1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice, LTE FDD cellular voice, TD-LTE cellular voice and related value-added services are referred to as the "mobile service". The services aforementioned other than the mobile service are hereinafter collectively referred to as the "fixed-line service". The Company and its subsidiaries are hereinafter referred to as the "Group". The address of the Company's registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited ("SEHK") on 22 June 2000 and the American Depositary Shares ("ADS") of the Company were listed on the New York Stock Exchange on 21 June 2000.

The substantial shareholders of the Company are China Unicom (BVI) Limited ("Unicom BVI") and China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI"). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited ("A Share Company", a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in A Share Company is owned by China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"). Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. As a result, the directors of the Company consider Unicom Group to be the ultimate holding company.

Disposal of Telecommunications Towers and Related Assets

On 11 July 2014, the Company (through China United Network Communications Corporation Limited ("CUCL", a wholly-owned subsidiary of the Company)) entered into an agreement with China Mobile Communications Company Limited and its related subsidiaries ("China Mobile") and China Telecom Corporation Limited ("China Telecom") to establish China Tower Corporation Limited ("Tower Company"). Pursuant to the agreement, the Company subscribed for 3.01 billion shares at a par value of RMB1.00 per share in the registered capital of Tower Company in cash, representing 30.1% of the registered capital of Tower Company.

On 14 October 2015, CUCL and Unicom New Horizon Telecommunications Company Limited ("Unicom New Horizon", a wholly-owned subsidiary of CUCL and an indirectly wholly-owned subsidiary of the Company) entered into a transfer agreement (the "Transfer Agreement"), amongst China Mobile, China Telecom, China Reform Holdings Corporation Limited ("CRHC") and Tower Company. Pursuant to the Transfer Agreement, the Group, China Mobile and China Telecom will sell certain of their telecommunications towers and related assets (the "Tower Assets") to Tower Company (hereinafter referred to as the "Tower Assets Disposal") in exchange for shares issued by Tower Company and cash consideration. In addition, CRHC will make a cash subscription for shares of Tower Company.

The Tower Assets Disposal was completed on 31 October 2015 ("Completion Date"). The final consideration amount for the Tower Assets Disposal attributed to the Group was determined as RMB54,658 million. Tower Company issued 33,335,836,822 shares ("Consideration Shares") to CUCL at an issue price of RMB1.00 per share and the balance of the consideration of approximately RMB21,322 million payable in cash ("Cash Consideration"). The first tranche of the Cash Consideration of RMB3,000 million payable by Tower Company was settled in February 2016. The remaining balance of the Cash Consideration is to be settled before 31 December 2017.

Upon the issuance of new shares by Tower Company, the Group, China Mobile, China Telecom and CRHC own 28.1%, 38.0%, 27.9% and 6.0% of Tower Company respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of Compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB. Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), are consistent with IFRSs. The financial statements also comply with HKFRSs as well as the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK ("Listing Rules") and the requirements of the Hong Kong Companies Ordinance.

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income. The consolidated financial statements prepared by the PRC subsidiaries for PRC statutory reporting purposes are based on the Chinese Accounting Standards for Business Enterprises ("CAS") issued by the Ministry of Finance ("MOF") of the PRC, which became effective from 1 January 2007 with certain transitional provisions. There are certain differences between the Group's IFRSs/HKFRSs financial statements and PRC financial statements. The principal adjustments made to the PRC financial statements to conform to IFRSs/HKFRSs include the following:

- reversal of the revaluation surplus or deficit and related amortisation charges arising from the revaluation of prepayments for the leasehold land performed by independent valuers for the purpose of reporting to relevant PRC government authorities;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005;
- additional capitalisation of borrowing costs and corresponding impact on depreciation prior to the adoption of CAS on 1 January 2007; and
- adjustments for deferred taxation in relation to the above adjustments.

(a) Disposal of Telecommunications Towers and Related Assets

As stated in Note 1, on 31 October 2015, CUCL and Unicom New Horizon completed the Group's Tower Assets Disposal with a total consideration of approximately RMB54,658 million.

The Tower Assets Disposal was accounted as an assets disposal. Since the Company owned 28.1% of the share capital of Tower Company, only 71.9% of the gain on the Group's Tower Assets Disposal was recognised for the year ended 31 December 2015 with the remaining 28.1% of the aforesaid gain deferred over the remaining useful life of the Tower Assets related to the Group.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(a) Disposal of Telecommunications Towers and Related Assets (Continued)

The details of the Tower Assets related to the Group as at the Completion Date and the gain on the Group's Tower Assets Disposal were as follows:

Property, plant and equipment	37,632
Other current assets	829
Other non-current assets	3,017
The Group's Tower Assets disposed of	41,478
Consideration	54,658
Relevant expenses and taxes	(320)
Gain on the Group's Tower Assets Disposal	12,860
Deferred gain from the Group's Tower Assets Disposal	(3,614)
Disposal gain recognised	9,246

(b) Going Concern Assumption

As at 31 December 2015, current liabilities of the Group exceeded current assets by approximately RMB279.4 billion (2014: approximately RMB235.3 billion). Given the current global economic conditions and the Group's expected capital expenditure in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflows from operating activities;
- Approximately RMB346.4 billion of revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which approximately RMB227.2 billion was unutilised as at 31 December 2015; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group believes it has the ability to raise funds from the short, medium and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2015 have been prepared on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) Critical Accounting Estimates and Judgements

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

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

Judgements made by management in the application of IFRSs/HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4.

(d) New Accounting Standards and Amendments

(i) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2015 and are applicable to the Group:

- Amendments to IAS/HKAS 19, “Defined benefit plans: Employee Contributions”

  The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

- Annual Improvements to IFRSs/HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

  These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS/HKAS 24, “Related party disclosures” has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(d) New Accounting Standards and Amendments (Continued)

(ii) Up to the date of issue of these financial statements, the IASB and HKICPA issued certain amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements except IFRS/HKFRS 9, "Financial instruments" was early adopted by the Group on 1 January 2011. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs/HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to IFRS/HKFRS 10 and IAS/HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"	1 January 2016
Amendments to IFRS/HKFRS 11, "Accounting for acquisitions of interests in joint operations"	1 January 2016
Amendments to IAS/HKAS 1, "Disclosure initiative"	1 January 2016
Amendments to IAS/HKAS 16 and IAS/HKAS 38, "Clarification of acceptable methods of depreciation and amortisation"	1 January 2016
Amendments to IAS/HKAS 27, "Equity method in separate financial statements"	1 January 2016
Amendments to IFRS/HKFRS 10, IFRS/HKFRS 12, IAS/HKAS 28, "Investment entities: Applying the consolidation exception"	1 January 2016
IFRS/HKFRS 15, "Revenue from Contracts with Customer"	1 January 2018

The Group will adopt the relevant amendments and new standards in the subsequent periods as required. The Group is in the process of making an assessment of what the impact of these amendments and new standards are expected to be in the period of initial application.

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

The Group adopted the purchase method of accounting to account for business combination of entities and businesses under common control before 2005. Under the purchase method of accounting in force at the date of the acquisition, the cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired was recorded as goodwill. If the cost of acquisition was less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference was recognised directly in the statement of income.

Under HKFRSs, business combination of entity and business under common control of the Group after 2005 was accounted for using merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the HKICPA in 2005. Upon the adoption of IFRSs by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method, which is consistent with HKFRSs.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

2.4 Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and joint ventures (Continued)

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

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, 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 or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2.5 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments regularly, has been identified as the Executive Directors of the Company that makes strategic decisions.

2.6 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign Currency Translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the statement of financial position date;
- Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity into other reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on disposal.

2.7 Property, Plant and Equipment

(a) Construction-in-progress

Construction-in-progress ("CIP") represents buildings, plant and equipment under construction and pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the construction period. No provision for depreciation is made on CIP until such time as the assets are completed and ready for its intended use. When the asset being constructed becomes available for use, the CIP is transferred to the appropriate category of assets.

(b) Property, plant and equipment

Property, plant and equipment held by the Group are stated at cost less accumulated depreciation and accumulated impairment losses, and are depreciated over their expected useful lives.

Property, plant and equipment comprise buildings, telecommunications equipment, leasehold improvements, office furniture, fixtures, motor vehicles and other equipment. The cost of an asset, except for those acquired in exchange for a non-monetary asset or assets, comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, Plant and Equipment (Continued)

(b) Property, plant and equipment (Continued)

If an item of property, plant and equipment is acquired in exchange for another item of property, plant and equipment, the cost of such an item of property, plant and equipment is measured at fair value unless (i) the exchange transactions lacks commercial substance or (ii) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable at the time the costs are incurred that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

(c) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

	Depreciable life	Residual rate
Buildings	10 – 30 years	3-5%
Telecommunications equipment	5 – 10 years	3-5%
Office furniture, fixtures, motor vehicles and other equipment	5 – 10 years	3-5%

Leasehold improvements are depreciated over the shorter of their estimated useful lives and the lease periods.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

(d) Gain or loss on disposal of property, plant or equipment

Gains or losses on disposal of property, plant or equipment are determined by comparing the net sales proceeds with the carrying amounts, and are recognised in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition before the adoption of IFRS/HKFRS 3 (Revised). Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of business combination in which the goodwill arose.

2.9 Lease Prepayments

Lease prepayments represent payments for land use rights. Lease prepayments for land use rights are stated at cost initially and amortised on a straight-line basis over the lease period.

2.10 Other Assets

Other assets mainly represent (i) computer software; (ii) prepaid rental for premises, leased lines and electricity cables; (iii) capitalised installation costs of fixed-line services and (iv) capitalised direct incremental costs for activating broadband subscribers.

(i) Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives on a straight-line basis.

(ii) Long-term prepaid rental for premises, leased lines and electricity cables are amortised using a straight-line method over the lease period.

(iii) Capitalised installation costs of fixed-line services are deferred and expensed to the statement of income over the expected customer service period of 10 years except when the direct incremental costs exceed the corresponding installation fees. In such cases, the excess of the direct incremental costs over the installation fees is recorded immediately as expenses in the statement of income.

(iv) Capitalised direct incremental costs for activating broadband subscribers mainly include the costs of installing broadband terminals at customer's homes for the provision of broadband service. Such costs are amortised over the service period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial Assets

The Group classifies its financial assets into two measurement categories: those measured at amortised cost and those measured at fair value. The determination is made at initial recognition and the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and

- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Bank deposits, accounts receivable and other deposits are also classified under this category.

Financial assets under this category are carried at amortised cost using effective interest method less provision for impairment. Gains and losses arising from disposal, being the differences between the net sales proceeds and the carrying values, are recognised in the statement of income. Interest income is recognised in the statement of income using the effective interest method and disclosed as interest income.

Financial assets measured at fair value

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Financial assets under this category are equity investments carried at fair value. Gains and losses arising from changes in fair value are included in the statement of income or the statement of comprehensive income in cases where an irrevocable election is made by the Group to recognise changes in fair value of an equity investment measured at fair value through the statement of income or the statement of comprehensive income, in the period in which they arise. Upon disposal of the investments, the differences between the net sale proceeds and the carrying values are included in the statement of income or the statement of comprehensive income. Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

Purchases and sales of financial assets are recognised on the trade date. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of Non-Financial Assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested for impairment at each statement of financial position date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that impairment losses were previously recognised are reviewed for possible reversal of the impairment at each reporting date.

2.13 Impairment of Financial Assets Carried at Amortised Costs

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.14 Inventories and Consumables

Inventories, which primarily comprise handsets, SIM/USIM cards and accessories, are stated at the lower of cost and net realisable value. Cost is based on the first-in-first-out method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value for all the inventories is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Consumables consist of materials and supplies used in maintaining the Group's telecommunications networks and are charged to the statement of income when brought into use. Consumables are stated at cost less any provision for obsolescence.

2.15 Accounts Receivable and Other Receivables

Accounts receivable and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for doubtful debts (see Note 2.13), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for doubtful debts.

Accounts receivable are amounts due from customers for services performed in the ordinary course of business. Other receivables are amounts due from the sales of mobile handsets and other operating activities. If collection of accounts receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.16 Short-term Bank Deposits

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to 1 year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

2.18 Convertible Bonds

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of convertible bonds is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the convertible bonds as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of convertible bonds is measured at amortised cost using the effective interest method. The equity component of a convertible bond is not re-measured subsequent to initial recognition except on conversion, expiry or redemption.

If the convertible bonds is converted, the equity component, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital as consideration for the shares issued. If the convertible bonds is redeemed, the equity component is released directly to other reserve.

2.19 Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

(a) Deferred revenue

Deferred revenue mainly represents upfront non-refundable fee, including installation fees of fixed-line service, which are deferred and recognised over the expected customer service period. Deferred revenue expected to be recognised in one year or less is classified as current liabilities. If not, they are presented as non-current liabilities.

(b) Advances from customers

Advances from customers are mainly amounts paid by customers for prepaid cards, other calling cards and prepaid service fees, which cover future telecommunications services. Advances from customers are stated at the amount of proceeds received less the amount already recognised as revenue upon the rendering of services.

(c) Subscriber points reward program

The fair value of providing telecommunications services and the subscriber points reward is allocated based on their relative fair values. The allocated portion of fair value for the subscriber points reward is recorded as deferred revenue when the rewards are granted and recognised as revenue when the points are redeemed or expired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.21 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax) is deducted from equity attributable to equity shareholders of the Company and no gain or loss shall be recognised in the statement of income.

2.22 Employee Benefits

(a) Retirement benefits

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a reduction in the future payments is available.

(b) Medical insurance

The Group's contributions to basic and supplementary medical insurances are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

(c) Housing benefits

One-off cash housing subsidies paid to PRC employees are charged to the statement of income in the year in which it is determined that the payment of such subsidies is probable and the amounts can be reasonably estimated.

The Group's contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee Benefits (Continued)

(d) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. The present value of the defined benefit obligation is included in non-current other obligations and salary and welfare payables (current portion). The liability is remeasured with sufficient regularity and the movement of the remeasurement is recognised in other comprehensive income, which is not allowed to reverse to profit and loss in subsequent period. As at 31 December 2015, the amount of the liability was RMB91 million (2014: RMB105 million).

(e) Share-based compensation costs

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted at the grant date excluding the impact of any non-market vesting conditions (for example, revenue and profit targets) and is not subsequently remeasured. However, non-market vesting conditions are considered in determining the number of options that are expected to vest. At each statement of financial position date, the Group revises its estimates of the number of share options that are expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the statement of income of the period in which the revision occurs, with a corresponding adjustment to equity.

The equity amount is recognised in the employee share-based compensation reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2.23 Accounts Payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the pre-tax amount of expenditures expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the services and sales of goods or telecommunications products in the ordinary course of the Group's activities.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services and goods

- Usage fees and monthly fees are recognised when the service is rendered;
- Revenue from the provision of broadband, data and other Internet-related services is recognised when the services are provided to customers;
- Lease income from leasing of lines and customer-end equipment is treated as operating leases with rental income recognised on a straight-line basis over the lease term;
- Interconnection fees represent revenue received or receivable from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, is recognised when service is rendered;
- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalised ring, caller number display and secretarial services to subscribers, is recognised when service is rendered;
- Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognised when title has been passed to the buyers;
- The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of the telecommunications service. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition;
- Revenue from information communications technology services is recognised when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognised only to the extent of recoverable costs incurred, and costs should be recognised as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognised as current expenses immediately and services revenue should not be recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Interest income

Interest income from deposits in banks or other financial institutions is recognised on a time proportion basis, using the effective interest method.

2.27 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.28 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including long-term prepayment for land use rights, are expensed in the statement of income on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. The interest element implicit in the lease payment is recognised in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.29 Borrowing Costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised up to the date when the project is completed and ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognised as expenses when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Taxation

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of the amount expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised as deferred income tax. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each statement of financial position date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each statement of financial position date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.31 Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.32 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, the liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

2.33 Earnings per Share

Basic earnings per share is computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, after adjusting for the effects of the dilutive potential ordinary shares.

2.34 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) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.34 Related parties (Continued)

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

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

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

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

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

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

3.1 Financial risk factors

The Group's operating activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the Group's finance department at its headquarter, following the overall direction determined by the Executive Directors of the Company. The Group's finance department at its headquarter identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars, HK dollars and Euro. Exchange risk mainly exists with respect to the repayment of indebtedness to foreign lenders and payables to equipment suppliers and contractors.

The Group's finance department at its headquarter is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years of 2015 and 2014, the Group had not entered into any forward exchange contracts or currency swap contracts.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2015 and 2014.

	2015			2014		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	278	0.84	233	1,286	0.79	1,016
– denominated in US dollars	146	6.49	948	107	6.12	657
– denominated in Euro	8	7.10	60	5	7.46	39
– denominated in Japanese Yen	119	0.05	6	44	0.05	2
– denominated in GBP	0.6	9.62	6	1.2	9.54	11
Sub-total			1,253			1,725
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	657	7.10	4,665	765	7.46	5,706
Total			5,918			7,431
Borrowings:						
– denominated in HK dollars	–	0.84	–	62,686	0.79	49,452
– denominated in US dollars	50	6.49	325	54	6.12	329
– denominated in Euro	15	7.10	108	18	7.46	136
Sub-total			433			49,917
Convertible bonds:						
– denominated in US dollars	–	6.49	–	1,825	6.12	11,167
Obligations under finance lease:						
– denominated in US dollars	14	6.49	90	47	6.12	286
Total			523			61,370

The Group did not have and does not believe it will have any difficulties in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2015, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB55 million (2014: approximately RMB4,473 million) for cash and cash equivalents, borrowings, convertible bonds and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income, net of tax impact, would be approximately RMB467 million (2014: approximately RMB428 million) for financial assets denominated in foreign currency, which were recorded in fair value through other comprehensive income.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified in the consolidated statement of financial position as financial assets at fair value through other comprehensive income.

The financial assets at fair value through other comprehensive income comprise primarily equity securities of Telefónica S.A. ("Telefónica"). As at 31 December 2015, if the share price of Telefónica had increased/decreased by 10%, while the exchange rate of RMB against Euro is held constant, the effect on other comprehensive income, net of tax impact, would be approximately RMB467 million (2014: approximately RMB428 million).

(iii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by bank deposits. Management does not expect the changes in market deposit interest rates will have significant impact on the financial statements as the deposits are all short-term in nature and the interest involved will not be significant.

The Group's interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, convertible bonds, corporate bonds and related parties loans. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2015 and 2014, the Group's borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2015 and 2014.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2015, the Group had approximately RMB105,343 million (2014: approximately RMB103,586 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB43,599 million (2014: approximately RMB35,091 million) of long-term fixed rate borrowings.

For the year ended 31 December 2015, if interest rates on the floating rate borrowings and short-term fixed rate borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on profit after tax is approximately RMB395 million (2014: approximately RMB388 million).

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and short-term bank deposits with banks, as well as credit exposures to corporate customers, individual subscribers, related parties and other operators.

To limit exposure to credit risk relating to cash and cash equivalents and short-term bank deposits, the Group primarily places cash and cash equivalents and short-term bank deposits only with large state-owned financial institutions in the PRC and other banks with acceptable credit ratings. Therefore, the Group expects that there is no significant credit risk and does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has no significant concentrations of credit risk with respect to corporate customers and individual subscribers. The extent of the Group's credit exposure is mainly attributable to accounts receivable for services (Note 15) and receivable for the sales of mobile handsets (Note 16). The Group has policies to limit the credit exposure on receivables for services and the sales of mobile handsets. The Group assesses the credit quality of and sets credit limits on all its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year. The utilisation of credit limits and the settlement pattern of the customers are regularly monitored by the Group. In respect of other receivables, individual credit evaluations are performed on all counterparties requiring credit over a certain amount. These evaluations focus on the counterparties' past history of making payments when due and current ability to pay, and take into account information specific to the counterparties as well as the economic environment in which the counterparties operates.

Credit risk relating to amounts due from related parties and other operators is not considered to be significant as these companies are reputable and their receivables are settled on a regular basis.

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(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funds including the raising of bank loans and issuance of commercial papers, promissory notes, corporate bonds and convertible bonds. Due to the dynamic nature of the underlying business, the Group's finance department at its headquarter maintains flexibility in funding through having adequate amount of cash and cash equivalents and utilising different sources of financing when necessary.

The following tables show the undiscounted balances of the financial liabilities (including interest expense) categorised by time from the end of the period under review to the contractual maturity date:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Carrying amounts
At 31 December 2015					
Long-term bank loans	109	114	387	1,964	1,832
Corporate bonds	90	2,039	–	–	2,000
Promissory notes	4,071	20,082	18,443	–	39,427
Other obligations	2,816	285	17	66	3,154
Accounts payable and accrued liabilities	167,396	–	–	–	167,396
Amounts due to related parties	3,930	–	–	–	3,930
Amounts due to ultimate holding company	1,470	–	–	–	1,437
Amounts due to domestic carriers	1,300	–	–	–	1,300
Commercial papers	20,482	–	–	–	19,945
Short-term bank loans	85,095	–	–	–	83,852
	286,759	22,520	18,847	2,030	324,273
At 31 December 2014					
Long-term bank loans	49	45	142	246	465
Corporate bonds	90	90	2,039	–	2,000
Promissory notes	975	3,433	19,445	–	21,460
Other obligations	2,706	89	69	65	2,915
Accounts payable and accrued liabilities	120,371	–	–	–	120,371
Amounts due to related parties	3,548	–	–	–	3,542
Amounts due to ultimate holding company	1,655	–	–	–	1,622
Amounts due to domestic carriers	1,402	–	–	–	1,402
Convertible bonds	11,319	–	–	–	11,167
Commercial papers	10,243	–	–	–	9,979
Short-term bank loans	92,889	–	–	–	91,503
	245,247	3,657	21,695	311	266,426

Regarding the Group's use of the going concern basis for the preparation of its financial statements, please refer to Note 2.2(b) for details.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.
- To support the Group's stability and growth.
- To provide capital for the purpose of strengthening the Group's risk management capability.

In order to maintain or adjust the capital structure, the Group reviews and manages its capital structure actively and regularly to ensure optimal capital structure and shareholder returns, taking into account the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital on the basis of the debt-to-capitalisation ratio. This ratio is calculated as interest-bearing debts over interest-bearing debts plus total equity. Interest-bearing debts represent commercial papers, short-term bank loans, long-term bank loans, promissory notes, convertible bonds, corporate bonds, obligations under finance lease, and certain amounts due to ultimate holding company and related parties, as shown in the consolidated statement of financial position. Total equity represents equity attributable to equity shareholders of the Company as shown in the consolidated statement of financial position.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.2 Capital risk management (Continued)

The Group's debt-to-capitalisation ratios are as follows:

	2015	2014
Interest-bearing debts:		
– Commercial papers	19,945	9,979
– Short-term bank loans	83,852	91,503
– Long-term bank loans	1,748	420
– Promissory notes	36,928	21,460
– Convertible bonds	–	11,167
– Corporate bonds	2,000	2,000
– Obligations under finance lease included in other obligations	268	118
– Amounts due to related parties	–	473
– Amounts due to ultimate holding company	1,344	1,344
– Current portion of long-term bank loans	84	45
– Current portion of promissory notes	2,499	–
– Current portion of obligations under finance lease	274	168
	148,942	138,677
Total equity:		
– Equity attributable to equity shareholders of the Company	231,216	227,541
Interest-bearing debts plus total equity	380,158	366,218
Debt-to-capitalisation ratio	39.2%	37.9%

The increase in debt-to-capitalisation ratio during 2015 resulted primarily from the increase in interest-bearing debts.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.3 Fair value estimation

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, accounts receivable, receivable for the sales of mobile handsets, amounts due from related parties and domestic carriers. Financial liabilities of the Group mainly include accounts payable and accrued liabilities, short-term bank loans, commercial papers, corporate bonds, promissory notes, long-term bank loans, convertible bonds, other obligations and amounts due to ultimate holding company, related parties and domestic carriers.

(a) Financial assets and liabilities measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 valuation: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuation: observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs for which market data are not available
- Level 3 valuation: fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value at 31 December 2015:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	4,829	–	–	4,829
– Unlisted	–	–	23	23
	4,829	–	23	4,852
Financial assets at fair value through profit and loss				
– Equity securities				
– Unlisted	–	–	106	106
Total	4,829	–	129	4,958

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

The following table presents the Group's assets that are measured at fair value at 31 December 2014:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	5,879	–	–	5,879
– Unlisted	–	–	23	23
	5,879	–	23	5,902
Prepayments and other current assets				
– Equity securities				
– Listed	13	–	–	13
Total	5,892	–	23	5,915

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1 and comprise primarily equity securities of Telefónica which are classified as financial assets at fair value through other comprehensive income.

During the years ended 31 December 2015 and 2014, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

3.3 Fair value estimation (Continued)

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2015 and 2014. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amount as at 31 December 2015	Fair value as at 31 December 2015	Fair value measurement as at 31 December 2015 categorised into			Carrying amount as at 31 December 2014	Fair value as at 31 December 2014
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	1,748	1,752	–	–	1,752	420	392
Non-current portion of promissory notes	36,928	38,141	–	–	38,141	21,460	21,924
Corporate bonds	2,000	2,111	–	–	2,111	2,000	2,045
Convertible bonds	–	–	–	–	–	11,167	11,183

The fair value of the non-current portion of long-term bank loans is based on cash flows discounted using rates based on the market rates ranging from 1.81% to 4.08% (2014: 2.34% to 3.23%) per annum.

The fair value of the Group's non-current portion of promissory notes is computed based on the expected cash flows of principal and interests payment discounted at market rates ranging from 2.84% to 5.62% (2014: 4.04% to 4.60%) per annum.

The fair value of the corporate bonds is based on cash flows discounted using rates based on the market rate of 2.35% (2014: 4.60%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 31 December 2015 and 2014 due to the nature or short maturity of those instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Depreciation on property, plant and equipment

Depreciation on the Group's property, plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. The Group reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. The Group estimates the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

4.2 Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.12. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

4.3 Write-down of inventories

The net realisable value of inventories is under management's regular review, and as a result, write-down of inventories is recognised for the excess of inventories' carrying amounts over their net realisable value. When making estimates of net realisable value, the Group takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Group's historical operating costs. The actual selling price of the inventories, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product saleability, manufacturing technology and the actual use of the inventories, resulting in the changes in write-down of inventories. The net profit or loss may then be affected in the period when the write-down of inventories is adjusted.

4.4 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 aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, additional allowance may be required.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.5 Subscriber points reward program

The fair value of subscriber points reward is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each statement of financial position date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

4.6 Income tax and deferred taxation

The Group estimates its income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which it is entitled in each location or jurisdiction in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, and allowance for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to approximately RMB5,642 million as at 31 December 2015 (2014: approximately RMB6,215 million). Deferred tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

The Group believes it has recorded adequate current tax provision and deferred taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxation may be necessary which would impact the Group's results or financial position.

5. SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the CODM. Operating segments are identified on the basis of internal reports that the CODM reviews regularly in allocating resources to segments and in assessing their performances.

The CODM make resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group primarily operates in Mainland China and accordingly, no geographic information is presented. No single external customer accounted for 10 percent or more of the Group's revenue in all periods presented.

(All amounts in RMB millions unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2015 and 2014 are as follows:

	2015					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	68,768	882,834	19,108	4,429	58,739	1,033,878
Additions	253	1,494	503	344	131,005	133,599
Transfer from CIP	2,859	78,812	912	586	(83,169)	–
Transfer to other assets	–	–	–	–	(6,000)	(6,000)
Disposals	(77)	(54,410)	(853)	(433)	(76)	(55,849)
Disposal of the Group's Tower Assets to Tower Company	(8,834)	(69,735)	(206)	(1,048)	(2,898)	(82,721)
End of year	62,969	838,995	19,464	3,878	97,601	1,022,907
Accumulated depreciation and impairment:						
Beginning of year	(27,339)	(552,294)	(13,411)	(2,339)	(174)	(595,557)
Charge for the year	(3,152)	(63,734)	(1,577)	(901)	–	(69,364)
Impairment loss	–	(22)	–	–	(7)	(29)
Disposals	56	50,231	798	424	76	51,585
Disposal of the Group's Tower Assets to Tower Company	3,823	40,575	131	560	–	45,089
End of year	(26,612)	(525,244)	(14,059)	(2,256)	(105)	(568,276)
Net book value:						
End of year	36,357	313,751	5,405	1,622	97,496	454,631
Beginning of year	41,429	330,540	5,697	2,090	58,565	438,321

(All amounts in RMB millions unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2014					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	64,915	848,445	18,669	3,930	59,096	995,055
Additions	108	184	350	336	82,263	83,241
Transfer from CIP	3,848	72,445	1,004	614	(77,911)	–
Transfer to other assets	–	–	–	–	(4,704)	(4,704)
Disposals	(103)	(38,240)	(915)	(451)	(5)	(39,714)
End of year	68,768	882,834	19,108	4,429	58,739	1,033,878
Accumulated depreciation and impairment:						
Beginning of year	(24,241)	(524,392)	(12,704)	(1,969)	(124)	(563,430)
Charge for the year	(3,193)	(64,407)	(1,587)	(818)	–	(70,005)
Impairment loss	–	(10)	–	–	(55)	(65)
Disposals	95	36,515	880	448	5	37,943
End of year	(27,339)	(552,294)	(13,411)	(2,339)	(174)	(595,557)
Net book value:						
End of year	41,429	330,540	5,697	2,090	58,565	438,321
Beginning of year	40,674	324,053	5,965	1,961	58,972	431,625

As at 31 December 2015, the net book value of assets held under finance leases was approximately RMB532 million (2014: approximately RMB368 million).

For the year ended 31 December 2015, interest expense of approximately RMB936 million (2014: approximately RMB825 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.40% to 4.33% for the year ended 31 December 2015 (2014: 3.72% to 4.30%).

For the year ended 31 December 2015, the Group recognised a net gain on disposal of property, plant and equipment of approximately RMB7,280 million (2014: a loss of approximately RMB1,064 million), including the gain on the Group's Tower Assets Disposal of approximately RMB9,246 million.

(All amounts in RMB millions unless otherwise stated)

7. LEASE PREPAYMENTS

The Group's long-term prepayment for land use rights represents prepaid operating lease payments for land use rights. The movement of lease prepayments for the years ended 31 December 2015 and 2014 are as follows:

	2015	2014
Beginning of the year	**9,211**	8,038
Addition	**296**	1,472
Amortisation	**(359)**	(299)
End of the year	**9,148**	9,211

8. GOODWILL

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Group in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group's shares of the fair values of the separately identifiable net assets acquired.

Goodwill is allocated to the Group's cash-generating units ("CGU"). The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, including service revenue annual growth rate of 1.5% and the applicable discount rate of 10%. Management determined expected growth rates and operating results based on past performance and its expectations in relation to market developments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2015 and 2014 and no reasonable change to the assumptions would lead to an impairment charge.

(All amounts in RMB millions unless otherwise stated)

9. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (2014: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2014: 15%).

	2015	2014
Provision for income tax on the estimated taxable profits for the year		
– Hong Kong	23	29
– Mainland China and other countries	3,990	3,201
Adjustments to prior years' current tax for Mainland China	16	(19)
	4,029	3,211
Deferred taxation	(556)	665
Income tax expenses	3,473	3,876

Reconciliation between applicable statutory tax rate and the effective tax rate:

	2015	2014
Applicable PRC statutory tax rate	25.0%	25.0%
Non-deductible expenses	1.2%	0.6%
Effect of withholding income tax for interest receivable from inter-company loans	0.2%	0.2%
Deductible tax losses not recognised in prior years/adjustments to prior years' current tax	(0.4%)	(0.1%)
Impact of different tax rate	(0.8%)	(0.6%)
Others	(0.5%)	(0.8%)
Effective tax rate	24.7%	24.3%

(All amounts in RMB millions unless otherwise stated)

9. TAXATION (Continued)

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

	2015	2014
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	3,682	4,045
– Deferred tax asset to be recovered within 12 months	2,985	3,212
	6,667	7,257
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(851)	(899)
– Deferred tax liabilities to be settled within 12 months	(174)	(143)
	(1,025)	(1,042)
Net deferred tax assets after offsetting	5,642	6,215
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(18)	(17)
– Deferred tax liabilities to be settled within 12 months	–	–
	(18)	(17)
Net deferred tax liabilities after offsetting	(18)	(17)

The movement of the net deferred tax assets/liabilities is as follows:

	2015	2014
Net deferred tax assets after offsetting:		
– Beginning of year	6,215	6,734
– Deferred tax credited/(charged) to the statement of income	557	(674)
– Deferred tax (charged)/credited to other comprehensive income	(1,130)	155
– End of year	5,642	6,215
Net deferred tax liabilities after offsetting:		
– Beginning of year	(17)	(26)
– Deferred tax (charged)/credited to the statement of income	(1)	9
– End of year	(18)	(17)

(All amounts in RMB millions unless otherwise stated)

9. TAXATION (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:	Allowance for doubtful debts	Payroll and contributions to defined contribution pension schemes accrued but not paid	Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations (Note (i))	Accruals of expenses not yet deductible for tax purpose	Changes in fair value on financial assets through other comprehensive income	Unrealised profit from the transactions with Tower Company	Others	Total
At 1 January 2014	1,167	432	1,619	1,087	1,267	–	1,510	7,082
Credited/(charged) to the statement of income	128	448	(63)	(254)	–	–	(258)	1
Credited to other comprehensive income	–	–	–	–	174	–	–	174
At 31 December 2014	1,295	880	1,556	833	1,441	–	1,252	7,257
Credited/(charged) to the statement of income	136	(678)	(52)	388	–	877	181	852
Charged to other comprehensive income	–	–	–	–	(1,441)	–	(1)	(1,442)
At 31 December 2015	1,431	202	1,504	1,221	–	877	1,432	6,667

Deferred tax liabilities:	Capitalised interest already deducted for tax purpose	Realised gain on changes in fair value of derivative financial instrument in 2009	Changes in fair value on financial assets through other comprehensive income	Accelerated depreciation of property, plant and equipment (Note (ii))	Others	Total
At 1 January 2014	(21)	(310)	(12)	–	(31)	(374)
Credit/(charged) to the statement of income	21	–	–	(696)	9	(666)
Charged to other comprehensive income	–	–	(19)	–	–	(19)
At 31 December 2014	–	(310)	(31)	(696)	(22)	(1,059)
Charged to the statement of income	–	–	–	(296)	–	(296)
Credited to other comprehensive income	–	310	2	–	–	312
At 31 December 2015	–	–	(29)	(992)	(22)	(1,043)

(All amounts in RMB millions unless otherwise stated)

9. TAXATION (Continued)

Deferred taxation as at year-end represents the taxation effect of the following temporary differences, taking into consideration the offsetting of balances related to the same tax authority:

	Note	2015	2014
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Allowance for doubtful debts		1,431	1,295
Impairment loss on property, plant and equipment		17	25
Write-down of inventories		41	58
Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(i)	1,504	1,556
Accruals of expenses not yet deductible for tax purpose		1,221	833
Deferred revenue on subscriber points reward program		146	135
Unrealised profit for the inter-company transactions		260	293
Changes in fair value on financial assets through other comprehensive income		–	1,441
Payroll and contributions to defined contribution pension schemes accrued but not paid		202	880
Unrealised profit from the transactions with Tower Company		877	–
Government grants related to assets		138	115
Intangible assets amortisation difference		321	269
Others		509	357
		6,667	7,257
Deferred tax liabilities:			
Realised gain on changes in fair value of derivative financial instrument in 2009		–	(310)
Changes in fair value on financial assets through other comprehensive income		(29)	(31)
Accelerated depreciation of property, plant and equipment	(ii)	(992)	(696)
Others		(4)	(5)
		(1,025)	(1,042)
		5,642	6,215
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(18)	(17)
		(18)	(17)

(All amounts in RMB millions unless otherwise stated)

9. TAXATION (Continued)

Deferred taxation as at year-end represents the taxation effect of the following temporary differences, taking into consideration the offsetting of balances related to the same tax authority: (Continued)

(i) The prepayments for the leasehold land were revalued for PRC tax purposes as at 31 December 2003 and 2004. However, the resulting revaluations of the prepayments for the leasehold land were not recognised under IFRSs/HKFRSs. Accordingly, deferred tax assets were recorded by the Group under IFRSs/HKFRSs.

(ii) According to "Announcement on Enterprise Income Tax Policy for Those Enterprise Involved in the Accelerated Depreciation of Property, Plant and Equipment" (Caishui [2014] No. 75) issued by the MOF and the state Administration of Taxation ("SAT") of the PRC, starting from 2014, the Group's property, plant and equipment that comply with this tax policy are allowed to be depreciated under the accelerated depreciation method, or fully deducted for tax purpose in the year of purchase. Temporary differences arise from the different useful life under tax basis and accounting basis have been recorded as deferred tax liabilities.

As at 31 December 2015, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB2,802 million (2014: approximately RMB2,741 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired by 2020. The Group did not recognise (i) deferred tax assets of RMB1,131 million that was previously recognised in prior year and (ii) deferred tax assets of RMB260 million for current year in respect of changes in fair value on financial assets through other comprehensive income, since it is no longer probable that the related tax benefit will be realised.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2015	2014
Listed in the PRC	**164**	173
Listed outside the PRC	**4,665**	5,706
Unlisted	**23**	23
	4,852	5,902

For the year ended 31 December 2015, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB1,050 million (2014: decrease of approximately RMB619 million). The decrease, together with tax impact, of approximately RMB2,179 million (2014: decrease, net of tax impact, of approximately RMB464 million) has been recorded in the consolidated statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

11. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2015, the details of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
CUCL	The PRC, 21 April 2000, limited liability company	100%	–	RMB138,091,677,828	Telecommunications operation in the PRC
China Unicom Global Limited	Hong Kong, 29 May 2015, limited company	100%	–	10,000 shares	Investment holding
China Unicom (Europe) Operations Limited	The United Kingdom, 8 November 2006, limited company	100%	–	4,861,000 shares, GBP1 each	Telecommunications operation in the United Kingdom
China Unicom (Japan) Operations Corporation	Japan, 25 January 2007, limited company	100%	–	1,000 shares, JPY366,000 each	Telecommunications operation in Japan
China Unicom (Singapore) Operations Pte Limited	Singapore, 5 August 2009, limited company	100%	–	1 share, USD1 each and 30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
Billion Express Investments Limited ("Billion Express")	British Virgin Islands, 15 August 2007, limited company	100%	–	2 shares, USD1 each	Investment holding and financing subsidiary of the Company
China Unicom (South Africa) Operations (Pty) Limited	South Africa, 19 November 2012, limited liability company	100%	–	Not applicable	Dormant
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar ("Myanmar"), 7 June 2013, limited liability company	99%	1%	650,000 shares, USD1 each	Communications technology training in Myanmar
China Unicom (Australia) Operations Pty Limited	Australia, 27 May 2014, limited liability company	100%	–	4,350,000 shares, AUD 1 each	Telecommunications operation in Australia

(All amounts in RMB millions unless otherwise stated)

11. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom (Hong Kong) Operations Limited	Hong Kong, 24 May 2000, limited company	–	100%	60,100,000 shares	Telecommunications service in Hong Kong
China Unicom (Americas) Operations Limited	USA, 24 May 2002, limited company	–	100%	5,000 shares, USD100 each	Telecommunications service in the USA
Unicom Vsens Telecommunications Company Limited	The PRC, 19 August 2008, limited liability company	–	100%	RMB500,000,000	Sales of handsets, telecommunications equipment and provision of technical services in the PRC
China Unicom System Integration Limited Corporation	The PRC, 30 April 2006, limited liability company	–	100%	RMB550,000,000	Provision of information communications technology services in the PRC
China Unicom Broadband Online Limited Corporation	The PRC, 29 March 2006, limited liability company	–	100%	RMB100,000,000	Provision of internet information services and value-added telecommunications services in the PRC
Beijing Telecommunications Planning and Designing Institute Corporation Limited	The PRC, 25 April 1996, limited liability company	–	100%	RMB264,227,115	Provision of telecommunications network construction, planning and technical consulting services in the PRC
China Information Technology Designing & Consulting Institute Company Limited	The PRC, 11 November 1991, limited liability company	–	100%	RMB430,000,000	Provision of consultancy, survey, design and contract services relating to information projects and construction projects in the telecommunications industry in the PRC

(All amounts in RMB millions unless otherwise stated)

11. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom Xingye Communications Technology Company Limited	The PRC, 30 October 2000, limited liability company	–	100%	RMB30,000,000	Provision of technical support, manufacturing, research and design services for SIM/ USIM cards and other telecommunications cards in the PRC
China Unicom Information Navigation Company Limited	The PRC, 17 September 1998, limited liability company	–	100%	RMB6,825,087,800	Provision of customer services in the PRC
Huaxia P&T Project Consultation and Management Company Limited	The PRC, 5 March 1998, limited liability company	–	100%	RMB30,000,000	Provision of project consultation and management service in the PRC
Zhengzhou Kaicheng Industrial Company Limited	The PRC, 21 December 2005, limited liability company	–	100%	RMB2,200,000	Provision of property management services in the PRC
Unicompay Company Limited	The PRC, 11 April 2011, limited liability company	–	100%	RMB250,000,000	Provision of e-payment services in the PRC
China United Network Communications Beijing NewSpace Infinite Media Advertising Limited Corporation	The PRC, 21 July 2006, limited liability company	–	100%	RMB100,000	Provision of advertising design, production, agency and publication in the PRC
Designing Techniques of Posts and Telecommunications Magazine Office Company Limited	The PRC, 15 December 2011, limited liability company	–	100%	RMB300,000	Provision of magazine publishing services in the PRC
Unicom New Horizon Telecommunications Company Limited	The PRC, 14 February 2001, limited liability company	–	100%	RMB40,233,739,557	Provision of lease service of telecommunications networks in the PRC

(All amounts in RMB millions unless otherwise stated)

11. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom Cloud Data Company Limited	The PRC, 4 June 2013, limited liability company	–	100%	RMB2,132,023,616	Provision of technology development, transfer and consulting service in the PRC
Unicom Innovation Investment Company Limited	The PRC, 29 April 2014, limited liability company	–	100%	RMB200,000,000	Venture capital investment business in the PRC
Wostore Technology Company Limited	The PRC, 24 October 2014, limited liability company	–	100%	RMB200,000,000	Communications technology development and promotion in the PRC
China Unicom Smart Connection Technology Company Limited	The PRC, 7 August 2015, limited liability company	–	100%	RMB100,000,000	Auto informatisation in the PRC

12. INTEREST IN ASSOCIATES

	2015	2014
Share of net assets	31,997	3,037

(All amounts in RMB millions unless otherwise stated)

12. INTEREST IN ASSOCIATES (Continued)

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
Tower Company	Incorporated	The PRC	28.1%	RMB129,344,615,024	Construction, maintenance and operation of communications towers in the PRC (Note 1)
Guang Lian Shi Tong New Media Limited	Incorporated	The PRC	49%	RMB51,020,408	Provision of mobile audio visual programs integrated broadcasting services in the PRC
China Unicom Innovation Investment Company (Shanghai) Limited ("Innovation Investment Company")	Incorporated	The PRC	62.5%	RMB40,000,000	Venture capital investment business in the PRC (Note i)
Shanghai Wo Huang Information Technology Company Limited	Incorporated	The PRC	30%	RMB10,000,000	Information technology development and consulting in the PRC
Shanghai Wo Orange Information Technology Company Limited	Incorporated	The PRC	48%	RMB10,000,000	Digital technology, computer systems technology development and consulting in the PRC

(i) The Group has significant influence on Innovation Investment Company and not control over or joint control over its management, including participation in the financial and operating policy decisions. A subsidiary of the Company owns 40% of the voting rights of Innovation Investment Company.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

(All amounts in RMB millions unless otherwise stated)

12. INTEREST IN ASSOCIATES (Continued)

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	Tower Company	
	2015	2014
Current assets	**38,586**	9,676
Non-current assets	**231,793**	454
Current liabilities	**(47,717)**	(244)
Non-current liabilities	**(96,535)**	–
Equity	**(126,127)**	(9,886)
Revenue	**10,325**	–
Loss for the year	**(2,944)**	(114)
Total comprehensive income for the year	**(2,944)**	(114)
Reconciled to the Group's interests in the associate:		
Net assets of the associate	**126,127**	9,886
Group's effective interest	**28.1%**	30.1%
	35,442	2,976
Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal	**(3,506)**	–
Carrying amount in the consolidated financial statements	**31,936**	2,976

13. OTHER ASSETS

	Note	**2015**	2014
Purchased software		**10,714**	9,100
Prepaid rental for premises, leased lines and electricity cables		**4,071**	6,927
Installation costs		**478**	663
Direct incremental costs for activating broadband subscribers		**7,340**	3,762
Others	(i)	**2,732**	2,589
		25,335	23,041

(i) The amount includes the receivables from the sales of mobile handset that are gradually recovered over one year during the contract period. Receivables to be gradually recovered within one year is included in prepayments and other current assets (see Note 16(i)).

(All amounts in RMB millions unless otherwise stated)

14. INVENTORIES AND CONSUMABLES

	2015	2014
Handsets and other customer end products	3,453	3,656
Telephone cards	185	237
Consumables	188	350
Others	120	135
	3,946	4,378

15. ACCOUNTS RECEIVABLE

	2015	2014
Accounts receivable	19,867	19,135
Less: Allowance for doubtful debts	(4,910)	(4,464)
	14,957	14,671

The aging analysis of accounts receivable is based on the billing date as follows:

	2015	2014
Current and within one month	11,679	11,447
More than one month to three months	1,805	1,738
More than three months to one year	3,417	3,258
More than one year	2,966	2,692
	19,867	19,135

The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year.

There is no significant concentration of credit risk with respect to customer receivables, as the Group has a large number of customers.

As at 31 December 2015, accounts receivable of approximately RMB3,278 million (2014: approximately RMB3,224 million) were past due but not impaired. Such overdue amounts can be recovered based on past experience. The aging analysis of these receivables is as follows:

	2015	2014
More than one month to three months	1,805	1,738
More than three months to one year	655	754
More than one year	818	732
	3,278	3,224

(All amounts in RMB millions unless otherwise stated)

15. ACCOUNTS RECEIVABLE (Continued)

As at 31 December 2015, accounts receivable of approximately RMB4,910 million (2014: approximately RMB4,464 million) were impaired. The Group makes such allowance based on its past experience, historical collection patterns, subscribers' creditworthiness and collection trends. The Group makes a full allowance for receivables aged over 3 months after the credit period for individual subscribers unless they meet certain specified credit assessment criteria. The individually impaired receivables mainly relate to subscriber service fees. The aging of these receivables is as follows:

	2015	2014
More than three months to one year	2,762	2,504
More than one year	2,148	1,960
	4,910	4,464

Allowance for doubtful debts is analysed as follows:

	2015	2014
Balance, beginning of year	4,464	4,291
Allowance for the year	3,365	3,098
Written-off during the year	(2,919)	(2,925)
Balance, end of year	4,910	4,464

The creation and release of allowance for impaired receivables have been recognised in the statement of income. Amounts charged to the allowance account are generally written-off when there is reliable evidence to indicate no expectation of recovering the receivable.

The maximum exposure to credit risk as at the statement of financial position date is the carrying value of accounts receivable mentioned above. The Group does not hold any collateral as security.

16. PREPAYMENTS AND OTHER CURRENT ASSETS

The nature of prepayments and other current assets, net of allowance for doubtful debts, are as follows:

	Note	2015	2014
Receivable for the sales of mobile handsets	(i)	2,328	2,846
Prepaid rental		2,098	2,639
Deposits and prepayments		1,824	1,857
Advances to employees		50	161
Value-added tax recoverable	(ii)	3,125	920
Prepaid enterprise income tax		33	342
Others		1,406	1,264
		10,864	10,029

(All amounts in RMB millions unless otherwise stated)

16. PREPAYMENTS AND OTHER CURRENT ASSETS (Continued)

(i) The Group offers preferential packages to the customers which include the bundle sales of mobile handsets and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. For those contractual preferential packages with guarantees by third parties, the revenue relating to the sale of the handsets is recognised when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handsets. The receivable for the sales of mobile handsets is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered over one year amounted to RMB1,273 million (2014: RMB1,195 million), and are included in long-term other assets (see Note 13(i)).

(ii) Pursuant to the Cai Shui [2014] No. 43 issued by MOF and SAT of the PRC, pilot programme regarding the replacement of business tax with value-added tax ("VAT") implemented nationwide for the telecommunications industry from 1 June 2014 (see Note 29). VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

The aging analysis of prepayments and other current assets is as follows:

	2015	2014
Within one year	10,700	9,866
More than one year	164	163
	10,864	10,029

As at 31 December 2015, there was no significant impairment for the prepayments and other current assets.

17. SHORT-TERM BANK DEPOSITS

	2015	2014
Bank deposits with maturity exceeding three months	32	30
Restricted bank deposits	170	26
	202	56

As at 31 December 2015, restricted bank deposits primarily represented deposits that were subject to externally imposed restrictions as requested by contractors in relation to payables owed to the contractors.

18. CASH AND CASH EQUIVALENTS

	2015	2014
Cash at bank and in hand	21,460	23,791
Bank deposits with original maturities of three months or less	295	1,517
	21,755	25,308

(All amounts in RMB millions unless otherwise stated)

19. SHARE CAPITAL

Issued and fully paid:	Number of shares millions	Share capital	Share premium	Capital redemption reserve	Total
At 1 January 2014	23,782	2,328	175,204	79	177,611
Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance (Note 37)	2	–	19	–	19
Transition to no-par value regime on 3 March 2014	–	175,302	(175,223)	(79)	–
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37)	163	1,471	–	–	1,471
At 31 December 2014	23,947	179,101	–	–	179,101
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37)	–	1	–	–	1
At 31 December 2015	**23,947**	**179,102**	**–**	**–**	**179,102**

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance occurred automatically on 3 March 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the new Hong Kong Companies Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been in accordance with the requirements of Parts 4 and 5 of the new Hong Kong Companies Ordinance.

(All amounts in RMB millions unless otherwise stated)

20. RESERVES

(a) Movements in components of equity

The Company

	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Convertible bonds reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2014	2,328	175,204	79	670	(3,797)	572	–	7,537	182,593
Total comprehensive income for the year	–	–	–	–	(520)	–	–	5,465	4,945
Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance:									
– Issuance of shares upon exercise of options	–	19	–	(7)	–	–	–	–	12
Transition to no-par value regime on 3 March 2014	175,302	(175,223)	(79)	–	–	–	–	–	–
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:									
– Issuance of shares upon exercise of options	1,471	–	–	(612)	–	–	–	–	859
– Transfer between reserves upon lapsing of options	–	–	–	(22)	–	–	–	22	–
Dividends relating to 2013 (Note 38)	–	–	–	–	–	–	–	(3,806)	(3,806)
Balance at 31 December 2014	179,101	–	–	29	(4,317)	572	–	9,218	184,603
Total comprehensive income for the year	–	–	–	–	(2,172)	–	–	5,612	3,440
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:									
– Issuance of shares upon exercise of options	1	–	–	–	–	–	–	–	1
– Transfer between reserves upon lapsing of options	–	–	–	(29)	–	–	–	29	–
Redemption of convertible bonds	–	–	–	–	–	(572)	572	–	–
Dividends relating to 2014 (Note 38)	–	–	–	–	–	–	–	(4,789)	(4,789)
Balance at 31 December 2015	179,102	–	–	–	(6,489)	–	572	10,070	183,255

20. RESERVES (Continued)

(b) Nature and purpose

(i) Statutory reserves

CUCL is registered as a foreign investment enterprise in the PRC. In accordance with the Articles of Association, it is required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from profit after tax and non-controlling interests but before dividend distribution.

CUCL is required to allocate at least 10% of its profit after tax and non-controlling interests determined under the PRC Company Law to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon approval obtained from the relevant authority, to offset accumulated losses or increase capital.

Accordingly, CUCL appropriated approximately RMB874 million (2014: approximately RMB1,166 million) to the general reserve fund for the year ended 31 December 2015.

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRSs/HKFRSs, the appropriations to the staff bonus and welfare fund are charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2015 and 2014, no appropriation to staff bonus and welfare fund has been made by CUCL.

According to the PRC tax approval document issued by the MOF and SAT, the upfront connection fees were not subject to the PRC enterprise income tax and an amount equal to the upfront connection fees recognised in the retained profits had been transferred from retained profits to the statutory reserve. As at 31 December 2011, an accumulated appropriation of approximately RMB12,289 million was made to the statutory reserve and no more upfront connection fees are recognised afterwards.

(ii) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of share options granted to employees of the Group that are recognised in accordance with the accounting policy in Note 2.22(e).

20. RESERVES (Continued)

(b) Nature and purpose (Continued)

(iii) Investment revaluation reserve

The investment revaluation reserve represents the changes in fair value of financial assets through other comprehensive income, net of tax, until the financial assets are derecognised.

(iv) Convertible bonds reserve

The convertible bonds reserve represents the equity component of the convertible bonds at initial recognition. When the convertible bonds is redeemed, the convertible bonds reserve is released directly to other reserve.

(v) Other reserve

Other reserve mainly represents the difference between the consideration and the net assets value for business combination of entities and businesses under common control and the effect of CUCL's capitalisation of retained profits.

(c) Profit attributable to equity shareholders of the Company

For the year ended 31 December 2015, profit attributable to equity shareholders of the Company included a profit of approximately RMB5,612 million (2014: approximately RMB5,465 million), which has been dealt with in the financial statements of the Company. As at 31 December 2015, the amount of profit distributable to equity shareholders of the Company amounted to approximately RMB4,153 million (2014: approximately RMB4,930 million).

(All amounts in RMB millions unless otherwise stated)

21. LONG-TERM BANK LOANS

	Interest rates and final maturity	2015	2014
RMB denominated bank loans	Fixed interest rates ranging from 4.22% to 4.67% (2014: Nil) per annum with maturity through 2030 (2014: Nil)	1,399	–
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.00% (2014: Nil to 5.00%) per annum with maturity through 2039 (2014: maturity through 2039)	325	330
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2014: 1.10% to 2.50%) per annum with maturity through 2034 (2014: maturity through 2034)	108	135
Sub-total		1,832	465
Less: Current portion		(84)	(45)
		1,748	420

As at 31 December 2015, long-term bank loans of approximately RMB88 million (31 December 2014: approximately RMB90 million) were guaranteed by third parties.

The repayment schedule of the long-term bank loans is as follows:

	2015	2014
Balances due:		
– not later than one year	84	45
– later than one year and not later than two years	88	41
– later than two years and not later than five years	302	136
– later than five years	1,358	243
	1,832	465
Less: Portion classified as current liabilities	(84)	(45)
	1,748	420

22. PROMISSORY NOTES

On 3 April 2014, the Company established a Medium Term Note Programme (the "MTN Programme"), under which the Company could offer and issue notes of aggregate principal amount of up to RMB10 billion. Notes under the MTN Programme will be denominated in RMB and are to be issued to professional investors outside the United States. On 16 April 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB4 billion pursuant to the MTN Programme, with a maturity of 3 years and at an interest rate of 4.00% per annum. On 24 July 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB2.5 billion with a maturity period of 2 years and at an interest rate of 3.80% per annum.

On 16 April 2014, CUCL issued tranche one of 2014 promissory notes in the amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interests at 5.35% per annum.

On 14 July 2014, CUCL issued tranche two of 2014 promissory notes in an amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interest at 4.84% per annum.

On 28 November 2014, CUCL issued tranche three of 2014 promissory notes in an amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interest at 4.20% per annum.

On 15 June 2015, CUCL issued tranche one of 2015 promissory notes in an amount of RMB4 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.85% per annum.

On 18 June 2015, CUCL issued tranche two of 2015 promissory notes in an amount of RMB4 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.85% per annum.

On 30 November 2015, CUCL issued tranche three of 2015 promissory notes in an amount of RMB3.5 billion, tranche four of 2015 promissory notes in an amount of RMB3.5 billion and tranche five of 2015 promissory notes in an amount of RMB3 billion, all with a maturity period of 3 years from the date of issue and which carries interest at 3.30% per annum.

23. CONVERTIBLE BONDS

On 18 October 2010, Billion Express, a wholly-owned subsidiary of the Company, issued 0.75% guaranteed convertible bonds in an aggregate principal amount of USD1,838,800,000 (at the fixed exchange rate of USD1 equivalent to HKD7.7576) which are due in October 2015 at a redemption price of 100% of the principal amount. The bonds are guaranteed by the Company as to repayments, and are convertible into ordinary shares of the Company at an initial conversion price of HKD15.85 per share. The conversion price is subject to certain anti-dilution and change in control adjustments set out in the Trust Deed dated 18 October 2010. Adjustments have been made to the conversion price from HKD15.85 to HKD14.75 as a result of the dividends paid by the Company since the convertible bonds were issued. The bondholders may exercise conversion rights at any time on or after 28 November 2010 up to the close of business on 8 October 2015 or, if such convertible bonds shall have been called for redemption by the Company before 18 October 2015, then up to the close of business on a date no later than seven days prior to the date fixed for redemption thereof. Billion Express, would at the option of a bondholder, redeem all and not some only of such bondholder's convertible bonds on 18 October 2013, the date fixed for redemption, at their principal amount together with interest accrued and unpaid (the "Put Option"). The last day on which the bondholders may give notice to exercise the Put Option was 18 September 2013. As no bondholder gave notice to exercise the Put Option to require the redemption of their convertible bonds by 18 September 2013, such right expired on that date. In addition, on or at any time after 18 October 2013 and prior to 18 October 2015, Billion Express may redeem all and not some only of the convertible bonds for the time being outstanding at their principal amount together with interest accrued and unpaid to the date fixed for redemption.

On 18 October 2015, all convertible bonds were fully redeemed.

(All amounts in RMB millions unless otherwise stated)

23. CONVERTIBLE BONDS (Continued)

The fair value of the liability component, which was calculated using market interest rate for a bond with the same tenure but with no conversion features, was determined upon the issuance of the convertible bonds. The difference between the face value (net of direct issue costs) and the fair value of the liability component was credited to convertible bonds reserve under equity attributable to equity shareholders of the Company.

The convertible bonds recognised in the consolidated statement of financial position are calculated as follows:

	2015	2014
Movement of liability component:		
Beginning of year	11,167	11,002
Less: interest paid	(86)	(85)
Add: effect of exchange loss on liability component	411	39
Add: imputed finance cost	172	211
Less: redeemed during the year	(11,664)	–
End of year	–	11,167

The liability component of the convertible bonds at 31 December 2014 amounted to approximately USD1,825 million (equivalent to RMB11,167 million) and was calculated using cash flows discounted at a rate based on the borrowing rate of 1.90% per annum taking into the effect of direct issue costs.

24. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds were secured by a corporate guarantee granted by Bank of China Limited.

25. OTHER OBLIGATIONS

	Note	2015	2014
One-off cash housing subsidies	(a)	2,496	2,496
Obligations under finance lease	(b)	542	286
Others		116	133
Sub-total		3,154	2,915
Less: Current portion		(2,797)	(2,698)
		357	217

(All amounts in RMB millions unless otherwise stated)

25. OTHER OBLIGATIONS (Continued)

(a) One-off cash housing subsidies

Certain staff quarters, prior to 1998, were sold to certain of the Group's employees at preferential prices, subject to a number of eligibility requirements. In 1998, the State Council issued a circular which stipulated that the sale of quarters to employees at preferential prices should be terminated. In 2000, the State Council issued a further circular stating that cash subsidies should be made to certain eligible employees following the withdrawal of the allocation of staff quarters. However, the specific timetable and procedures for the implementation of these policies were to be determined by individual provincial or municipal governments based on the particular situation of the provinces or municipality.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who had not been allocated with quarters or who had not been allocated with quarters up to the prescribed standards before the discounted sales of quarters were terminated, the Group determined to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. Based on the available information, the Group estimated the required provision for these cash housing subsidies amounted to RMB4,142 million, which was charged to the statement of income for the year ended 31 December 2000 (the year in which the State Council circular in respect of cash subsidies was issued).

In January 2009, through the absorption of China Netcom (Group) Company Limited ("CNC China") by CUCL and the absorption of China Network Communications Group Corporation ("Netcom Group") by Unicom Group, the rights and obligations formerly undertaken by CNC China and Netcom Group were taken over by CUCL and Unicom Group separately. As at 31 December 2015, the Group's unpaid one-off cash housing subsides amounted to approximately RMB2,496 million. If the actual payments required for these one-off housing subsidies differ from the amount provided, Unicom Group will bear any additional payments required. If the actual payments are lower than the amount provided, the difference will be paid to Unicom Group.

(b) Obligations under finance lease

The obligations under finance lease represent the payables for the finance lease of telecommunications equipment. The lease payments under finance lease are analysed as follows:

	2015	2014
Total minimum lease payments under finance lease:		
– not later than one year	292	176
– later than one year and not later than two years	280	81
– later than two years and not later than three years	–	43
	572	300
Less: Future finance charges	(30)	(14)
Present value of minimum obligations	542	286
Representing obligations under finance lease:		
– current liabilities	274	168
– non-current liabilities	268	118

(All amounts in RMB millions unless otherwise stated)

26. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2015	2014
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 3.92% (2014:3.62% to 5.32%) per annum with maturity through 2016 (2014: maturity through 2015)	83,852	42,525
HKD denominated bank loans	Floating interest rate of HIBOR plus interest ranging from 0.70% to 2.10% per annum with maturity through 2015	–	48,978
Total		83,852	91,503

27. COMMERCIAL PAPERS

On 15 July 2014, CUCL issued tranche one of 2014 short term commercial papers in an amount of RMB10 billion, with a maturity period of 365 days from the date of issue and which carries interest at 4.60% per annum. The short term commercial papers were fully repaid in July 2015.

On 19 March 2015, CUCL issued tranche one of 2015 super and short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.40% per annum. The super and short term commercial papers were fully repaid in December 2015.

On 20 November 2015, CUCL issued tranche two of 2015 super and short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 3.15% per annum.

On 27 November 2015, CUCL issued tranche one of 2015 short term commercial papers in an amount of RMB10 billion, with a maturity period of 366 days from the date of issue and which carries interest at 3.15% per annum.

28. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Payables to contractors and equipment suppliers	131,202	85,699
Payables to telecommunications products suppliers	5,045	6,076
Customer/contractor deposits	4,564	4,129
Repair and maintenance expense payables	5,003	3,780
Salary and welfare payables	3,283	4,565
Interest payable	926	747
Amounts due to services providers/content providers	1,175	1,257
Accrued expenses	12,006	10,636
Others	4,192	3,482
	167,396	120,371

The aging analysis of payables and accrued liabilities is based on the invoice date as follows:

	2015	2014
Less than six months	146,336	104,334
Six months to one year	9,772	6,867
More than one year	11,288	9,170
	167,396	120,371

(All amounts in RMB millions unless otherwise stated)

29. REVENUE

Before 1 June 2014, service revenue and revenue from bundle sale of mobile handset were subject to a business tax rate of 3%-5% while standalone sales of telecommunications products was subject to VAT of 17%. Relevant tax was set off against revenue.

The MOF and SAT jointly issued a notice (the "Notice") dated 29 April 2014 pursuant to which the pilot programme regarding the replacement of business tax with VAT implemented nationwide for the telecommunications industry (the "VAT Reform") from 1 June 2014.

The Notice sets out the specific scope of taxable telecommunications services and tax rates applicable to various telecommunications services. The VAT rate for basic telecommunications services is 11%; the VAT rate for value-added telecommunications services is 6% and the VAT rate for sales of telecommunications products remains at 17%. Basic telecommunications services include business activities for the provision of voice services, as well as business activities in relation to rental or sales of bandwidth, wavelength and other network elements etc; value-added telecommunications services include business activities for the provision of Short Message Service and Multimedia Message Service, electronic data and information transmission and application services, Internet access service etc. VAT is excluded from the revenue.

The major components of revenue are as follows:

	2015	2014
Mobile service		
– Usage and monthly fees	45,901	62,152
– Value-added services revenue	83,529	79,814
– Interconnection fees	11,847	12,398
– Other mobile service revenue	1,343	731
Total service revenue from mobile service	142,620	155,095
Fixed-line service		
– Usage and monthly fees	11,130	14,357
– Broadband, data and other Internet-related services revenue	56,629	52,579
– Interconnection fees	3,667	3,979
– Value-added services revenue	5,132	4,324
– Leased line income	9,404	8,879
– Information communications technology services revenue	4,334	3,469
– Other fixed-line service revenue	965	894
Total service revenue from fixed-line service	91,261	88,481
Other service revenue	1,397	1,302
Total service revenue	235,278	244,878
Sales of telecommunications products	41,771	39,803
	277,049	284,681

30. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	2015	2014
Repairs and maintenance		13,178	13,619
Power and water charges		12,878	12,642
Operating lease charges for network, premises, equipment and facilities		11,867	10,274
Charges for the use of telecommunications towers and related assets	40.2(a)(ii)	2,926	–
Others		1,459	1,316
		42,308	37,851

31. EMPLOYEE BENEFIT EXPENSES

	2015	2014
Salaries and wages	26,057	26,249
Contributions to defined contribution pension schemes	5,057	4,721
Contributions to medical insurance	1,678	1,526
Contributions to housing fund	2,307	2,125
Other housing benefits	41	31
	35,140	34,652

31.1 Directors' emoluments

The remuneration of each Director for the year ended 31 December 2015 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Wang Xiaochu	(a)	–	64	134	34	232
Chang Xiaobing	(b)	–	127	267	63	457
Lu Yimin		–	190	388	98	676
Li Fushen		–	180	333	98	611
Zhang Junan	(d)	–	180	333	98	611
Cesareo Alierta Izuel		242	–	–	–	242
Cheung Wing Lam Linus		330	–	–	–	330
Wong Wai Ming		338	–	–	–	338
John Lawson Thornton	(e)	56	–	–	–	56
Chung Shui Ming Timpson		330	–	–	–	330
Cai Hongbin	(f)	311	–	–	–	311
Law Fan Chiu Fun, Fanny		298	–	–	–	298
Total		1,905	741	1,455	391	4,492

31. EMPLOYEE BENEFIT EXPENSES (Continued)

31.1 Directors' emoluments (Continued)

The remuneration of each Director for the year ended 31 December 2014 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Chang Xiaobing	(b)	–	300	688	88	1,076
Lu Yimin		–	300	625	88	1,013
Tong Jilu	(c)	–	151	309	53	513
Li Fushen		–	250	564	88	902
Zhang Junan	(d)	–	100	226	35	361
Cesareo Alierta Izuel		238	–	–	–	238
Cheung Wing Lam Linus		325	–	–	–	325
Wong Wai Ming		333	–	–	–	333
John Lawson Thornton	(e)	325	–	–	–	325
Chung Shui Ming Timpson		325	–	–	–	325
Cai Hongbin	(f)	341	–	–	–	341
Law Fan Chiu Fun, Fanny		293	–	–	–	293
Total		2,180	1,101	2,412	352	6,045

Notes:

(a) Mr. Wang Xiaochu was appointed as the chairman on 1 September 2015.

(b) Mr. Chang Xiaobing resigned as the chairman on 24 August 2015.

(c) Mr. Tong Jilu resigned as executive director on 8 August 2014.

(d) Mr. Zhang Junan was appointed as executive director on 8 August 2014.

(e) Mr. John Lawson Thomton resigned as an independent non-executive director on 4 March 2015.

(f) Mr. Cai Hongbin resigned as an independent non-executive director on 25 November 2015.

During 2015 and 2014, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2015 and 2014.

During 2015 and 2014, the Company did not incur any payment to any director for loss of office or as an inducement to any director to join the Company.

31. EMPLOYEE BENEFIT EXPENSES (Continued)

31.2 Senior management's emoluments

Of the 8 senior management of the Company for the year ended 31 December 2015, 5 of them are directors of the Company and their remuneration has been disclosed in Note 31.1. For the remuneration of the 8 senior management, all fall within the band from RMB Nil to RMB1,000,000.

31.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2015, five of them are staffs and four fall within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB1,500,001 to RMB2,000,000. (2014: three of them are directors of the Company and their remuneration has been disclosed in Note 31.1, for the remuneration of the remaining two, one falls within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB1,500,001 to RMB2,000,000.)

The aggregate of the emoluments in respect of the five (2014: the remaining two) individuals are as follows:

	2015 (RMB'000)	2014 (RMB'000)
Salaries and allowances	**3,308**	2,452
Bonuses paid and payable	**3,242**	397
Contributions to pension schemes	**345**	27
	6,895	2,876

32. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2015	2014
Handsets and other customer end products	**43,554**	42,707
Telephone cards	**364**	562
Others	**128**	128
	44,046	43,397

(All amounts in RMB millions unless otherwise stated)

33. OTHER OPERATING EXPENSES

	Note	2015	2014
Impairment losses for doubtful debts and write-down of inventories		4,054	3,958
Cost in relation to information communications technology services		3,920	3,119
Commission expenses		21,327	26,357
Customer acquisition cost and advertising and promotion expenses		3,524	5,228
Customer installation cost		3,792	4,799
Customer retention cost		3,321	3,809
Auditors' remuneration		64	63
Property management fee		2,238	2,282
Office and administrative expenses		2,102	2,290
Transportation expense		1,790	1,979
Miscellaneous taxes and fees		964	880
Technical support expenses		1,741	1,432
Repairs and maintenance expenses		852	891
Loss on disposal of property, plant and equipment		1,966	1,064
VAT surcharges	(i)	751	847
Others		2,554	2,413
		54,960	61,411

(i) After VAT reform (see Note 29), according to relevant administrative regulations, the Group should pay City Construction Tax and Education Surcharges calculated at prescribed percentages on the amounts of the VAT paid.

34. FINANCE COSTS

	Note	2015	2014
Finance costs:			
– Interest on bank loans repayable within 5 years		3,301	3,299
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		1,928	1,583
– Interest on convertible bonds repayable within 5 years		172	211
– Interest on related parties loans repayable within 5 years		60	71
– Interest on bank loans repayable over 5 years		8	2
– Less: Amounts capitalised in CIP	6	(936)	(825)
Total interest expense		4,533	4,341
– Exchange loss/(gain)		2,104	(6)
– Others		297	282
		6,934	4,617

(All amounts in RMB millions unless otherwise stated)

35. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA IN EACH OTHER

On 6 September 2009, the Company announced that in order to strengthen the cooperation between the Company and Telefónica, the parties entered into a strategic alliance agreement and a subscription agreement, pursuant to which each party conditionally agreed to invest an equivalent of USD1 billion in each other through an acquisition of each other's shares.

On 23 January 2011, the Company entered into an agreement to enhance the strategic alliance with Telefónica that: (a) Telefónica would purchase ordinary shares of the Company for a consideration of USD500 million through acquisition from third parties; and (b) the Company would acquire from Telefónica 21,827,499 ordinary shares of Telefónica held in treasury ("Telefónica Treasury Shares") for an aggregate purchase price of Euro374,559,882.84. On 25 January 2011, the Company completed the purchase of Telefónica Treasury Shares in accordance with the strategic agreement. During 2011, Telefónica completed its investment of USD500 million in the Company.

On 14 May 2012, Telefónica declared a dividend. The Company chose to implement it by means of a scrip dividend and received 1,646,269 ordinary shares of approximately RMB146 million.

As at 31 December 2015, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,665 million (2014: approximately RMB5,706 million). For the year ended 31 December 2015, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB1,041 million (2014: decrease of approximately RMB694 million). The decrease, together with tax impact, of approximately RMB2,172 million (2014: decrease, net of tax impact, of approximately RMB520 million), has been recorded in the consolidated statement of comprehensive income.

36. OTHER INCOME – NET

	2015	2014
Dividend income from financial assets at fair value through other comprehensive income	**397**	392
Gain on the Group's Tower Assets Disposal	**9,246**	–
Others	**925**	970
	10,568	1,362

37. EQUITY-SETTLED SHARE OPTION SCHEMES

37.1 Share option scheme

On 1 June 2000, the Company adopted the share option scheme pursuant to which the Board of Directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up share options to subscribe for shares up to a maximum aggregate number of shares not exceeding 10% of the total issued share capital of the Company (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the nominal consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of the share (if applicable); and

(ii) 80% of the average of the closing prices of shares on the SEHK on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the SEHK.

The period during which an option may be exercised will be determined by the Board of Directors at their discretion, except that no option may be exercised later than 10 years from 22 June 2000.

The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in Chapter 17 of the Listing Rules which came into effect on 1 September 2001 with the following major amendments:

(i) share options may be granted to employees including executive directors of the Group or any of the non-executive directors;

(ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and

(iii) minimum subscription price shall not be less than the higher of:

- the nominal value of the shares (if applicable);
- the closing price of the shares on the SEHK as stated in the SEHK's quotation sheets on the offer date in respect of the share options; and
- the average closing price of the shares on the SEHK's quotation sheets for the five trading days immediately preceding the offer date.

On 11 May 2007, the Company further amended the Share Option Scheme with major amendments related to the exercise of options upon cessation of employment. These amendments are made in order to reduce the administrative burden on the Company to monitor outstanding options for grantees whose employment has been terminated.

On 26 May 2009, the Company further amended the Share Option Scheme with major amendments related to the exercise period. For details, please refer to Note (i) under 37.4 "Share option information" in this section.

As at 31 December 2015, no share option had been granted and remained valid under the Share Option Scheme.

37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

37.2 Special purpose share option scheme

Pursuant to the ordinary resolution passed by the shareholders on 16 September 2008, the Company adopted the special purpose share option scheme (the "Special Purpose Share Option Scheme") in connection with the merger of the Company and China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") by way of a scheme of arrangement of China Netcom under Section 166 of the then Hong Kong Companies Ordinance for the granting of options to holders of China Netcom options outstanding at 14 October 2008 ("Eligible Participants"). Pursuant to this scheme, no fractional options can be granted and the maximum number of shares which may be issued upon the exercise of all options granted under this scheme and any other share options schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of this scheme.

The number of options and exercise price of options granted under the Special Purpose Share Option Scheme are as follows:

(i) The exercise price of options under this scheme is equal to (a) the exercise price of an outstanding China Netcom option held by the Eligible Participants divided by (b) the share exchange ratio 1.508.

(ii) The total number of options granted by the Company to all Eligible Participants under this scheme shall be equal to the product of (a) the share exchange ratio and (b) the number of China Netcom options outstanding as at 14 October 2008.

The above formula ensures that the value of options granted under this scheme received by a holder of China Netcom options is equivalent to the "see-through" price of that holder's outstanding China Netcom options.

The period during which an option may be exercised were determined by the directors at their discretion.

On 26 May 2009, the Company amended the Special Purpose Share Option Scheme relating to the exercise period. For details, please refer to Note (i) under 37.4 "Share option information" in this section.

As at 31 December 2015, no share option had been granted and remained valid under the Special Purpose Share Option Scheme.

37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

37.3 2014 share option scheme

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Under the 2014 Share Option Scheme, the share options may be granted to employees including all directors; any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders. As at 31 December 2015, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme. Pursuant to the 2014 Share Option Scheme, the consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

(i) The closing price of the shares on the SEHK on the offer date in respect of the share options; and

(ii) The average closing price of the shares on the SEHK for the five trading days immediately preceding the offer date;

The option period commences on any day after the date on which such share option is offered, but may not exceed 10 years from the offer date. No share options had been granted since adoption of the 2014 Share Option Scheme.

(All amounts in RMB millions unless otherwise stated)

37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

37.4 Share option information

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2015		2014	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year	6.35	3,540,000	6.61	174,498,077
Lapsed	6.35	(3,432,000)	6.00	(5,759,994)
Exercised	6.35	(108,000)	6.64	(165,198,083)
Balance, end of year	–	–	6.35	3,540,000
Exercisable at end of year	–	–	6.35	3,540,000

Exercise of share options during the year ended 31 December 2015 resulted in 108,000 shares being issued (2014: 165,198,083 shares), with exercise proceeds of approximately RMB1 million (2014: RMB871 million).

As at statement of financial position date, information of outstanding share options is summarised as follows:

Date of options grant	Vesting period	Exercisable period (Note i)	The price per share to be paid on exercise of options	Number of share options outstanding as at 31 December 2015	Number of share options outstanding as at 31 December 2014
Share options granted under the Share Option Scheme:					
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2015	HKD6.35	–	3,540,000
				–	3,540,000

No options outstanding as at 31 December 2015 and the options outstanding as at 31 December 2014 had a weighted average remaining contractual life of 0.12 years.

Note i: In each of March 2010, 2011, 2012 and 2013, the expiry dates for certain share options were extended by one year by the Board of Directors pursuant to the terms of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the terms of the Share Option Scheme and the Special Purpose Share Option Scheme.

(All amounts in RMB millions unless otherwise stated)

37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

37.4 Share option information (Continued)

Details of share options exercised during 2015 and 2014 are as follows:

For the year ended 31 December 2015:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
15 February 2006	**6.35**	**12.88**	**685,800**	**108,000**
			685,800	**108,000**

For the year ended 31 December 2014:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
20 July 2004	5.92	11.94	80,464,640	13,592,000
21 December 2004	6.20	13.30	793,600	128,000
15 February 2006	6.35	11.85	433,882,800	68,328,000
15 October 2008	5.57	12.27	217,608,197	39,067,899
15 October 2008	8.26	12.41	364,118,840	44,082,184
			1,096,868,077	165,198,083

For the years ended 31 December 2015 and 2014, there were no employee share-based compensation expenses.

(All amounts in RMB millions unless otherwise stated)

38. DIVIDENDS

At the annual general meeting held on 8 May 2015, the shareholders of the Company approved the payment of a final dividend of RMB0.20 per ordinary share for the year ended 31 December 2014, totaling approximately RMB4,789 million which has been reflected as a reduction of retained profits for the year ended 31 December 2014. The dividend payable of approximately RMB920 million was due to Unicom BVI as at 31 December 2015.

At a meeting held on 16 March 2016, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.17 per ordinary share to the shareholders for the year ended 31 December 2015 totaling approximately RMB4,071 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2015, but will be reflected in the financial statements for the year ending 31 December 2016.

	2015	2014
Proposed final dividend:		
RMB0.17 (2014: RMB0.20) per ordinary share by the Company	4,071	4,789

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from SAT, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 31 December 2015, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

For the Company's non-PRC TRE enterprise shareholders(including Hong Kong Securities Clearing Company Limited), the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-PRC TRE enterprise shareholders thereon and reclassify the related dividend payable to withholding tax payable upon the declaration of such dividends. The requirement to withhold tax does not apply to the Company's shareholders appearing as individuals in its share register.

39. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2015 and 2014 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share for the years ended 31 December 2015 and 2014 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. No dilutive potential ordinary shares for the year ended 31 December 2015. All dilutive potential ordinary shares for the year ended 31 December 2014 arose from (i) share options granted under the amended Share Option Scheme and (ii) the convertible bonds.

The following table sets forth the computation of basic and diluted earnings per share:

	2015	2014
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic earnings per share	10,562	12,055
Imputed finance cost on the liability component of convertible bonds	–	211
Profit attributable to equity shareholders of the Company used in computing diluted earnings per share	10,562	12,266
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,947	23,852
Dilutive equivalent shares arising from share options	–	2
Dilutive equivalent shares arising from convertible bonds	–	941
Shares used in computing diluted earnings per share	23,947	24,795
Basic earnings per share (in RMB)	0.44	0.51
Diluted earnings per share (in RMB)	0.44	0.49

40. RELATED PARTY TRANSACTIONS

Unicom Group is a state-owned enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

The PRC government controls a significant portion of the productive assets and entities in the PRC. The Group provides telecommunications services as part of its retail transactions, thus, is likely to have extensive transactions with the employees of other state-controlled entities, including their key management personnel and their close family members. These transactions are carried out on commercial terms that are consistently applied to all customers.

Management considers certain state-owned enterprises have material transactions with the Group in its ordinary course of business, which include but not limited to 1) rendering and receiving telecommunications services, including interconnection revenue/charges; 2) purchasing of goods, including use of public utilities; and 3) placing of bank deposits and borrowing money. The Group's telecommunications network depends, in large part, on interconnection with the network and on transmission lines leased from other domestic carriers. These transactions are mainly carried out on terms comparable to those conducted with third parties or standards promulgated by relevant government authorities and have been reflected in the financial statements.

Management believes that meaningful information relating to related party transactions has been disclosed.

(All amounts in RMB millions unless otherwise stated)

40. RELATED PARTY TRANSACTIONS (Continued)

40.1 Connected transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group and its subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Note	2015	2014
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	62	51
Rental charges for property leasing	(i), (iii)	929	955
Charges for lease of telecommunications resources	(i), (iv)	283	271
Charges for engineering design and construction services	(i), (v)	5,018	3,138
Charges for shared services	(i), (vi)	107	119
Charges for materials procurement services	(i), (vii)	125	91
Charges for ancillary telecommunications services	(i), (viii)	2,504	2,111
Charges for comprehensive support services	(i), (ix)	1,455	840
Income from comprehensive support services	(i), (ix)	12	19

(i) The agreement governing the recurring related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries expired on 31 December 2013. Accordingly, on 24 October 2013, CUCL entered into the new agreement, "2013 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2013 Comprehensive Services Agreement has a term of three years commencing on 1 January 2014 and expiring on 31 December 2016, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for certain transactions have changed under the new agreement. On 21 August 2015, CUCL and Unicom Group entered into the Supplemental Agreement to revise the annual cap for the total charges payable by CUCL to Unicom Group for comprehensive support services under the 2013 Comprehensive Services Agreement for each of the two years of 2015 and 2016.

(ii) UNISK (Beijing) Information Technology Corporation Limited ("UNISK") agreed to provide the mobile subscribers of CUCL with various types of value-added services through its cellular communications network and data platform. The Group retains a portion of the revenue generated from the value-added services provided to the Group's subscribers (and actually received by the Group) and allocates a portion of such fees to UNISK for settlement, on the condition that such proportion allocated to UNISK does not exceed the average proportion allocated to independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region. The percentage of revenue to be allocated to UNISK by the Group varies depending on the types of value-added service provided to the Group.

(iii) CUCL and Unicom Group agreed to mutually lease properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes. For the year ended 31 December 2015, the rental charge paid by Unicom Group was approximately RMB2.55 million, which was negligible.

40. RELATED PARTY TRANSACTIONS (Continued)

40.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

(a) Recurring transactions (Continued)

(iv) Unicom Group agreed to lease to CUCL certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) and certain other telecommunications facilities for its operations. The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and facilities provided that such charges would not be higher than market rates. For maintenance service to the telecommunications facilities aforementioned, unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL and determined with reference to market rates or a cost-plus basis if there are no market rates.

(v) Unicom Group agreed to provide engineering design, construction and supervision services and IT services to CUCL. The charges payable by CUCL for the above services are determined with reference to the market price and are settled when the relevant services are provided.

(vi) Unicom Group and CUCL agreed to provide shared services to each other and would share the costs related to the shared services proportionately in accordance with their respective total assets value with certain adjustments. For the year ended 31 December 2015, the services charges paid by Unicom Group to CUCL was negligible.

(vii) Unicom Group agreed to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group has also agreed to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement. The charges payable by CUCL to Unicom Group are based on contract values, market rates, government guidance price or cost-plus basis where applicable.

(viii) Unicom Group agreed to provide ancillary telecommunications services to CUCL. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers' service. The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

(ix) Unicom Group and CUCL agreed to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities mentioned in (iv) above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services). The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

(All amounts in RMB millions unless otherwise stated)

40. RELATED PARTY TRANSACTIONS (Continued)

40.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

(a) Recurring transactions (Continued)

(x) Unicom Group is the registered proprietor of the "Unicom" trademark in English and the trademark bearing the "Unicom" logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark licence agreement between Unicom Group and the Group, the Group has been granted the right to use these trademarks on a royalty free and renewal basis.

(b) Amounts due from and to Unicom Group and its subsidiaries

Amount due to Unicom Group as at 31 December 2015 includes the unsecured entrusted loan from Unicom Group of RMB1,344 million with interest rate at 4.4% per annum.

Amount due to Unicom Group's subsidiaries as at 31 December 2014 included the short-term unsecured loan from Unicom Group BVI of HKD600 million (equivalent to RMB473 million) with interest rate at HIBOR plus 2.3% per annum. The loan was fully repaid in May 2015.

Amount due to Unicom Group as at 31 December 2014 included the unsecured entrusted loan from Unicom Group of RMB1,344 million with interest rate at 5.4% per annum. The loan was fully repaid in June 2015.

Amounts due to Unicom Group as at 31 December 2014 included the consideration payable in connection with the acquisition of China Unicom NewSpace Limited in 2011 of approximately RMB158 million. The consideration was fully paid in January 2015.

Apart from the short-term loan and entrusted loan as aforementioned, amounts due from and to Unicom Group and its subsidiaries are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Unicom Group and its subsidiaries as described in (a) above.

(c) Commitments to Unicom Group and its subsidiaries

As at 31 December 2015 and 2014, the Group had total future aggregate minimum operating lease payments to Unicom Group and its subsidiaries under non-cancellable operating leases as follows:

	2015	2014
Unicom Group and its subsidiaries	**926**	930

(All amounts in RMB millions unless otherwise stated)

40. RELATED PARTY TRANSACTIONS (Continued)

40.2 Related party transactions with Tower Company

(a) Related party transactions

	Note	2015	2014
Transactions with Tower Company:			
The Group's Tower Assets Disposal	(i)	**54,658**	–
Charges for the use of telecommunications towers and related assets	(ii)	**2,926**	–
Income from engineering design and construction services	(iii)	**50**	–

(i) As stated in Note 1 and Note 2.2(a), on 14 October 2015, CUCL and Unicom New Horizon entered into the Transfer Agreement, amongst China Mobile, China Telecom, CRHC and Tower Company, to sell the Tower Assets to Tower Company. The consideration on the Group's Tower Assets Disposal was approximately RMB54,658 million.

(ii) The Group is currently in a discussion with Tower Company on framework agreements to be formed on the usage of the telecommunications towers and related assets. The Group's management estimated that the related usage fee for 2015 is approximately RMB2,926 million, which is based on the current terms under negotiation, which may be subjected to changes upon finalisation of the agreements.

(iii) The Group provide engineering design and construction services, including system integration and engineering design services to Tower Company.

(b) Amounts due from and to Tower Company

According to Transfer Agreement, the first tranche of the Cash Consideration of RMB3,000 million payable by Tower Company was settled in February 2016. The remaining balance of the Cash Consideration will be settled before 31 December 2017. Interest on the outstanding Cash Consideration is accrued from the day following the Completion Date, at 90% of the one-year lending rate set by the People's Bank of China determined on the Completion Date, which is 3.92%.

Apart from the outstanding Cash Consideration as aforementioned, amounts due from and to Tower Company are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Tower Company as described in (a) above.

(All amounts in RMB millions unless otherwise stated)

41. CONTINGENCIES AND COMMITMENTS

41.1 Capital commitments

As at 31 December 2015 and 2014, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2015			2014
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	16	18,113	18,129	18,803
Authorised but not contracted for	18,893	2,958	21,851	33,202
	18,909	21,071	39,980	52,005

41.2 Operating lease commitments

As at 31 December 2015 and 2014, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	2015			2014
	Land and buildings	Equipment	Total	Total
Leases expiring:				
– not later than one year	2,370	2,468	4,838	4,332
– later than one year and not later than five years	3,485	4,087	7,572	7,329
– later than five years	296	1,435	1,731	2,287
	6,151	7,990	14,141	13,948

41.3 Contingent liabilities

As at 31 December 2015, the Group had no material contingent liabilities and no material financial guarantees issued.

(All amounts in RMB millions unless otherwise stated)

42. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2015	2014
ASSETS		
Non-current assets		
Property, plant and equipment	**13**	16
Investments in subsidiaries	**160,308**	159,798
Loan to subsidiary	**34,461**	35,700
Deferred income tax assets	**–**	1,133
Financial assets at fair value through other comprehensive income	**4,665**	5,706
	199,447	202,353
Current assets		
Loan to subsidiary	**113**	17,344
Amounts due from subsidiaries	**3,418**	4,716
Dividend receivable	**19,947**	37,773
Prepayments and other current assets	**9**	6
Cash and cash equivalents	**657**	1,852
	24,144	61,691
Total assets	**223,591**	264,044
EQUITY		
Equity attributable to equity shareholders of the Company		
Share capital	**179,102**	179,101
Reserves	**(5,917)**	(3,716)
Retained profits		
– Proposed final dividend	**4,071**	4,789
– Others	**5,999**	4,429
Total equity	**183,255**	184,603

(All amounts in RMB millions unless otherwise stated)

42. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	As at 31 December	
	2015	2014
LIABILITIES		
Non-current liabilities		
Promissory notes	**3,995**	6,487
	3,995	6,487
Current liabilities		
Short-term bank loans	**25,828**	52,978
Accounts payable and accrued liabilities	**316**	898
Loans from subsidiaries	**171**	11,201
Amounts due to a related party	**–**	481
Amounts due to subsidiaries	**6,385**	6,388
Taxes payable	**222**	235
Dividend payable	**920**	773
Current portion of promissory notes	**2,499**	–
	36,341	72,954
Total liabilities	**40,336**	79,441
Total equity and liabilities	**223,591**	264,044
Net current liabilities	**(12,197)**	(11,263)
Total assets less current liabilities	**187,250**	191,090

Approved and authorised for issue by the Board of Directors on 16 March 2016 and signed on behalf of the Board by:

Wang Xiaochu
Director

Li Fushen
Director

43. NON-ADJUSTING EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

43.1 Proposed dividend

After the statement of financial position date, the Board of Directors proposed a final dividend for 2015. For details, please refer to Note 38.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 16 March 2016.