Consolidated Statement of Financial Position

at 31 December 2017 (Amounts in millions)

	Notes	**31 December 2017 RMB**	31 December 2016 RMB (restated)
ASSETS			
Non-current assets			
Property, plant and equipment, net	4	**406,257**	389,671
Construction in progress	5	**73,106**	80,386
Lease prepayments		**22,262**	22,955
Goodwill	6	**29,920**	29,923
Intangible assets	7	**12,391**	11,244
Interests in associates	9	**35,726**	34,572
Investments	10	**1,154**	1,535
Deferred tax assets	11	**5,479**	5,061
Other assets	19	**3,349**	3,077
Total non-current assets		**589,644**	578,424
Current assets			
Inventories	12	**4,123**	5,106
Income tax recoverable		**693**	50
Accounts receivable, net	13	**22,096**	21,465
Prepayments and other current assets	14	**22,128**	19,565
Short-term bank deposits		**3,100**	3,331
Cash and cash equivalents	15	**19,410**	24,617
Total current assets		**71,550**	74,134
Total assets		**661,194**	652,558

The notes on pages 153 to 221 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

at 31 December 2017 (Amounts in millions)

	Notes	**31 December 2017 RMB**	31 December 2016 RMB (restated)
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	16	**54,558**	40,780
Current portion of long-term debt and payable	16	**1,146**	62,276
Accounts payable	17	**119,321**	122,493
Accrued expenses and other payables	18	**98,695**	91,173
Income tax payable		**404**	1,106
Current portion of finance lease obligations		**51**	52
Current portion of deferred revenues	19	**1,233**	1,253
Total current liabilities		**275,408**	319,133
Net current liabilities		**(203,858)**	(244,999)
Total assets less current liabilities		**385,786**	333,425
Non-current liabilities			
Long-term debt	16	**48,596**	9,370
Finance lease obligations		**26**	50
Deferred revenues	19	**1,828**	2,305
Deferred tax liabilities	11	**8,010**	4,770
Other non-current liabilities		**629**	582
Total non-current liabilities		**59,089**	17,077
Total liabilities		**334,497**	336,210
Equity			
Share capital	20	**80,932**	80,932
Reserves	21	**244,935**	234,445
Total equity attributable to equity holders of the Company		**325,867**	315,377
Non-controlling interests		**830**	971
Total equity		**326,697**	316,348
Total liabilities and equity		**661,194**	652,558

Approved and authorised for issue by the Board of Directors on 28 March 2018.

Yang Jie	**Liu Aili**	**Gao Tongqing**
Chairman and Chief Executive Officer	*Executive Director, President and Chief Operating Officer*	*Executive Director and Executive Vice President*

The notes on pages 153 to 221 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017 (Amounts in millions, except per share data)

	Notes	2017 RMB	2016 RMB (restated)
Operating revenues	22	**366,229**	352,534
Operating expenses			
Depreciation and amortisation		**(74,951)**	(67,942)
Network operations and support	23	**(103,969)**	(94,156)
Selling, general and administrative		**(58,434)**	(56,426)
Personnel expenses	24	**(56,043)**	(54,504)
Other operating expenses	25	**(45,612)**	(52,286)
Total operating expenses	26	**(339,009)**	(325,314)
Operating profit		**27,220**	27,220
Net finance costs	27	**(3,291)**	(3,235)
Investment income		**147**	40
Share of profits of associates		**877**	91
Profit before taxation		**24,953**	24,116
Income tax	28	**(6,192)**	(5,993)
Profit for the year		**18,761**	18,123
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale equity securities		**(400)**	(228)
Deferred tax on change in fair value of available-for-sale equity securities		**100**	57
Exchange difference on translation of financial statements of subsidiaries outside mainland China		**(259)**	190
Share of other comprehensive income of associates		**7**	6
Other comprehensive income for the year, net of tax		**(552)**	25
Total comprehensive income for the year		**18,209**	18,148
Profit attributable to			
Equity holders of the Company		**18,617**	18,018
Non-controlling interests		**144**	105
Profit for the year		**18,761**	18,123
Total comprehensive income attributable to			
Equity holders of the Company		**18,065**	18,043
Non-controlling interests		**144**	105
Total comprehensive income for the year		**18,209**	18,148
Basic earnings per share	33	**0.23**	0.22
Number of shares (in millions)	33	**80,932**	80,932

The notes on pages 153 to 221 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017 (Amounts in millions)

		Attributable to equity holders of the Company									
	Notes	Share capital RMB	Capital reserve RMB	Share premium RMB	Surplus reserves RMB	Other reserves RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance as at 1 January 2016 as previously reported		80,932	17,150	10,746	70,973	876	(812)	123,919	303,784	967	304,751
Adjusted for the Eighth Acquisition	1	–	10	–	–	–	–	29	39	–	39
Balance as at 1 January 2016, as restated		80,932	17,160	10,746	70,973	876	(812)	123,948	303,823	967	304,790
Profit for the year, as restated		–	–	–	–	–	–	18,018	18,018	105	18,123
Other comprehensive income for the year		–	–	–	–	(165)	190	–	25	–	25
Total comprehensive income for the year, as restated		–	–	–	–	(165)	190	18,018	18,043	105	18,148
Disposal of a subsidiary		–	–	–	–	–	–	–	–	(15)	(15)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	(86)	(86)
Dividends	32	–	–	–	–	–	–	(6,489)	(6,489)	–	(6,489)
Appropriations	21	–	–	–	1,638	–	–	(1,638)	–	–	–
Balance as at 31 December 2016, as restated		80,932	17,160	10,746	72,611	711	(622)	133,839	315,377	971	316,348
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**18,617**	**18,617**	**144**	**18,761**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(293)**	**(259)**	**–**	**(552)**	**–**	**(552)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(293)**	**(259)**	**18,617**	**18,065**	**144**	**18,209**
Acquisition of the Eighth Acquired Group	1	**–**	**(80)**	**–**	**–**	**–**	**–**	**(7)**	**(87)**	**–**	**(87)**
Acquisition of non-controlling interests		**–**	**46**	**–**	**–**	**–**	**–**	**–**	**46**	**(196)**	**(150)**
Distribution to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(89)**	**(89)**
Dividends	32	**–**	**–**	**–**	**–**	**–**	**–**	**(7,530)**	**(7,530)**	**–**	**(7,530)**
Appropriations	21	**–**	**–**	**–**	**1,686**	**–**	**–**	**(1,686)**	**–**	**–**	**–**
Others		**–**	**–**	**–**	**–**	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
Balance as at 31 December 2017		**80,932**	**17,126**	**10,746**	**74,297**	**414**	**(881)**	**143,233**	**325,867**	**830**	**326,697**

The notes on pages 153 to 221 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2017 (Amounts in millions)

	Notes	**2017 RMB**	2016 RMB (restated)
Net cash from operating activities	(a)	**96,502**	101,135
Cash flows used in investing activities			
Capital expenditure		**(87,334)**	(96,678)
Lease prepayments		**(89)**	(99)
Purchase of investments	(b)	**(443)**	(3,099)
Proceeds from disposal of property, plant and equipment		**2,066**	1,560
Proceeds from disposal of lease prepayments		**72**	10
Net cash inflow/(outflow) from disposal of a subsidiary		**184**	(50)
Purchase of short-term bank deposits		**(2,815)**	(3,237)
Maturity of short-term bank deposits		**3,096**	2,550
Net cash used in investing activities		**(85,263)**	(99,043)
Cash flows used in financing activities			
Principal element of finance lease payments		**(84)**	(59)
Proceeds from bank and other loans		**123,250**	110,446
Repayment of bank and other loans		**(69,953)**	(113,366)
Repayment of deferred consideration in respect of the Mobile Network Acquisition (as defined in Note 16)		**(61,710)**	–
Payment of dividends		**(7,530)**	(6,489)
Distributions to non-controlling interests		**(89)**	(87)
Payment for the acquisition of non-controlling interests		**(31)**	–
Net cash used in financing activities		**(16,147)**	(9,555)
Net decrease in cash and cash equivalents		**(4,908)**	(7,463)
Cash and cash equivalents at 1 January		**24,617**	31,869
Effect of changes in foreign exchange rate		**(299)**	211
Cash and cash equivalents at 31 December		**19,410**	24,617

The notes on pages 153 to 221 form part of these consolidated financial statements.

for the year ended 31 December 2017 (Amounts in millions)

(a) Reconciliation of profit before taxation to net cash from operating activities

	2017 RMB	2016 RMB (restated)
Profit before taxation	**24,953**	24,116
Adjustments for:		
Depreciation and amortisation	**74,951**	67,942
Impairment losses for doubtful debts	**2,036**	2,278
Impairment losses for long-lived assets	**10**	62
Write down of inventories	**178**	176
Investment income	**(147)**	(40)
Share of profits of associates	**(877)**	(91)
Interest income	**(429)**	(354)
Interest expense	**3,586**	3,702
Net foreign exchange loss/(gain)	**134**	(113)
Net loss on retirement and disposal of long-lived assets	**1,841**	1,867
Operating profit before changes in working capital	**106,236**	99,545
Increase in accounts receivable	**(2,770)**	(2,306)
Decrease in inventories	**905**	1,038
Increase in prepayments and other current assets	**(2,618)**	(3,783)
(Increase)/decrease in other assets	**(231)**	366
(Decrease)/increase in accounts payable	**(4,213)**	3,755
Increase in accrued expenses and other payables	**7,232**	10,878
Decrease in deferred revenues	**(202)**	(418)
Cash generated from operations	**104,339**	109,075
Interest received	**433**	366
Interest paid	**(3,707)**	(3,737)
Investment income received	**63**	57
Income tax paid	**(4,626)**	(4,626)
Net cash from operating activities	**96,502**	101,135

(b) The amount for the year ended 31 December 2016 included the payment for the cash injection amounting to RMB2,966 million ("Cash Consideration") to China Tower Corporation Limited ("China Tower") in relation to the disposal of certain telecommunications towers and related assets to China Tower (the "Tower Assets Disposal") in 2015. The Cash Consideration was paid in February 2016.

The notes on pages 153 to 221 form part of these consolidated financial statements.

1. Principal Activities, Organisation and Basis of Presentation

Principal activities

China Telecom Corporation Limited (the "Company") and its subsidiaries (hereinafter, collectively referred to as the "Group") offers a comprehensive range of wireline and mobile telecommunications services including voice, Internet, telecommunications network resource services and lease of network equipment, information and application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People's Republic of China (the "PRC"). The Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region ("Macau") of the PRC. The Group also provides international telecommunications services, including lease of network equipment, international Internet access and transit, Internet data centre and mobile virtual network services in certain countries and regions of the Asia Pacific, Europe, Africa, South America and North America. The operations of the Group in the mainland China are subject to the supervision and regulation by the PRC government.

Organisation

As part of the reorganisation (the "Restructuring") of China Telecommunications Corporation (of which the Chinese name was changed from "中國電信集團公司" to "中國電信集團有限公司" in December 2017), the Company was incorporated in the PRC on 10 September 2002. In connection with the Restructuring, China Telecommunications Corporation transferred to the Company the wireline telecommunications business and related operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province together with the related assets and liabilities (the "Predecessor Operations") in consideration for 68,317 million ordinary domestic shares of the Company. The shares issued to China Telecommunications Corporation have a par value of RMB1.00 each and represented the entire registered and issued share capital of the Company at that date.

On 31 December 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (collectively the "First Acquired Group") and certain network management and research and development facilities from China Telecommunications Corporation for a total purchase price of RMB46,000 million (hereinafter, referred to as the "First Acquisition").

On 30 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the "Second Acquired Group") from China Telecommunications Corporation for a total purchase price of RMB27,800 million (hereinafter, referred to as the "Second Acquisition").

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

On 30 June 2007, the Company acquired the entire equity interests in China Telecom System Integration Co., Ltd. ("CTSI"), China Telecom Global Limited ("CT Global") and China Telecom (Americas) Corporation ("CT Americas") (collectively the "Third Acquired Group") from China Telecommunications Corporation for a total purchase price of RMB1,408 million (hereinafter, referred to as the "Third Acquisition").

On 30 June 2008, the Company acquired the entire equity interest in China Telecom Group Beijing Corporation ("Beijing Telecom" or the "Fourth Acquired Company") from China Telecommunications Corporation for a total purchase price of RMB5,557 million (hereinafter, referred to as the "Fourth Acquisition").

On 1 August 2011 and 1 December 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd ("E-surfing Pay") and E-surfing Media Co., Ltd. ("E-surfing Media"), acquired the e-commerce business and video media business (collectively the "Fifth Acquired Group") from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 million (hereinafter, referred to as the "Fifth Acquisition"). The Company disposed the equity interest in E-surfing Media to China Telecommunications Corporation in 2013.

On 30 April 2012, the Company acquired the digital trunking business (the "Sixth Acquired Business") from Besttone Holding Co., Ltd. ("Besttone Holding"), a subsidiary of China Telecommunications Corporation, at a purchase price of RMB48 million (hereinafter, referred to as the "Sixth Acquisition").

On 31 December 2013, CT Global, a subsidiary of the Company, acquired 100% equity interest in China Telecom (Europe) Limited ("CT Europe" or the "Seventh Acquired Company"), a wholly owned subsidiary of China Telecommunications Corporation, from China Telecommunications Corporation for a total purchase price of RMB278 million (hereinafter, referred to as the "Seventh Acquisition").

Pursuant to an agreement entered into by the Company and Besttone Holding on 25 September 2017, the Company disposed of the 100% equity interest in Chengdu E-store Technology Co., Ltd ("E-store"), a subsidiary of the Company, to Besttone Holding. The initial consideration for the disposal of the equity interest in E-store was RMB249 million, which was concluded based on the valuation of the equity interests in E-store as at 31 March 2017. In addition, an adjustment was made to the initial consideration to arrive at the final consideration based on the change in the book value of the net assets of E-store during the period from 31 March 2017 to the completion date of the disposal. The control of the equity interest in E-store was transferred to Besttone Holding on 31 October 2017. The final consideration was arrived at RMB251 million, among which the initial consideration amounting to RMB249 million was received on 16 November 2017.

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

Analysis of assets and liabilities of the disposed subsidiary:

	31 October 2017 RMB millions
Current Assets	
Cash and cash equivalents	65
Accounts receivable, net	48
Prepayments and other current assets	67
Non-current Assets	
Property, plant and equipment, net	16
Intangible assets	3
Current liabilities	
Accounts payable	29
Accrued expenses and other payables	27
Net assets disposal of	**143**

Gain on disposal of a subsidiary:

	2017 RMB millions
Consideration received and receivable	251
Net assets disposed of	(143)
Gain on disposal	**108**

The gain on disposal of E-store has been included in investment income of the consolidated statement of comprehensive income.

1. Principal Activities, Organisation and Basis of Presentation (continued)

Organisation (continued)

Net cash inflow from disposal of a subsidiary:

	2017 RMB millions
Consideration received in cash and cash equivalents	249
Less: cash and cash equivalents disposed of	(65)
Net cash inflow from disposal of a subsidiary	**184**

In December 2017, the Company acquired the satellite communications business (the "Satcom Business") from China Telecom Satellite Communication Co., Ltd., a wholly owned subsidiary of China Telecommunications Corporation, at a purchase price of RMB70 million. In the same month, E-surfing Pay acquired a 100% interest in Shaanxi Zhonghe Hengtai Insurance Agent Limited ("Zhonghe Hengtai"), a wholly owned subsidiary of Shaanxi Communications Services Company Limited ("Shaanxi Comservice", a company ultimately held by China Telecommunications Corporation), from Shaanxi Comservice, at a purchase price of RMB17 million. The acquisitions of the Satcom Business and Zhonghe Hengtai (collectively referred to as the "Eighth Acquired Group") are two separate transactions, which are collectively referred to as the "Eighth Acquisition". The purchase price of the Eighth Acquisition had not been settled at the end of the reporting period.

Hereinafter, the First Acquired Group, the Second Acquired Group, the Third Acquired Group, the Fourth Acquired Company, the Fifth Acquired Group, the Sixth Acquired Business, the Seventh Acquired Company and the Eighth Acquired Group are collectively referred to as the "Acquired Groups".

Basis of presentation

Since the Group and the Acquired Groups are under common control of China Telecommunications Corporation, the Group's acquisitions of the Acquired Groups have been accounted for as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of these entities have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisitions are combined with the financial statements of the Acquired Groups. The considerations for the acquisition of the Acquired Groups are accounted for as an equity transaction in the consolidated statement of changes in equity.

1. Principal Activities, Organisation and Basis of Presentation (continued)

Basis of presentation (continued)

The consolidated results of operations for the year ended 31 December 2016 and the consolidated statement of financial position as at 31 December 2016 as previously reported by the Group and the combined amounts presented in the consolidated financial statements of the Group to reflect the acquisition of the Eighth Acquired Group are set out below:

	The Group (as previously reported) RMB millions	The Eighth Acquired Group RMB millions	The Group (restated) RMB millions
Consolidated statement of comprehensive income for the year ended 31 December 2016:			
Operating revenues	352,285	249	352,534
Profit for the year	18,109	14	18,123
Consolidated statement of financial position as at 31 December 2016:			
Total assets	652,368	190	652,558
Total liabilities	336,073	137	336,210
Total equity	316,295	53	316,348

For the periods presented, all significant transactions and balances between the Group and the Eighth Acquired Group have been eliminated on combination.

Merger with subsidiaries

Pursuant to the resolution passed by the Company's shareholders at an extraordinary general meeting held on 25 February 2008, the Company entered into merger agreements with each of the following subsidiaries: Shanghai Telecom Company Limited, Guangdong Telecom Company Limited, Jiangsu Telecom Company Limited, Zhejiang Telecom Company Limited, Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited, Sichuan Telecom Company Limited, Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited. In addition, the Company entered into merger agreement with Beijing Telecom on 1 July 2008. Pursuant to these merger agreements, the Company merged with these subsidiaries and the assets, liabilities and business operations of these subsidiaries were transferred to the Company's branches in the respective regions.

2. Significant Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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"). The consolidated financial statements of the Group 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 available-for-sale equity securities at fair value (Note 2(l)).

The preparation of consolidated financial statements in conformity with IFRS 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 associated assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Judgments made by management in the application of IFRS that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 42.

(b) Basis of consolidation

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

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

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

2. Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

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

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

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

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

2. Significant Accounting Policies (continued)

(c) Foreign currencies

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 2(i)), are recognised as income or expense in profit or loss. For the periods 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 average rate prevailing during the year. Assets and liabilities of the Group's foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(d) 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. None of the Group's cash and cash equivalents is restricted as to withdrawal.

(e) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for doubtful debts (Note 2(n)) unless the effect of discounting would be immaterial, in which case they are stated at cost less allowance for doubtful debts.

(f) 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.

2. Significant Accounting Policies (continued)

(g) Property, plant and equipment

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

Assets held under finance leases (Note 2(m)) are amortised over the shorter of the lease term and their estimated useful lives on a straight-line basis. As at 31 December 2017, no asset was held by the Group under finance leases (2016: nil).

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 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:

	Depreciable lives primarily range from
Buildings and improvements	8 to 30 years
Telecommunications network plant and equipment	5 to 10 years
Furniture, fixture, motor vehicles and other equipment	5 to 10 years

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.

During the year, the Group reviewed the estimated useful lives of property, plant and equipment and changed the depreciable lives of corporate information system equipment, IPTV equipment and CDN equipment (included in telecommunications network plant and equipment) from 10 years to 5 years. The effect of such changes in accounting estimates is set out in Note 4.

(h) Lease prepayments

Lease prepayments represent land use rights paid. Land use rights are initially carried at cost or deemed cost and then charged to profit or loss on a straight-line basis over the respective periods of the rights which range from 20 years to 70 years.

2. Significant Accounting Policies (continued)

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 2(n)). 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.

(j) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 6) acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(n)). 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.

(k) 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 2(n)). Amortisation of software is mainly calculated on a straight-line basis over the estimated useful lives, which range from 3 to 5 years.

(l) Investments

Investments in available-for-sale listed equity securities are carried at fair value with any change in fair value being recognised in other comprehensive income and accumulated separately in equity. For investments in available-for-sale listed equity securities, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 2(n)).

2. Significant Accounting Policies (continued)

(m) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets acquired under finance leases are initially recorded at amounts equivalent to the lower of the fair value of the leased assets at the inception of the lease or the present value of the minimum lease payments (computed using the rate of interest implicit in the lease). The net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation.

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

(n) Impairment

(i) Impairment of accounts and other receivables and investments in equity securities carried at cost

Accounts and other receivables and investments in equity securities carried at cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor or issuer;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor/issuer.

The impairment loss for accounts and other receivables is measured as the difference between the asset’s carrying amount and the estimated future cash flows, discounted at the financial asset’s original effective interest rate where the effect of discounting is material, and is recognised as an expense in profit or loss.

2. Significant Accounting Policies (continued)

(n) Impairment (continued)

(i) Impairment of accounts and other receivables and investments in equity securities carried at cost (continued)

The impairment loss for investments in equity securities carried at cost is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in profit or loss.

Impairment losses for accounts and other receivables are reversed through profit or loss if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

(ii) Impairment of long-lived assets

The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress 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.

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. 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.

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.

2. Significant Accounting Policies (continued)

(o) Revenue recognition

The revenue recognition methods of the Group are as follows:

(i) Voice usage fee is recognised as the service is provided.

(ii) Fees received for wireline installation charges for periods prior to 1 January 2012 are deferred and recognised over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortised over the same expected customer relationship period. From 2012 onwards, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognised in profit or loss when received or incurred.

(iii) Monthly service fees are recognised in the month during which the services are provided to customers.

(iv) Revenue from sale of prepaid calling cards are recognised as the cards are used by customers.

(v) Revenue derived from information and application services is recognised when the services are provided to customers.

Revenue from information and application services in which no third party service providers are involved, such as caller display and Internet data center services, are presented on a gross basis. Revenues from all other information and application services are presented on either gross or net basis based on the assessment of each individual arrangement with third parties. The following factors indicate that the Group is acting as principal in the arrangements with third parties:

(i) The Group is primarily responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;

(ii) The Group takes title of the inventory of the applications before they are ordered by customers;

(iii) The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;

(iv) The Group has latitude in establishing selling prices with customers;

(v) The Group can modify the applications or perform part of the services;

(vi) The Group has discretion in selecting suppliers used to fulfill an order; and

(vii) The Group determines the nature, type, characteristics, or specifications of the applications or services.

2. Significant Accounting Policies (continued)

(o) Revenue recognition (continued)

The revenue recognition methods of the Group are as follows: (continued)

(v) Revenue derived from information and application services is recognised when the services are provided to customers. (continued)

If majority of the indicators of risks and responsibilities exist in the arrangements with third parties, the Group is acting as a principal and have exposure to the significant risks and rewards associated with the rendering of services or the sale of applications, and revenues for these services are recognised on a gross basis. If majority of the indicators of risks and responsibilities do not exist in the arrangements with third parties, the Group is acting as an agent, and revenues for these services are recognised on a net basis.

(vi) Revenue from the provision of Internet and telecommunications network resource services are recognised when the services are provided to customers.

(vii) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the minutes of traffic processed.

(viii) Lease income from operating leases is recognised over the term of the lease.

(ix) Sale of equipment is recognised on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognised when the service is provided to customers.

The Group offers promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: The undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognises revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognised based upon the actual usage of such services. During each of the years in the two-year period ended 31 December 2017, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote the Group's core business of the provision of telecommunications services, and the fair value of the telecommunication services approximates the total contract consideration.

2. Significant Accounting Policies (continued)

(p) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB14,072 million for the year ended 31 December 2017 (2016: RMB17,070 million), among which, the costs of terminal equipment offered as part of a promotional package to our customers for free or at a nominal amount to promote the Group's telecommunication service amounted to RMB4,707 million for the year ended 31 December 2017 (2016: RMB9,370 million).

(q) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, 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. For the year ended 31 December 2017, research and development expense was RMB1,088 million (2016: RMB825 million).

(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 40.

Compensation expense in respect of the stock 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 stock 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 stock appreciation rights scheme are set out in Note 41.

2. Significant Accounting Policies (continued)

(t) Government grants

The Group's government grants are mainly related to the government loans with below-market rate of interest.

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

(i) the Group will comply with all the conditions attaching to them; and

(ii) the grants will be received.

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

Government grants relating to assets are recognised in deferred revenue and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

(u) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value recognised in profit or loss over the period of the borrowings, together with any interest, using the effective interest method.

(v) Accounts and other payables

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(w) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive 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. 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.

2. Significant Accounting Policies (continued)

(x) Value-added tax

Output VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 11% 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 17%. 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 17%.

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

(y) 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 and associates, 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.

2. Significant Accounting Policies (continued)

(z) Dividends

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

(aa) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);

(iii) The entity and the Group are joint ventures of the same third party;

(iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;

(v) The entity is controlled or jointly controlled by a person identified in (a);

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2. Significant Accounting Policies (continued)

(ab) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods 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.

3. Application of Revised International Financial Reporting Standards

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

- Amendments to IAS 7, *"Disclosure Initiative"*
- Amendments to IAS 12, *"Recognition of Deferred Tax Assets for Unrealised Losses"*
- Amendments to IFRS 12 as part of the Annual Improvements to IFRSs 2014~2016 Cycle

Amendments to IAS 7, *"Disclosure Initiative"*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

Apart from the additional disclosure as required by Amendments to IAS 7 in Note 37, the application of the above amendments to IFRSs has had no material effect on the Group's consolidated financial statements.

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current year (Note 43).

4. Property, Plant and Equipment, Net

	Buildings and improvements RMB millions	Telecomm-unications network plant and equipment RMB millions	Furniture, fixture, motor vehicles and other equipment RMB millions	Total RMB millions
Cost/Deemed cost:				
Balance at 1 January 2016, as previously reported	97,459	819,257	29,607	946,323
Adjusted for the Eighth Acquisition (Note 1)	–	61	3	64
Balance at 1 January 2016, as restated	97,459	819,318	29,610	946,387
Additions	664	1,335	480	2,479
Transferred from construction in progress	2,053	78,287	1,739	82,079
Disposals	(754)	(74,976)	(1,753)	(77,483)
Disposal of a subsidiary	–	–	(3)	(3)
Reclassification	87	(128)	41	–
Balance at 31 December 2016, as restated	99,509	823,836	30,114	953,459
Additions	**583**	**532**	**410**	**1,525**
Transferred from construction in progress	**1,967**	**87,129**	**1,707**	**90,803**
Disposals	**(709)**	**(68,719)**	**(1,936)**	**(71,364)**
Disposal of a subsidiary	**–**	**(33)**	**–**	**(33)**
Reclassification	**(18)**	**(272)**	**290**	**–**
Balance at 31 December 2017	**101,332**	**842,473**	**30,585**	**974,390**
Accumulated depreciation and impairment:				
Balance at 1 January 2016, as previously reported	(47,102)	(504,015)	(21,225)	(572,342)
Adjusted for the Eighth Acquisition (Note 1)	–	(39)	(2)	(41)
Balance at 1 January 2016, as restated	(47,102)	(504,054)	(21,227)	(572,383)
Depreciation and impairment charge for the year	(4,527)	(56,956)	(2,267)	(63,750)
Written back on disposals	681	70,010	1,652	72,343
Disposal of a subsidiary	–	–	2	2
Reclassification	(70)	83	(13)	–
Balance at 31 December 2016, as restated	(51,018)	(490,917)	(21,853)	(563,788)
Depreciation and impairment charge for the year	**(4,326)**	**(63,903)**	**(2,145)**	**(70,374)**
Written back on disposals	**620**	**63,553**	**1,839**	**66,012**
Disposal of a subsidiary	**–**	**17**	**–**	**17**
Reclassification	**18**	**184**	**(202)**	**–**
Balance at 31 December 2017	**(54,706)**	**(491,066)**	**(22,361)**	**(568,133)**
Net book value at 31 December 2017	**46,626**	**351,407**	**8,224**	**406,257**
Net book value at 31 December 2016, as restated	48,491	332,919	8,261	389,671

4. Property, Plant and Equipment, Net (continued)

In order to expedite the construction of the new generation network and create state-of-the-art network experience, the Group resolved to accelerate the upgrade and replacement of corporate information system equipment, IPTV equipment and CDN equipment in order to promote the long-term sustainable development of the Group.

During the year, after reviewing the current condition of existing network equipment and assessing the impact of the evolution in telecommunications technologies and the business development needs, the Company considered the estimated useful lives of corporate information system equipment, IPTV equipment and CDN equipment would change from previously anticipated. As a result, the Group changed the estimated depreciable lives of such equipment from 10 years to 5 years, which could more accurately and appropriately reflect the changes in the Group's expected consumption pattern of economic benefits embodied in these assets.

The changes in accounting estimates are implemented with effect from 1 October 2017. Effect of changes in depreciable lives is estimated to increase depreciation expense by approximately RMB4,045 million for the year ended 31 December 2017. The effect of such changes in depreciable lives represents a temporary difference, therefore does not have any effect on the total depreciation expenses of those assets during the assets' lives.

5. Construction in Progress

	RMB millions
Balance at 1 January 2016, as previously reported	69,103
Adjusted for Eighth Acquisition (Note 1)	4
Balance at 1 January 2016, as restated	69,107
Additions	97,043
Transferred to property, plant and equipment	(82,079)
Transferred to intangible assets	(3,685)
Balance at 31 December 2016, as restated	**80,386**
Additions	**88,359**
Transferred to property, plant and equipment	**(90,803)**
Transferred to intangible assets	**(4,836)**
Balance at 31 December 2017	**73,106**

6. Goodwill

	2017 **RMB millions**	2016 RMB millions
Cost:		
Goodwill arising from acquisition of CDMA business	**29,920**	29,923

On 1 October 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, 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) (collectively the "CDMA business") from China Unicom Limited and China Unicom Corporation Limited (collectively "China Unicom"). 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 CDMA business for a net settlement amount of RMB3,471 million due from China Unicom. This amount was subsequently settled by China Unicom 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 CDMA mobile communication business into the Group's telecommunications business.

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group's telecommunications business. The recoverable amount of the Group's telecommunications business is estimated based on the value in use model, which considers the Group's financial budgets covering a five-year period and a pre-tax discount rate of 9.8% (2016: 9.4%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. Management 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.

Key assumptions used for the value in use calculation model are the number of subscribers, average revenue per subscriber and gross margin. Management determined the number of subscribers, average revenue per subscriber and gross margin based on historical trends and financial information and operational data.

7. Intangible Assets

	Software RMB millions
Cost:	
Balance at 1 January 2016	26,301
Additions	363
Transferred from construction in progress	3,685
Disposals	(531)
Balance at 31 December 2016	29,818
Additions	**175**
Transferred from construction in progress	**4,836**
Disposals	**(268)**
Disposal of a subsidiary	**(11)**
Balance at 31 December 2017	**34,550**
Accumulated amortisation and impairment:	
Balance at 1 January 2016	(15,562)
Amortisation charge for the year	(3,500)
Written back on disposals	488
Balance at 31 December 2016	(18,574)
Amortisation charge for the year	**(3,843)**
Written back on disposals	**250**
Disposal of a subsidiary	**8**
Balance at 31 December 2017	**(22,159)**
Net book value at 31 December 2017	**12,391**
Net book value at 31 December 2016	11,244

8. Investments In Subsidiaries

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group at 31 December 2017 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/ Issued capital (in RMB millions unless otherwise stated)	Principal activity
China Telecom System Integration Co., Limited	Limited Company	13 September 2001	PRC	542	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 international value-added network services
China Telecom (Americas) Corporation	Limited Company	22 November 2001	The United States of America	US$43 million	Provision of telecommunications services
China Telecom Best Tone Information Service Co., Limited	Limited Company	15 August 2007	PRC	350	Provision of Best Tone information services
China Telecom (Macau) Company Limited	Limited Company	15 October 2004	Macau Special Administrative Region of the PRC	MOP60 million	Provision of telecommunications services
Tianyi Telecom Terminals Company Limited	Limited Company	1 July 2005	PRC	500	Sales of telecommunications terminals
China Telecom (Singapore) Pte. Limited	Limited Company	5 October 2006	Singapore	S$1,000,001	Provision of international value-added network services
E-surfing Pay Co., Ltd	Limited Company	3 March 2011	PRC	500	Provision of e-commerce services
Shenzhen Shekou Telecommunications Company Limited	Limited Company	5 May 1984	PRC	91	Provision of telecommunications services
China Telecom (Australia) Pty Ltd	Limited Company	10 January 2011	Australia	AUD1 million	Provision of international value-added network services

8. Investments In Subsidiaries (continued)

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered/ Issued capital (in RMB millions unless otherwise stated)	Principal activity
China Telecom Korea Co., Ltd	Limited Company	16 May 2012	South Korea	KRW500 million	Provision of international value-added network services
China Telecom (Malaysia) SDN BHD	Limited Company	26 June 2012	Malaysia	MYR3,723,500	Provision of international value-added network services
China Telecom Information Technology (Vietnam) Co., Ltd	Limited Company	9 July 2012	Vietnam	VND10,500 million	Provision of international value-added network services
iMUSIC Culture & Technology Co., Ltd.	Limited Company	9 June 2013	PRC	250	Provision of music production and related information services
China Telecom (Europe) Limited	Limited Company	2 March 2006	The United Kingdom of Great Britain and Northern Ireland	GBP16.15 million	Provision of international value-added network services
Zhejiang Yixin Technology Co., Ltd.	Limited Company	19 August 2013	PRC	11	Provision of instant messenger service
Tianyi Capital Holding Co., Ltd.	Limited Company	30 November 2017	PRC	5,000	Capital Investment and provision of consulting services

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company and Zhejiang Yixin Technology Co., Ltd. which is 65% 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 interest.

9. Interests in Associates

	2017 RMB millions	2016 RMB millions
Unlisted equity investments, at cost	**36,648**	36,347
Share of post-acquisition changes in net assets	**(922)**	(1,775)
	35,726	34,572

9. Interests in Associates (continued)

The Group's interests in associates 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	27.9%	Construction, maintenance and operation of telecommunications towers as well as ancillary facilities
Shanghai Information Investment Incorporation	24.0%	Provision of information technology consultancy services

The above associates are established and operated in the PRC and are not traded on any stock exchange.

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

	China Tower Corporation Limited	
	2017	2016
	RMB millions	RMB millions
Current assets	**30,517**	39,565
Non-current assets	**292,126**	272,103
Current liabilities	**150,438**	171,568
Non-current liabilities	**44,710**	14,548
Operating revenues	**68,665**	54,474
Profit/(loss) for the year	**1,943**	(575)
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1,943**	(575)
Dividend received from the associate	**–**	–
Reconciled to the Group's interests in the associate		
Net assets of the associate	**127,495**	125,552
Non-controlling interests of the associate	**–**	–
Group's effective interest in the associate	**27.9%**	27.9%
Group's share of net assets of the associate	**35,571**	35,029
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	**(1,580)**	(1,782)
Carrying amount of the associate in the consolidated financial statements of the Group	**33,991**	33,247

9. Interests in Associates (continued)

	Shanghai Information Investment Incorporation 2017 RMB millions	2016 RMB millions
Current assets	**7,146**	6,688
Non-current assets	**8,049**	8,421
Current liabilities	**5,835**	5,754
Non-current liabilities	**2,673**	3,104
Operating revenues	**4,313**	4,222
Profit for the year	**563**	413
Other comprehensive income for the year	**22**	24
Total comprehensive income for the year	**585**	437
Dividend received from the associate	**9**	9
Reconciled to the Group's interests in the associate		
Net assets of the associate	**6,687**	6,251
Non-controlling interests of the associate	**(2,004)**	(1,940)
Group's effective interest in the associate	**24.0%**	24.0%
Group's share of net assets of the associate	**1,124**	1,035
Carrying amount of the associate in the consolidated financial statements of the Group	**1,124**	1,035

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

	2017 RMB millions	2016 RMB millions
The Group's share of profit of these associates	**36**	21
The Group's share of other comprehensive income of these associates	**2**	–
The Group's share of total comprehensive income of these associates	**38**	21
Aggregate carrying amount of these associates in the consolidated financial statements of the Group	**611**	290

10. Investments

	2017 RMB millions	2016 RMB millions
Available-for-sale listed equity securities	**969**	1,369
Other unlisted equity investments	**185**	166
	1,154	1,535

Other unlisted equity investments mainly represent the Group's various interests in private enterprises which are mainly engaged in the provision of telecommunications infrastructures construction services, information technology services and Internet contents.

11. Deferred Tax Assets and Liabilities

The components of deferred tax assets and deferred tax liabilities recognised in the consolidated statement of financial position and the movements are as follows:

	Assets		Liabilities		Net Balance	
	2017 RMB millions	2016 RMB millions	**2017 RMB millions**	2016 RMB millions	**2017 RMB millions**	2016 RMB millions
Provisions and impairment losses, primarily for doubtful debts	**1,626**	1,531	**–**	–	**1,626**	1,531
Property, plant and equipment and others	**3,782**	3,410	**(7,789)**	(4,416)	**(4,007)**	(1,006)
Deferred revenues and installation costs	**71**	120	**(52)**	(85)	**19**	35
Available-for-sale equity securities	**–**	–	**(169)**	(269)	**(169)**	(269)
Deferred tax assets/(liabilities)	**5,479**	5,061	**(8,010)**	(4,770)	**(2,531)**	291

	Balance at 1 January 2017 RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 31 December 2017 RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,531	95	1,626
Property, plant and equipment and others	(1,006)	(3,001)	(4,007)
Deferred revenues and installation costs	35	(16)	19
Available-for-sale equity securities	(269)	100	(169)
Net deferred tax assets/(liabilities)	291	(2,822)	(2,531)

11. Deferred Tax Assets and Liabilities (continued)

	Balance at 1 January 2016 RMB millions	Recognised in consolidated statement of comprehensive income RMB millions	Balance at 31 December 2016 RMB millions
Provisions and impairment losses, primarily for doubtful debts	1,291	240	1,531
Property, plant and equipment and others	1,569	(2,575)	(1,006)
Deferred revenues and installation costs	60	(25)	35
Available-for-sale equity securities	(326)	57	(269)
Net deferred tax assets	2,594	(2,303)	291

12. Inventories

	2017 RMB millions	2016 RMB millions (restated)
Materials and supplies	**1,071**	1,200
Goods for resale	**3,052**	3,906
	4,123	5,106

13. Accounts Receivable, Net

Accounts receivable, net, are analysed as follows:

	Note	**2017 RMB millions**	2016 RMB millions (restated)
Accounts receivable			
Third parties		**23,762**	22,958
China Telecom Group	(i)	**1,502**	966
China Tower		**5**	10
Other telecommunications operators in the PRC		**669**	933
		25,938	24,867
Less: Allowance for doubtful debts		**(3,842)**	(3,402)
		22,096	21,465

Note:

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

13. Accounts Receivable, Net (continued)

The following table summarises the changes in allowance for doubtful debts:

	2017 RMB millions	2016 RMB millions (restated)
At beginning of year	**3,402**	2,935
Impairment losses for doubtful debts	**1,962**	2,203
Accounts receivable written off	**(1,522)**	(1,736)
At end of year	**3,842**	3,402

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

	2017 RMB millions	2016 RMB millions
Current, within 1 month	**9,323**	9,993
1 to 3 months	**2,607**	2,179
4 to 12 months	**1,780**	1,763
More than 12 months	**878**	761
	14,588	14,696
Less: Allowance for doubtful debts	**(2,603)**	(2,427)
	11,985	12,269

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

	2017 RMB millions	2016 RMB millions (restated)
Current, within 1 month	**4,421**	3,671
1 to 3 months	**1,973**	1,895
4 to 12 months	**2,644**	2,360
More than 12 months	**2,312**	2,245
	11,350	10,171
Less: Allowance for doubtful debts	**(1,239)**	(975)
	10,111	9,196

13. Accounts Receivable, Net (continued)

Ageing analysis of accounts receivable that are not impaired is as follows:

	2017 RMB millions	2016 RMB millions (restated)
Not past due	**19,623**	19,418
Less than 1 month past due	**1,518**	1,180
1 to 3 months past due	**955**	867
Amounts past due	**2,473**	2,047
	22,096	21,465

14. Prepayments and Other Current Assets

	2017 RMB millions	2016 RMB millions (restated)
Amounts due from China Telecom Group	**774**	798
Amounts due from China Tower	**2,152**	2,278
Amounts due from other telecommunications operators in the PRC	**369**	326
Prepayments in connection with construction work and equipment purchases	**2,542**	2,664
Prepaid expenses and deposits	**3,486**	3,784
Value-added tax recoverable	**7,186**	5,197
Other receivables	**5,619**	4,518
	22,128	19,565

15. Cash and Cash Equivalents

	2017 RMB millions	2016 RMB millions
Cash at bank and in hand	**17,763**	22,147
Time deposits with original maturity within three months	**1,647**	2,470
	19,410	24,617

16. Short-Term and Long-Term Debt and Payable

Short-term debt comprises:

	2017 RMB millions	2016 RMB millions
Loans from banks – unsecured	**16,565**	16,411
Super short-term commercial papers – unsecured	**18,745**	18,996
Other loans – unsecured	**150**	102
Loans from China Telecom Group – unsecured	**19,098**	5,271
Total short-term debt	**54,558**	40,780

The weighted average interest rate of the Group's total short-term debt as at 31 December 2017 was 4.0% (2016: 3.3%) per annum. As at 31 December 2017, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 7.3% (2016: 3.9% to 4.4%) per annum, and are repayable within one year; super short-term commercial papers bear interest at rates ranging from 4.1% to 4.2% (2016: 2.3% to 2.9%) per annum and was repaid by 19 March 2018; the loans from China Telecom Group bear interest at rate of 3.5% (2016: rates from 3.5% to 4.1%) per annum and are repayable within one year.

16. Short-Term and Long-Term Debt and Payable (continued)

Long-term debt and payable comprises:

	Interest rates and final maturity	2017 RMB millions	2016 RMB millions
Bank loans – unsecured			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 7.04% per annum with maturities through 2036	**9,148**	9,245
US Dollars denominated	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2048	**370**	446
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	**223**	239
Other currencies denominated		**–**	5
		9,741	9,935
Other loans – unsecured			
Renminbi denominated		**1**	1
Amount due to China Telecom Group – unsecured			
Deferred consideration of Mobile Network Acquisition – Renminbi denominated (Note (ii))		**–**	61,710
Loans from China Telecom Group – unsecured			
Renminbi denominated (Note (iii))		**40,000**	–
Total long-term debt and payable		**49,742**	71,646
Less: Current portion		**(1,146)**	(62,276)
Non-current portion		**48,596**	9,370

16. Short-Term and Long-Term Debt and Payable (continued)

Notes:

(i) *The Group obtained long-term RMB denominated government loans with below-market interest rate ranging from 1.08% to 1.20% per annum 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 the face value of the Low-interest Loans was recognised as government grants in deferred revenue (Note 19) at initial recognition.*

(ii) *Represented the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces, municipalities and autonomous regions in the PRC (hereinafter referred to as the "Mobile Network Acquisition"). The Company fully repaid the deferred consideration in November and December 2017. The Company paid interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate was set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and would be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rate for 2017 was 4.11%.*

(iii) *The Group obtained long-term RMB denominated loans with the interest rate of 3.8% per annum from China Telecommunications Corporation on 25 December 2017, which are repayable within 3 to 5 years.*

The aggregate maturities of the Group's long-term debt and payable subsequent to 31 December 2017 are as follows:

	2017 **RMB millions**	2016 RMB millions
Within 1 year	**1,146**	62,276
Between 1 to 2 years	**1,088**	1,081
Between 2 to 3 years	**21,044**	1,046
Between 3 to 4 years	**983**	1,004
Between 4 to 5 years	**20,944**	945
Thereafter	**4,537**	5,294
	49,742	71,646

The Group's short-term and long-term debt and payable do not contain any financial covenants. As at 31 December 2017, the Group had unutilised committed credit facilities amounting to RMB154,793 million (2016: RMB161,229 million).

17. Accounts Payable

Accounts payable are analysed as follows:

	2017 RMB millions	2016 RMB millions (restated)
Third parties	**93,324**	96,736
China Telecom Group	**22,682**	21,331
China Tower	**2,611**	3,697
Other telecommunications operators in the PRC	**704**	729
	119,321	122,493

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

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

	2017 RMB millions	2016 RMB millions (restated)
Due within 1 month or on demand	**27,502**	17,933
Due after 1 month but within 3 months	**17,257**	19,931
Due after 3 months but within 6 months	**26,603**	21,611
Due after 6 months	**47,959**	63,018
	119,321	122,493

18. Accrued Expenses and Other Payables

	Notes	2017 RMB millions	2016 RMB millions (restated)
Amounts due to China Telecom Group	(i)	**1,838**	1,813
Amounts due to China Tower		**1,374**	807
Amounts due to other telecommunications operators in the PRC		**59**	41
Accrued expenses	(ii)	**24,864**	21,297
Value-added tax payable		**645**	797
Customer deposits and receipts in advance		**69,915**	66,418
		98,695	91,173

18. Accrued Expenses and Other Payables (continued)

Notes:

(i) *Amounts due to China Telecom Group as at 31 December 2017 includes the consideration of the Eighth Acquisition amounting to RMB87 million, which had not been fully paid at the end of the reporting period.*

(ii) *Accrued expenses as at 31 December 2017 includes the unpaid portion of consideration of the acquisition of non-controlling interest of a subsidiary of the Group amounting to RMB119 million, which has been fully settled on 23 January 2018.*

19. Deferred Revenues

Deferred revenues mainly represent the unearned portion of installation fees for wireline services received from customers, the unused portion of calling cards, and the unamortised portion of government grants (Note 16).

	2017 **RMB millions**	2016 RMB millions
Balance at beginning of year	**3,558**	2,482
Additions for the year		
– calling cards	**390**	753
– government grants	**–**	1,494
	390	2,247
Reductions for the year		
– amortisation of installation fees	**(208)**	(294)
– usage of calling cards	**(384)**	(625)
– amortisation of government grants	**(295)**	(252)
Balance at end of year	**3,061**	3,558
Representing:		
– current portion	**1,233**	1,253
– non-current portion	**1,828**	2,305
	3,061	3,558

Included in other assets are primarily capitalised direct costs associated with the installation of wireline services. As at 31 December 2017, the unamortised portion of these costs was RMB228 million (2016: RMB367 million).

20. Share Capital

	2017 RMB millions	2016 RMB millions
Registered, issued and fully paid		
67,054,958,321 ordinary domestic shares of RMB1.00 each	**67,055**	67,055
13,877,410,000 overseas listed H shares of RMB1.00 each	**13,877**	13,877
	80,932	80,932

All ordinary domestic shares and H shares rank pari passu in all material respects.

21. Reserves

The Group

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Surplus reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Exchange reserve RMB millions	Retained earnings RMB millions	Total RMB millions
Balance as at 1 January 2016, as previously reported	17,150	10,746	70,973	876	(812)	123,919	222,852
Adjusted for the Eighth Acquisition (Note 1)	10	–	–	–	–	29	39
Balance as at 1 January 2016, as restated	17,160	10,746	70,973	876	(812)	123,948	222,891
Total comprehensive income for the year, as restated	–	–	–	(165)	190	18,018	18,043
Dividends (Note 32)	–	–	–	–	–	(6,489)	(6,489)
Appropriations (Note (iii))	–	–	1,638	–	–	(1,638)	–
Balance as at 31 December 2016, as restated	17,160	10,746	72,611	711	(622)	133,839	234,445
Total comprehensive income for the year	**–**	**–**	**–**	**(293)**	**(259)**	**18,617**	**18,065**
Acquisition of the Eighth Acquired Group (Note 1)	**(80)**	**–**	**–**	**–**	**–**	**(7)**	**(87)**
Acquisition of non-controlling interests	**46**	**–**	**–**	**–**	**–**	**–**	**46**
Dividends (Note 32)	**–**	**–**	**–**	**–**	**–**	**(7,530)**	**(7,530)**
Appropriations (Note (iii))	**–**	**–**	**1,686**	**–**	**–**	**(1,686)**	**–**
Others	**–**	**–**	**–**	**(4)**	**–**	**–**	**(4)**
Balance as at 31 December 2017	**17,126**	**10,746**	**74,297**	**414**	**(881)**	**143,233**	**244,935**

21. Reserves (continued)

The Company

	Capital reserve RMB millions (Note (i))	Share premium RMB millions	Surplus reserves RMB millions (Note (iii))	Other reserves RMB millions (Note (ii))	Retained earnings RMB millions (Note (iv))	Total RMB millions
Balance as at 1 January 2016	29,148	10,746	70,973	705	104,374	215,946
Total comprehensive income for the year	–	–	–	(169)	16,375	16,206
Disposal of a subsidiary	–	–	–	–	9	9
Dividends (Note 32)	–	–	–	–	(6,489)	(6,489)
Appropriations (Note (iii))	–	–	1,638	–	(1,638)	–
Balance as at 31 December 2016	29,148	10,746	72,611	536	112,631	225,672
Total comprehensive income for the year	**–**	**–**	**–**	**(287)**	**16,855**	**16,568**
Dividends (Note 32)	**–**	**–**	**–**	**–**	**(7,530)**	**(7,530)**
Appropriations (Note (iii))	**–**	**–**	**1,686**	**–**	**(1,686)**	**–**
Others	**(4)**	**–**	**–**	**(4)**	**–**	**(8)**
Balance as at 31 December 2017	**29,144**	**10,746**	**74,297**	**245**	**120,270**	**234,702**

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 entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation, which were accounted for as equity transactions as disclosed in Note 1, and the historical carrying amount of the net assets of these acquired entities; and (c) the difference between the consolidation paid by the Group for the acquisition of non-controlling interests and the historical carrying amount of the non-controlling interests acquired.*

The difference between the consideration paid by the Group and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.

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 available-for-sale equity securities and the deferred tax liabilities recognised due to the change in fair value of available-for-sale equity securities.*

21. 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 the PRC Accounting Standards for Business Enterprises and the amount determined under IFRS, 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 2017 and 2016, the net profit of the Company determined in accordance with the PRC Accounting Standards for Business Enterprises and IFRS are the same. For the year ended 31 December 2017, the Company transferred RMB1,686 million, being 10% of the year's net profit, to this reserve (2016: RMB1,638 million). As at 31 December 2017, the amount of statutory surplus reserve was RMB28,218 million (2016: RMB26,532 million).

The Company did not transfer any discretionary surplus reserve for the years ended 31 December 2017 and 2016. As at 31 December 2017 and 2016, 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 the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As at 31 December 2017, the amount of retained earnings available for distribution was RMB120,270 million (2016: RMB112,631 million), being the amount determined in accordance with IFRS. Final dividend of approximately RMB7,518 million in respect of the financial year 2017 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 32).

22. Operating Revenues

Operating revenues represent revenues from the provision of telecommunications services. The components of the Group's operating revenues are as follows:

	Notes	**2017 RMB millions**	2016 RMB millions (restated)
Voice	(i)	**61,678**	70,185
Internet	(ii)	**172,554**	150,449
Information and application services	(iii)	**73,044**	66,881
Telecommunications network resource services and lease of network equipment	(iv)	**19,125**	17,781
Others	(v)	**39,828**	47,238
		366,229	352,534

Notes:

(i) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.

(ii) Represent amounts charged to customers for the provision of Internet access services.

(iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet data centre service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.

(iv) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.

(v) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services (MVNO).

23. Network Operations and Support Expenses

	Note	**2017 RMB millions**	2016 RMB millions (restated)
Operating and maintenance		**55,360**	48,390
Utility		**12,522**	13,148
Property rental and management fee	(i)	**26,926**	22,327
Others		**9,161**	10,291
		103,969	94,156

Note:

(i) Property rental and management fee includes the fee in relation to the lease of telecommunications towers and related assets ("Tower Assets") (hereinafter referred to as the "Tower Assets lease fee").

24. Personnel Expenses

Personnel expenses are attributable to the following functions:

	2017 RMB millions	2016 RMB millions (restated)
Network operations and support	**38,574**	36,286
Selling, general and administrative	**17,469**	18,218
	56,043	54,504

25. Other Operating Expenses

	Notes	**2017 RMB millions**	2016 RMB millions (restated)
Interconnection charges	(i)	**12,223**	11,822
Cost of goods sold	(ii)	**31,712**	38,705
Donations		**23**	19
Others	(iii)	**1,654**	1,740
		45,612	52,286

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 telecommunications equipment sold.

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

26. Total Operating Expenses

Total operating expenses for the year ended 31 December 2017 were RMB339,009 million (2016: RMB325,314 million) which include auditor's remuneration in relation to audit and non-audit services (excluding value-added tax) of RMB75 million and RMB2 million respectively (2016: RMB67 million and RMB2 million).

27. Net Finance Costs

	2017 RMB millions	2016 RMB millions (restated)
Interest expense incurred	**3,913**	4,200
Less: Interest expense capitalised*	**(327)**	(498)
Net interest expense	**3,586**	3,702
Interest income	**(429)**	(354)
Foreign exchange losses	**664**	209
Foreign exchange gains	**(530)**	(322)
	3,291	3,235
* Interest expense was capitalised in construction in progress at the following rates per annum	**3.9% – 4.9%**	4.1% – 5.0%

28. Income Tax

Income tax in the profit or loss comprises:

	2017 RMB millions	2016 RMB millions (restated)
Provision for PRC income tax	**3,147**	3,478
Provision for income tax in other tax jurisdictions	**123**	155
Deferred taxation	**2,922**	2,360
	6,192	5,993

28. Income Tax (continued)

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

	Notes	**2017 RMB millions**	2016 RMB millions (restated)
Profit before taxation		**24,953**	24,116
Expected income tax expense at statutory tax rate of 25%	(i)	**6,238**	6,029
Differential tax rate on PRC subsidiaries' and branches' income	(i)	**(108)**	(275)
Differential tax rate on other subsidiaries' income	(ii)	**(82)**	(53)
Non-deductible expenses	(iii)	**380**	485
Non-taxable income	(iv)	**(112)**	(105)
Others	(v)	**(124)**	(88)
Actual income tax expense		**6,192**	5,993

Notes:

(i) Except for certain subsidiaries and branches which are mainly taxed at a 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 the PRC.

(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 39%.

(iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iv) Amounts represent miscellaneous income which are not subject to income tax.

(v) Amounts primarily represent tax deduction on prior year research and development expenses approved by tax authorities and other tax benefits.

29. Directors' and Supervisors' Remuneration

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

2017	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary Bonuses[11] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Yang Jie	–	207	558	89	–	854
Liu Aili[1]	–	16	25	8	–	49
Yang Xiaowei[2]	–	110	420	39	–	569
Ke Ruiwen	–	184	503	85	–	772
Gao Tongqing[3]	–	99	127	51	–	277
Chen Zhongyue[4]	–	99	127	45	–	271
Sun Kangmin[5]	–	184	503	85	–	772
Non-executive director						
Chen Shengguang[6]	–	–	–	–	–	–
Independent non-executive directors[10]						
Tse Hau Yin	459	–	–	–	–	459
Cha May Lung	243	–	–	–	–	243
Xu Erming	230	–	–	–	–	230
Wang Hsuehming	243	–	–	–	–	243
Supervisors						
Sui Yixun	–	196	483	78	–	757
Yang Jianqing[7]	–	150	202	47	–	399
Zhang Jianbin	–	189	495	78	–	762
Tang Qi[8]	–	83	98	41	–	222
Hu Jing[9]	–	113	346	69	–	528
Ye Zhong	–	–	–	–	–	–
	1,175	1,630	3,887	715	–	7,407

1 *Mr Liu Aili was appointed as an executive director of the Company on 28 November 2017.*

2 *Mr Yang Xiaowei resigned as an executive director of the Company on 7 June 2017.*

3 *Mr Gao Tongqing was appointed as an executive director of the Company on 23 May 2017.*

4 *Mr Chen Zhongyue was appointed as an executive director of the Company on 23 May 2017.*

5 *Mr Sun Kangmin retired as an executive director of the Company on 29 January 2018.*

6 *Mr Chen Shengguang was appointed as a non-executive director of the Company on 23 May 2017.*

7 *Mr Yang Jianqing was appointed as a supervisor of the Company on 23 May 2017.*

8 *Mr Tang Qi retired as a supervisor of the Company on 23 May 2017.*

9 *Mr Hu Jing resigned as a supervisor of the Company on 27 February 2018.*

10 *The independent non-executive directors' remuneration were for their services as directors of the Company.*

11 *The discretionary bonuses of the executive directors and supervisors were determined based on the Group's performance for the year.*

12 *The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year.*

29. Directors' and Supervisors' Remuneration (continued)

2016	Directors'/ supervisors' fees RMB thousands	Salaries, allowances and benefits in kind RMB thousands	Discretionary bonuses[1] RMB thousands	Retirement scheme contributions RMB thousands	Share-based payments RMB thousands	Total RMB thousands
Executive directors						
Yang Jie	–	174	906	73	–	1,153
Yang Xiaowei	–	165	828	70	–	1,063
Ke Ruiwen	–	148	805	70	–	1,023
Sun Kangmin	–	155	814	70	–	1,039
Zhang Jiping[2]	–	104	765	47	–	916
Non-executive director						
Zhu Wei[3]	–	–	–	–	–	–
Independent non-executive directors[4]						
Tse Hau Yin	433	–	–	–	–	433
Cha May Lung	217	–	–	–	–	217
Xu Erming	200	–	–	–	–	200
Wang Hsuehming	217	–	–	–	–	217
Supervisors						
Sui Yixun	–	184	467	74	–	725
Tang Qi	–	214	450	107	–	771
Zhang Jianbin	–	172	489	73	–	734
Hu Jing	–	102	319	66	–	487
Ye Zhong	–	–	–	–	–	–
	1,067	1,418	5,843	650	–	8,978

1 *The discretionary bonuses of the directors and supervisors were determined based on the Group's performance for the year, and include the deferred performance bonus for the term of office from 2013 to 2015.*

2 *Mr. Zhang Jiping retired as an executive director of the Company on 19 August 2016.*

3 *Mr. Zhu Wei resigned as a non-executive director of the Company on 10 May 2016.*

4 *The independent non-executive directors' remuneration were for their services as directors of the Company.*

5 *The remuneration of all directors and supervisors were calculated based on their respective actual terms of office within this year.*

30. 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 2017 and 2016 were directors of the Company.

The aggregate of the emoluments in respect of the five (2016: five) individuals (non-directors) are as follows:

	2017 RMB thousands	2016 RMB thousands
Salaries, allowances and benefits in kind	**5,583**	5,474
Discretionary bonuses	**2,767**	3,111
Retirement scheme contributions	**78**	47
	8,428	8,632

The emoluments of the five (2016: five) individuals (non-directors) with the highest emoluments are within the following bands:

	2017 Number of individuals	2016 Number of individuals
RMB0 – RMB1,000,000	**–**	–
RMB1,000,001 – RMB1,500,000	**1**	–
RMB1,500,001 – RMB2,000,000	**3**	5
RMB2,000,001 – RMB2,500,000	**1**	–

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

(b) Senior management remuneration

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

	2017 Number of individuals	2016 Number of individuals
RMB0 – RMB1,000,000	**19**	14
RMB1,000,001 – RMB1,500,000	**–**	4

31. Profit Attributable to Equity Holders of the Company

For the year ended 31 December 2017, the consolidated profit attributable to equity holders of the Company includes a profit of RMB16,855 million which has been dealt with in the stand-alone financial statements of the Company.

For the year ended 31 December 2016, the consolidated profit attributable to equity holders of the Company includes a profit of RMB16,375 million which has been dealt with in the stand-alone financial statements of the Company.

32. Dividends

Pursuant to a resolution passed at the Board of Directors' meeting on 28 March 2018, a final dividend of equivalent to HK$0.115 per share totaling approximately RMB7,518 million for the year ended 31 December 2017 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 2017.

Pursuant to the shareholders' approval at the Annual General Meeting held on 23 May 2017, a final dividend of RMB0.093043 (equivalent to HK$0.105) per share totaling RMB7,530 million in respect of the year ended 31 December 2016 was declared and paid on 21 July 2017.

Pursuant to the shareholders' approval at the Annual General Meeting held on 25 May 2016, a final dividend of RMB0.080182 (equivalent to HK$0.095) per share totaling RMB6,489 million in respect of the year ended 31 December 2015 was declared and paid on 15 July 2016.

33. Basic Earnings Per Share

The calculation of basic earnings per share for the years ended 31 December 2017 and 2016 is based on the profit attributable to equity holders of the Company of RMB18,617 million and RMB18,018 million respectively, divided by 80,932,368,321 shares.

The amount of diluted earnings per share is not presented as there were no potential ordinary shares in existence for the periods presented.

34. Commitments and Contingencies

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases, and these operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing.

As at 31 December 2017 and 2016, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	2017 RMB millions	2016 RMB millions
Within 1 year	**20,680**	15,492
Between 1 to 2 years	**19,563**	14,351
Between 2 to 3 years	**16,730**	13,704
Between 3 to 4 years	**6,631**	13,256
Between 4 to 5 years	**3,376**	1,112
Thereafter	**2,786**	3,066
Total minimum lease payments	**69,766**	60,981

Total rental expense in respect of operating leases charged to profit or loss for the year ended 31 December 2017 was RMB25,493 million (2016: RMB21,240 million).

Capital commitments

As at 31 December 2017 and 2016, the Group had capital commitments as follows:

	2017 RMB millions	2016 RMB millions
Contracted for but not provided		
– property	**346**	933
– telecommunications network plant and equipment	**10,900**	12,807
	11,246	13,740

Contingent liabilities

(a) The Group was advised by their PRC lawyers that no material contingent liabilities were assumed by the Group.

(b) As at 31 December 2017 and 2016, 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.

35. Financial Instruments

Financial assets of the Group include cash and cash equivalents, bank deposits, investments, accounts receivable, prepayments and other receivables. Financial liabilities of the Group include short-term and long-term debt and payable, accounts payable, accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

(a) Fair Value Measurements

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

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

The fair values of the Group's financial instruments (other than long-term debt and payable and available-for-sale equity investment securities) approximate their carrying amounts due to the short-term maturity of these instruments.

The Group's available-for-sale listed equity securities are categorised as level 1 financial instruments. As at 31 December 2017, the fair value of the Group's available-for-sale listed equity securities are RMB969 million (2016: RMB1,369 million) based on quoted market price on PRC stock exchanges. The Group's long-term investments, other than the available-for-sale listed equity securities, are unlisted equity interests for which no quoted market prices exist and as their fair values cannot be measured reliably, their fair values were not disclosed.

The fair value of long-term debt and payable is estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The fair value measurement of long-term debt and payable is categorised as level 2. The interest rates used by the Group in estimating the fair values of long-term debt and payable, having considered the foreign currency denomination of the debt, ranged from 1.0% to 4.9% (2016: 1.0% to 4.9%). As at 31 December 2017 and 2016, the carrying amounts and fair value of the Group's long-term debt and payable were as follows:

	2017		2016	
	Carrying amount RMB millions	**Fair value RMB millions**	Carrying amount RMB millions	Fair value RMB millions
Long-term debt and payable	**49,742**	**48,256**	71,646	71,741

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

35. Financial Instruments (continued)

(b) Risks

The Group's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which mainly comprises of interest rate risk and foreign currency exchange rate risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, credit risk, and market risk. 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 be unable to pay amounts in full when due. 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. 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. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the quantitative disclosures in respect of the Group's exposure on credit risk for accounts receivable are set out in Note 13.

(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.

35. 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 floating, based on prevailing rates at the end of the reporting period) and the earliest date the Group would be required to repay:

	2017					
	Carrying amount RMB millions	**Total contractual undiscounted cash flow RMB millions**	**Within 1 year or on demand RMB millions**	**More than 1 year but less than 2 years RMB millions**	**More than 2 years but less than 5 years RMB millions**	**More than 5 years RMB millions**
Short-term debt	**54,558**	**55,682**	**55,682**	**–**	**–**	**–**
Long-term debt	**49,742**	**58,543**	**2,725**	**2,716**	**46,612**	**6,490**
Accounts payable	**119,321**	**119,321**	**119,321**	**–**	**–**	**–**
Accrued expenses and other payables	**98,695**	**98,695**	**98,695**	**–**	**–**	**–**
Finance lease obligations	**77**	**85**	**56**	**14**	**13**	**2**
	322,393	**332,326**	**276,479**	**2,730**	**46,625**	**6,492**

	2016					
	Carrying amount RMB millions	Total contractual undiscounted cash flow RMB millions	Within 1 year or on demand RMB millions	More than 1 year but less than 2 years RMB millions	More than 2 years but less than 5 years RMB millions	More than 5 years RMB millions
Short-term debt	40,780	41,425	41,425	–	–	–
Long-term debt and payable	71,646	75,126	62,307	1,187	3,601	8,031
Accounts payable, as restated	122,493	122,493	122,493	–	–	–
Accrued expenses and other payables, as restated	91,173	91,173	91,173	–	–	–
Finance lease obligations	102	112	58	20	31	3
	326,194	330,329	317,456	1,207	3,632	8,034

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 16) will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

35. Financial Instruments (continued)

(b) Risks (continued)

(iii) Interest rate risk

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

	2017		2016	
	Effective interest rate %	**RMB millions**	Effective interest rate %	RMB millions
Fixed rate debt:				
Short-term debt	**4.0**	**54,042**	3.3	39,854
Long-term debt	**3.3**	**49,742**	1.2	9,936
		103,784		49,790
Variable rate debt:				
Short-term debt	**4.1**	**516**	4.2	926
Deferred consideration due to China Telecommunications Corporation (as defined in Note 16)		**–**	4.1	61,710
		516		62,636
Total debt		**104,300**		112,426
Fixed rate debt as a percentage of total debt		**99.5%**		44.3%

As at 31 December 2017, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group's net profit for the year and retained earnings by approximately RMB4 million (2016: RMB470 million).

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2016.

35. 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 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 81.6% (2016: 81.8%) of the Group's cash and cash equivalents and 99.4% (2016: 99.4%) of the Group's short-term and long-term debt and payable as at 31 December 2017 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 16.

36. 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 debt-to-total assets ratio. For this purpose the Group defines total debt as the sum of short-term debt, long-term debt and payable, and finance lease obligations. As at 31 December 2017, the Group's total debt-to-total assets ratio was 15.8% (2016: 17.2%), which is within the range of management's expectation.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

37. 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 debt RMB millions	Long-term debt and payable RMB millions	Finance lease obligations RMB millions	Consideration payables in respect of the Eighth Acquisition RMB millions (Note 18)	Consideration payable in respect of the acquisition of non-controlling interests RMB millions (Note 18)	Dividend payable RMB millions	Total RMB millions
Balance as at 1 January 2017	40,780	71,646	102	–	–	–	112,528
Financing cash flows	13,778	(22,191)	(84)	–	(31)	(7,619)	(16,147)
New finance leases	–	–	55	–	–	–	55
Interest expenses	–	295	9	–	–	–	304
Foreign exchange gain	–	(8)	–	–	–	–	(8)
Acquisition of the Eighth Acquired Group	–	–	–	87	–	–	87
Acquisition of non-controlling interests	–	–	–	–	150	–	150
Distribution to non-controlling interests	–	–	–	–	–	89	89
Dividends declared	–	–	–	–	–	7,530	7,530
Others	–	–	(5)	–	–	–	(5)
Balance as at 31 December 2017	54,558	49,742	77	87	119	–	104,583

38. 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 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 "Connected Transactions" in the Report of Directors.

	Notes	**2017 RMB millions**	2016 RMB millions (restated)
Purchases of telecommunications equipment and materials	(i)	**4,248**	5,199
Sales of telecommunications equipment and materials	(i)	**3,291**	2,786
Construction and engineering services	(ii)	**18,672**	18,936
Provision of IT services	(iii)	**642**	312
Receiving IT services	(iii)	**1,812**	1,597
Receiving community services	(iv)	**3,028**	2,871
Receiving ancillary services	(v)	**16,072**	13,938
Property lease income	(vi)	**53**	36
Property lease expenses	(vi)	**654**	559
Net transaction amount of centralised services	(vii)	**727**	523
Interconnection revenues	(viii)	**48**	60
Interconnection charges	(viii)	**193**	232
Internet applications channel services	(ix)	**344**	332
Interest on amounts due to and loans from China Telecom Group*	(x)	**2,720**	2,928
Lease of CDMA network facilities*	(xi)	**174**	154
Lease of inter-provincial transmission optic fibres*	(xii)	**13**	16
Lease of land use rights*	(xiii)	**3**	6

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

38. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

Notes:

(i) *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.*

(ii) *Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.*

(iii) *Represent IT services provided to and received from China Telecom Group.*

(iv) *Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.*

(v) *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.*

(vi) *Represent amounts of property lease fee received and receivable from/paid and payable to China Telecom Group for mutual leasing of properties.*

(vii) *Represent net amount shared between the Company and China Telecom Group for costs associated with centralised services. The amount represents amounts received or receivable for the net amount of centralised services.*

(viii) *Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.*

(ix) *Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.*

(x) *Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecom Group and loans from China Telecom Group (Note 16).*

(xi) *Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network ("CDMA network") facilities located in Xizang Autonomous Region.*

(xii) *Represent amounts paid and payable to China Telecom Group for lease of certain inter-provincial transmission optic fibres within its service regions.*

(xiii) *Represent amounts paid and payable to China Telecom Group for leases of land use rights.*

38. Related Party Transactions (continued)

(a) Transactions with China Telecom Group (continued)

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

	2017 RMB millions	2016 RMB millions (restated)
Accounts receivable	**1,502**	966
Prepayments and other current assets	**774**	798
Total amounts due from China Telecom Group	**2,276**	1,764
Accounts payable	**22,682**	21,331
Accrued expenses and other payables	**1,838**	1,813
Short-term debt	**19,098**	5,271
Long-term debt and payable	**40,000**	61,710
Total amounts due to China Telecom Group	**83,618**	90,125

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt and payable, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt and payable due to China Telecom Group are set out in Note 16.

As at 31 December 2017 and 2016, no material allowance for doubtful debts was recognised in respect of amounts due from China Telecom Group.

38. Related Party Transactions (continued)

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

	Notes	**2017** **RMB millions**	2016 RMB millions
Tower Assets lease fee	(i)	**15,389**	11,657
Provision of IT services	(ii)	**49**	12

Notes:

(i) Represent amounts paid and payable to China Tower for the lease of the Tower Assets.

The Company and China Tower entered into an agreement on 8 July 2016 and a supplemental agreement on 1 February 2018 to confirm the pricing and related arrangements in relation to the leases of the Tower Assets.

(ii) Represent IT services provided to China Tower.

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

	2017 **RMB millions**	2016 RMB millions
Accounts receivable	**5**	10
Prepayments and other current assets	**2,152**	2,278
Total amounts due from China Tower	**2,157**	2,288
Accounts payable	**2,611**	3,697
Accrued expenses and other payables	**1,374**	807
Total amounts due to China Tower	**3,985**	4,504

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

As at 31 December 2017 and 2016, no material allowance for doubtful debts was recognised in respect of amounts due from China Tower.

38. Related Party Transactions (continued)

(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:

	2017 RMB thousands	2016 RMB thousands
Short-term employee benefits	**7,804**	9,886
Post-employment benefits	**816**	801
	8,620	10,687

The above remuneration is included in personnel expenses.

(d) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal, autonomous regional and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 40.

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

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 parent company and its fellow subsidiaries (Note 38(a)), the Group has transactions that are collectively but not individually significant with other government-related entities, which include but not limited to the following:

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

38. Related Party Transactions (continued)

(e) Transactions with other government-related entities in the PRC (continued)

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.

39. Information about the Statement of Financial Position of the Company

	Note	**31 December 2017 RMB millions**	31 December 2016 RMB millions
ASSETS			
Non-current assets			
Property, plant and equipment, net		**403,228**	386,589
Construction in progress		**72,157**	79,438
Lease prepayments		**22,249**	22,941
Goodwill		**29,877**	29,877
Intangible assets		**11,220**	10,143
Investments in subsidiaries	8	**6,424**	6,119
Interests in associates		**35,546**	34,401
Investments		**996**	1,396
Deferred tax assets		**5,050**	4,564
Other assets		**3,205**	2,915
Total non-current assets		**589,952**	578,383
Current assets			
Inventories		**1,508**	1,568
Income tax recoverable		**644**	29
Accounts receivable, net		**21,219**	21,374
Prepayments and other current assets		**15,996**	13,882
Short-term bank deposits		**1,054**	50
Cash and cash equivalents		**8,199**	13,327
Total current assets		**48,620**	50,230
Total assets		**638,572**	628,613

39. Information about the Statement of Financial Position of the Company (continued)

	Note	**31 December 2017 RMB millions**	31 December 2016 RMB millions
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt		**57,482**	40,579
Current portion of long-term debt and payable		**1,146**	62,276
Accounts payable		**116,035**	117,878
Accrued expenses and other payables		**88,304**	82,593
Income tax payable		**21**	805
Current portion of finance lease obligations		**51**	52
Current portion of deferred revenues		**1,061**	1,083
Total current liabilities		**264,100**	305,266
Net current liabilities		**(215,480)**	(255,036)
Total assets less current liabilities		**374,472**	323,347
Non-current liabilities			
Long-term debt		**48,596**	9,353
Finance lease obligations		**26**	50
Deferred revenues		**1,828**	2,303
Deferred tax liabilities		**7,781**	4,488
Other non-current liabilities		**607**	549
Total non-current liabilities		**58,838**	16,743
Total liabilities		**322,938**	322,009
Equity			
Share capital		**80,932**	80,932
Reserves	21	**234,702**	225,672
Total equity		**315,634**	306,604
Total liabilities and equity		**638,572**	628,613

40. Post-Employment Benefits Plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 13% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. 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.

The Group's contributions for the above plans for the year ended 31 December 2017 were RMB6,884 million (2016: RMB6,656 million).

The amount payable for contributions to the above defined contribution retirement plans as at 31 December 2017 was RMB569 million (2016: RMB597 million).

41. Stock Appreciation Rights

The Group implemented a stock appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, stock appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock 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 stock 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 Company recognises compensation expense of the stock appreciation rights over the applicable vesting period.

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had an exercise price of HK$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As at November 2014, 2015 and 2016, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100%, respectively, of the total stock appreciation rights granted to such person.

All stock appreciation rights granted by the Company in 2012 expired in 2016. During the year ended 31 December 2016, no stock appreciation right units were exercised. For the year ended 31 December 2016, compensation expense of RMB152 million was reversed by the Group in respect of stock appreciation rights as a result of the expiration of the stock appreciation right units granted by the Company in 2012.

As at 31 December 2017 and 2016, no liability arising from stock appreciation rights was assumed by the Company.

42. 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 assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 2. Management believes the following significant accounting policies involve the most significant judgments and estimates used in the preparation of the consolidated financial statements.

Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

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 2(n). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress 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 judgment relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

42. Accounting Estimates and Judgments (continued)

Impairment of goodwill and long-lived assets (continued)

For the year ended 31 December 2017, provision for impairment loss of RMB10 million was made against the carrying value of long-lived assets (2016: RMB62 million). In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

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.

Depreciation and amortisation

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

Classification of lease arrangement with China Tower

The Company and China Tower entered into a lease arrangement regarding the leases of Tower Assets on 8 July 2016 and a supplemental agreement on 1 February 2018. Management evaluated the detailed clauses of the leases agreement and determined such lease arrangements as operating leases according to the accounting policies disclosed in Note 2(m) and based on the following judgments: (i) the Company does not expect any transfer of ownership of Tower Assets from China Tower by the end of the lease term; (ii) the Company considered the current lease term of 5 years does not account for the major part of the economic lives of Tower Assets; (iii) the present value of minimum lease payment at the inception of the lease does not substantially account for all of the fair value of the Tower Assets; and (iv) Tower Assets are compatible with all telecommunications operators, and therefore are not of specialised nature that only the Company can use them without major modifications.

43. Possible Impact of Amendments to Standards, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2017

Up to the date of issue of the consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretations which are not yet effective and not early adopted for the annual accounting period ended 31 December 2017:

	Effective for accounting period beginning on or after
IFRS 9, *"Financial Instruments"*	1 January 2018
IFRS 15, *"Revenue from Contracts with Customers"* and the related Amendments	1 January 2018
IFRIC 22, *"Foreign Currency Transactions and Advance Consideration"*	1 January 2018
Amendments to IFRS 2, *"Classification and Measurement of Share-based Payment Transactions"*	1 January 2018
Amendments to IFRS 4, *"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"*	1 January 2018
Amendments to IAS 40, *"Transfers of Investment Property"*	1 January 2018
Amendments to IAS 28 as part of the *"Annual Improvements to IFRS Standards 2014-2016 Cycle"*	1 January 2018
IFRS 16, *"Leases"*	1 January 2019
IFRIC 23, *"Uncertainty over Income Tax Treatments"*	1 January 2019
Amendments to IFRS 9, *"Prepayment Features with Negative Compensation"*	1 January 2019
Amendments to IAS 28, *"Long-term Interests in Associates and Joint Ventures"*	1 January 2019
Amendments to IFRSs, *"Annual Improvements to IFRS Standards 2015-2017 Cycle"*	1 January 2019
Amendments to IAS 19, *"Plan Amendment, Curtailment or Settlement"*	1 January 2019
IFRS 17, *"Insurance Contracts"*	1 January 2021
Amendments to IFRS 10 and IAS 28, *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*	A date to be determined

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards, new standards and interpretations issued by the IASB which are not yet effective for the accounting period ended on 31 December 2017. Except for IFRS 9 "*Financial Instruments*", IFRS 15, "*Revenue from Contracts with Customers*" and IFRS 16, "*Leases*", so far the Group believes that the adoption of these amendments to standards, new standards and interpretations is unlikely to have a significant impact on its financial position and the results of operations.

IFRS 9 *"Financial Instruments"*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

43. Possible Impact of Amendments to Standards, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2017 (continued)

IFRS 9 *"Financial Instruments"* (continued)

Key requirements of IFRS 9 which are relevant to the Group are:

- IFRS 9 contains three classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL"), and (3) fair value through other comprehensive income ("FVTOCI"). Specifically:

  - Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. Other debt investments are measured at FVTPL.

  - For equity securities, the classification is FVTPL regardless of the entity's business model. However, entities may make an irrecoverable election to present subsequent changes in the fair value of an equity investments (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39, "*Financial Instruments: Recognition and Measurement*". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 10: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value gains accumulated in other reserves amounting to RMB674 million as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income in the future, but will not affect total comprehensive income;

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 10: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in other reserves. The directors of the Company anticipate that the remeasurement of these securities will not have significant impact on the Group's consolidated financial statements; and

Other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

43. Possible Impact of Amendments to Standards, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2017 (continued)

IFRS 9 *"Financial Instruments"* (continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on accounts receivable. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets as at 1 January 2018.

IFRS 15, *"Revenue from Contracts with Customers"*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *"Revenue"*, IAS 11, *"Construction Contracts"* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity 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.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

43. Possible Impact of Amendments to Standards, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2017 (continued)

IFRS 15, *"Revenue from Contracts with Customers"* (continued)

The directors of the Company have assessed the impact on application of IFRS 15 to the Group's consolidated financial statements as follows:

- Consideration payable to a customer will be accounted for 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 entity and the fair value of the good or service received from the customer can be reasonably estimated. The directors of the Company have assessed that certain subsidies payable to third party agent incurred in respect of customer contracts, which will be ultimately enjoyed by end customers, may be qualified as consideration payable to customers under IFRS 15 and accounted for as a reduction of operating revenues. Such costs are generally expensed as incurred before the application of IFRS 15.

- The sales of terminal equipment and the provision of telecommunications services represent separate performance obligations from the Company's sales of the promotional packages. Before the application of IFRS 15, the total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method as illustrated in Note 2(o), which is no longer applicable under IFRS 15. IFRS 15 requires entities to allocate the transaction price to each performance obligation in the contract on a relative stand-alone selling price basis. The primary impact on revenue recognition will be that when the Company sells promotional packages, which involve the bundled sales of terminal equipment, to customers, revenue allocated to terminal equipment and recognised at contract inception, when control of the terminal equipment typically passes from the Company to the customer, will increase and revenue subsequently recognised as telecommunications services are delivered during the contract period will reduce.

- Certain incremental costs incurred in acquiring a contract with a customer will be deferred on the consolidated statement of financial position and amortised as revenue is recognised under the related contract. The directors of the Company have assessed that certain commissions incurred in obtaining customer contracts that payable to third party agents may be qualified as incremental costs under IFRS 15 and will be deferred on the consolidated statement of financial position and recognised as an expense when related revenue is recognised under the contract. Such costs are generally expensed as incurred before the application of IFRS 15.

The combined impact of the changes is expected to increase the gross profit recorded at inception on many customer contracts; in such cases, this will typically reduce the gross profit reported during the remainder of the contract term; however, these timing differences will not impact the total gross profit reported for a customer contract over the contract term.

Under the limited retrospective method, the Group applied the requirements to the open contracts existed at 1 January 2018, resulting in an increase to the opening retained earnings for 2018 ranging from approximately RMB3,500 million to RMB4,000 million for the cumulative effect of the change.

In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

43. Possible Impact of Amendments to Standards, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2017 (continued)

IFRS 16, *"Leases"*

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively, by the Group.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The directors of the Company are in the process of making an assessment of the impact that will result from adopting IFRS 16. A preliminary assessment indicates that the Group will recognise a right-of-use asset and a corresponding liability in respect of all the operating leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

44. Parent and Ultimate Holding Company

The parent and ultimate holding company of the Company as at 31 December 2017 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.