

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

	2023	2022
	RMB thousand	RMB thousand
Short-term employee benefits	11,179	11,400
Post-employment benefits	1,389	1,059
Share-based payments	768	—
	13,336	12,459

The above remuneration has been reflected in personnel expenses.

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**43. RELATED PARTY TRANSACTIONS (continued)****(d) Transactions with other government-related entities**

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with the parent company and its fellow subsidiaries (Note 43(a)) and China Tower (Note 43(b)), the Group has transactions with other government-related entities, which include but not limited to the following:

- rendering and receiving services, including but not limited to telecommunications services
- sales and purchases of goods, properties and other assets
- lease of assets
- deposits and borrowings
- use of public utilities

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

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

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

	Note	31 December 2023 RMB million	2022 RMB million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net		385,375	393,043
Construction in progress		60,227	49,966
Right-of-use assets		73,303	83,693
Goodwill		29,877	29,877
Intangible assets		20,673	18,992
Investments in subsidiaries	9	34,926	33,086
Interests in associates and joint ventures		42,694	41,878
Financial assets at fair value through profit or loss		2	3
Equity instruments at fair value through other comprehensive income		1,381	757
Deferred tax assets		784	3,272
Other assets		9,077	8,586
<b>Total non-current assets</b>		<b>658,319</b>	663,153
<b>Current assets</b>			
Inventories		1,527	1,460
Income tax recoverable		—	37
Accounts receivable, net		28,057	20,491
Contract assets		3,304	2,054
Prepayments and other current assets		19,597	16,887
Short-term bank deposits and restricted cash		6,299	534
Cash and cash equivalents		42,901	47,733
<b>Total current assets</b>		<b>101,685</b>	89,196
<b>Total assets</b>		<b>760,004</b>	752,349

## SECTION VIII FINANCIAL REPORTS

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

		31 December	
	Note	2023	2022
		RMB million	RMB million
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term debts		19,241	26,964
Current portion of long-term debts		1,132	3,160
Accounts payable		124,173	108,354
Accrued expenses and other payables		45,090	43,052
Contract liabilities		57,743	59,639
Income tax payable		39	526
Current portion of lease liabilities		12,841	14,039
<b>Total current liabilities</b>		<b>260,259</b>	255,734
<b>Net current liabilities</b>		<b>(158,574)</b>	(166,538)
<b>Total assets less current liabilities</b>		<b>499,745</b>	496,615
<b>Non-current liabilities</b>			
Long-term debts		3,765	4,484
Lease liabilities		41,189	51,131
Deferred tax liabilities		30,742	27,608
Other non-current liabilities		6,313	4,678
<b>Total non-current liabilities</b>		<b>82,009</b>	87,901
<b>Total liabilities</b>		<b>342,268</b>	343,635
<b>Equity</b>			
Share capital		91,507	91,507
Reserves	26	326,229	317,207
<b>Total equity</b>		<b>417,736</b>	408,714
<b>Total liabilities and equity</b>		<b>760,004</b>	752,349

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

### 45. POST-EMPLOYMENT BENEFITS PLANS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by provincial, autonomous regional and municipal governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 20% of the salaries, bonuses and certain allowances of employees. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. During the year ended 31 December 2023, no forfeited contributions may be used by the Group to reduce the existing level of contributions (2022: nil).

The Group's contributions to the above plans for the year ended 31 December 2023 were RMB11,018 million (31 December 2022: RMB9,915 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2023 was RMB960 million (31 December 2022: RMB923 million).

### 46. SHARE APPRECIATION RIGHTS

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

In November 2018, the Company approved the granting of 2,394 million share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$3.81 per unit, exercise price will be adjusted in accordance with the established rules of the plan. A recipient of share appreciation rights may exercise the rights in stages commencing November 2020. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total share appreciation rights granted to such person. In February 2023, the Board of Directors of the Company considered and approved the proposal in relation to completion of exercise conditions of the 2018 Share Appreciation Rights for key personnel of the Company. It was confirmed that the exercise conditions of the 2018 Share Appreciation Rights have been met, and the Company handled the matters in relation to the exercise of share appreciation rights.

## SECTION VIII FINANCIAL REPORTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

## 46. SHARE APPRECIATION RIGHTS (continued)

In March 2021, the Company approved the adoption of the Phase II Incentive Scheme for Share Appreciation Rights and the granting of approximately 2.4 billion share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$2.686 per unit.

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

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

	2023	2022
As at 1 January	4,715,240,000	4,716,560,000
Exercised	(2,111,528,550)	—
Forfeited	(203,196,450)	(1,320,000)
As at 31 December	2,400,515,000	4,715,240,000

For the year ended 31 December 2023, compensation expense of RMB2,146 million (2022: RMB1,009 million) was recognised by the Group in respect of share appreciation rights.

As at 31 December 2023, the carrying amount of the liability arising from share appreciation rights was RMB2,176 million (31 December 2022: RMB1,579 million).

## 47. ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

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

#### Allowance for ECL for accounts receivable

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

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

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

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

For the years ended 31 December 2023 and 2022, no significant provision for impairment loss was made against the carrying value of long-lived assets.

## SECTION VIII FINANCIAL REPORTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2023

**47. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)****Impairment of goodwill and long-lived assets (continued)**

Since the determination of recoverable amount of long-lived assets requires significant estimates and judgments as described above, any changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods. Furthermore, revenue growth rate, terminal growth rate and pre-tax discount rate are subject to greater uncertainties in the current year due to uncertainty on volatility in markets.

**Depreciation and amortisation**

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

**48. EVENTS AFTER THE REPORTING PERIOD**

On 11 March 2024, China Telecom Quantum Information Technology Group Limited, a wholly-owned subsidiary of the Company, entered into "The Conditional Non-Public A Share Subscription and Strategic Cooperation Agreement with Quantumctek Co., Ltd." with Quantumctek Co., Ltd. ("Quantumctek"), planning to subscribe non-public issuance of A shares of Quantumctek with self-owned funds. The transaction is subject to approval by shareholder's meeting of Quantumctek and the review and approval by relevant authorities.

**49. PARENT AND ULTIMATE HOLDING COMPANY**

The parent and ultimate holding company of the Company as at 31 December 2023 is China Telecommunications Corporation, a state-owned enterprise established in PRC.