NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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 voice usage, broadband and mobile data services, data and other internet application services, other value-added services, leased lines and associated services and sales of telecommunications products in the PRC. 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.

Under a mixed ownership reform, A Share Company completed a non-public share issuance to certain strategic investors in October 2017. The gross proceeds of the non-public share issuance amounted to RMB61,725 million. Immediately upon the completion of non-public share issuance by A Share Company, Unicom Group also transferred certain shares in A Share Company to China Structural Reform Fund Corporation Limited at a cash consideration of RMB12,975 million.

On 28 November 2017, the Company issued 6,651,043,262 new shares to Unicom BVI for a cash consideration of RMB74,954 million.

As a result of the above transactions, the shareholding of Unicom BVI in the Company increased from 40.61% to 53.52%, while Unicom Group remain as the ultimate holding company.

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, except that the following assets are stated at their fair value set out below:

- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit and loss

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; and
- adjustments for deferred taxation in relation to the above adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(a) Going Concern Assumption

As at 31 December 2017, current liabilities of the Group exceeded current assets by approximately RMB165.9 billion (2016: approximately RMB260.4 billion). Given the current global economic conditions and taking into account of 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 RMB307.4 billion of revolving banking facilities and registered quota of corporate bonds, of which approximately RMB271.5 billion was unutilised as at 31 December 2017; and
- Other available sources of financing from domestic banks and other financial institutions in view of the Group's good credit history.

In addition, the Group believes it has the ability to raise funds from 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 2017 have been prepared on a going concern basis.

(b) Critical Accounting Estimates and Judgment

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.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments

(i) The IASB and HKICPA has issued a number of amendments to IFRSs/HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 27(b) to satisfy the new disclosure requirements introduced by the amendments to IAS/HKAS 7, Statement of cash flows: "Disclosure initiative", which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(ii) Up to the date of issue of these financial statements, the IASB and HKICPA issued certain amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements except for IFRS/HKFRS 9 (2010), "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
IFRS/HKFRS 9 (2014), "Financial instruments"	1 January 2018
IFRS/HKFRS 15, "Revenue from contracts with customers"	1 January 2018
Amendments to IFRS/HKFRS 2, Share- based payment "Classification and measurement of share-based payment transactions"	1 January 2018
Amendments to IFRS/HKFRS 40, Investment property "Transfer of investment property"	1 January 2018
HK(IFRIC) 22, "Foreign currency transaction and advance consideration"	1 January 2018
Annual Improvements to IFRSs/HKFRSs 2014–2016 Cycle	1 January 2018
IFRS/HKFRS 16, "Leases"	1 January 2019
HK(IFRIC) 23, "Uncertainty over income tax treatments"	1 January 2019

The Group is required to adopt IFRS/HKFRS 9 (2014) and IFRS/HKFRS 15 from 1 January 2018 and the Group is currently finalising its assessment of the impact of these new standards will have on its consolidated financial statements upon adoption. In addition, it is in the process of making an assessment of what the impact of other amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified the following aspects of the new standards which may have impact on the consolidated financial statements. The actual impacts upon the initial adoption of the standards may differ as the assessment to date is based on the information currently available to the Group, and further impacts may be identified before the Group publishes its interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

IFRS/HKFRS 15, "Revenue from contracts with customers"

IFRS/HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS/HKAS 18, "Revenue", IAS/HKAS 11, "Construction contracts" and HK(IFRIC) 13, "Customer Loyalty Programs".

Under IFRS/HKFRS 15, an entity is required to identify the performance obligations in the contract, determine the transaction price of the contract, allocate the transaction price to the performance obligations in the contract based on each performance obligation's standalone price, and recognise revenue when the performance obligations are satisfied.

The Group has been assessing whether and how the new requirements will impact its accounting in different areas, including identification of the number and the nature of performance obligations for bundled sales transactions and sales incentive offers, determination of standalone price, price allocation method, contract modifications and cost capitalisation. Based on the assessment completed to date, with the exception of the accounting for contract costs which is further explained below, the Group expects that the new requirements will not result in material adjustments on the opening balances at 1 January 2018 as the Group's current accounting policy is generally consistent with the new requirements in material respects.

Sales commission

IFRS/HKFRS 15 requires an entity to capitalise incremental costs of obtaining a contract with a customer – e.g. sales commissions, and amortise the capitalised costs on a systematic basis that is consistent with the pattern of transfer of the good or service to which the capitalised costs related.

This requirement will result in a change in the timing of expensing sales commission and similar costs incurred in obtaining contracts as under the Group's current policy sales commissions are expensed when incurred. However, as allowed by IFRS/HKFRS 15, the Group will continue to expense the costs of obtaining contracts when incurred if the amortisation period of those costs would be one year or less.

IFRS/HKFRS 15 allows for two transition methods, namely the full retrospective method and the cumulative effect transition method with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS/HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS/HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

IFRS/HKFRS 15, "Revenue from contracts with customers" (Continued)

Sales commission (Continued)

Based on a preliminary assessment, upon the initial adoption of IFRS/HKFRS 15, this change in accounting policy will result in a recognition of contract asset of approximately RMB2 billion to RMB2.5 billion, with a corresponding after-tax increase to the opening balance of retained profits at 1 January 2018. The adoption will also result in additional disclosures around the nature and timing of the Group's performance obligations, deferred revenue contract liabilities, deferred contract cost assets, as well as significant judgments and practical expedients used by the Group in applying the new revenue recognition model.

The Group has identified and is in the process of implementing changes to its systems and processes and internal control to meet the standard's reporting and disclosure requirements.

IFRS/HKFRS 9 (2014), "Financial Instruments"

The Group has early adopted IFRS/HKFRS 9 (2010) in 2011 and will apply IFRS/HKFRS 9 (2014) on 1 January 2018. Compared with IFRS/HKFRS 9 (2010), IFRS/HKFRS 9 (2014) includes the new expected credit losses model for impairment of financial assets, the new general hedge accounting requirements and limited amendments to the classification and measurement of financial assets.

The new impairment model in IFRS/HKFRS 9 (2014) replaces the "incurred loss" model in IAS/HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. However, lifetime expected credit loss measurement always applies for trade receivables and contract assets without a significant financing component. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

IFRS/HKFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, credit loss allowance at that date would increase by approximately RMB1 billion, compared with that recognised under IAS/HKAS 39, with a corresponding after-tax decrease to the opening balance of retained profits at 1 January 2018.

The Group has identified and is in the process of implementing changes to its systems and processes and internal control to meet the standard's reporting and disclosure requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

IFRS/HKFRS 16, "Leases"

As disclosed in Note 2.27, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS/HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS/HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS/HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS/HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS/HKFRS 16 and the effects of discounting.

2.3 Subsidiaries and Non-Controlling Interests

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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and Non-Controlling Interests (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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2.19 depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2.11) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2.4).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2.12), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, Plant and Equipment (Continued)

(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.

2.8 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 expensed on a straight-line basis over the lease period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Other Assets

Other assets mainly represent (i) computer software; (ii) prepaid rental for premises, leased lines and electricity cables and (iii) capitalised direct incremental costs for activating broadband and Internet Protocol Television ("IPTV") 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 direct incremental costs for activating broadband and IPTV subscribers mainly include the costs of installing broadband and IPTV terminals at customer's homes for the provision of broadband and IPTV services. Such costs are amortised over the expected service period.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial Assets (Continued)

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.

2.12 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.17 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 Deferred Revenue and Advances from Customers

(a) Deferred revenue

(i) Government grants

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

(ii) 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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.

2.20 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.

2.21 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)

2.21 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 2017, the amount of the liability was RMB68 million (2016: RMB75 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).

2.22 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.

2.23 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)

2.24 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

- Voice usage and monthly fees are recognised when the services are rendered;
- Revenue from the provision of broadband and mobile data services are recognised when the services are provided to customers;
- Data and internet application service revenue, which mainly represent revenue from the provision of data storage and application, information communications technology and other internet related services, are recognised when services are rendered;
- Other 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 etc., are recognised when services are rendered;
- 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;
- Revenue from leased lines and associated services, which mainly represent income from offering lines and customer-end equipment to customers for usage and related services, are recognised on a straight-line basis over the respective lease and service period;
- 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.

2.25 Interest income

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

2.26 Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 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.

(c) Sale and leaseback

Under certain circumstances, the Group may enter into sale and leaseback arrangements whereby it sells certain assets and leases back a portion of those assets. The Group reviews the substance of each of these transactions to determine whether the leaseback is a finance lease or an operating lease. Where it is determined that the leaseback is an operating lease and (i) the Group does not maintain or maintains only minor continuing involvement in these assets, other than the required lease payments and (ii) these transactions are established at fair value, the gain or loss on sale is recognised in the statement of income immediately subject to any elimination of such gain or loss in accordance with Note 2.4 above. Any gain or loss on a sale and finance leaseback transaction is deferred and amortised over the term of the lease.

2.28 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)

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

2.30 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)

2.31 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.

2.32 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.

2.33 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.33 Related parties (Continued)

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

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

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

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

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

(v) The entity is 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 fund management center at its headquarter, following the overall direction determined by the Executive Directors of the Company. The Group's fund management center 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 fund management center 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 2017 and 2016, the Group had not entered into any forward exchange contracts or currency swap contracts.

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 2017 and 2016.

	2017			2016		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	508	0.84	425	410	0.89	367
– denominated in US dollars	150	6.53	980	271	6.94	1,879
– denominated in Euro	12	7.80	95	13	7.31	96
– denominated in Japanese Yen	17	0.06	1	218	0.06	13
– denominated in SGD	–	4.88	1	1	4.80	7
– denominated in GBP	1	8.78	10	1	8.51	6
Sub-total			1,512			2,368
Accounts receivable:						
– denominated in US dollars	229	6.53	1,496	195	6.94	1,355
– denominated in Euro	2	7.80	16	1	7.31	6
Sub-total			1,512			1,361
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	522	7.80	4,070	566	7.31	4,138
Total			7,094			7,867
Borrowings:						
– denominated in US dollars	43	6.53	278	46	6.94	321
– denominated in Euro	9	7.80	72	12	7.31	89
– denominated in HK dollars	520	0.84	435	–	0.89	–
Sub-total			785			410
Accounts payable:						
– denominated in US dollars	58	6.53	379	60	6.94	416
– denominated in Euro	2	7.80	16	3	7.31	20
Sub-total			395			436
Total			1,180			846

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 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.

As at 31 December 2017, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen, SGD and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB138 million (2016: approximately RMB216 million) for cash and cash equivalents, borrowings and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income would be approximately RMB407 million (2016: approximately RMB414 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 2017, 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, would be approximately RMB407 million (2016: approximately RMB414 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, 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 2017 and 2016, 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 2017 and 2016.

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 2017, the Group had approximately RMB33,310 million (2016: approximately RMB112,997 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB40,516 million (2016: approximately RMB62,257 million) of long-term fixed rate borrowings.

For the year ended 31 December 2017, 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 RMB125 million (2016: approximately RMB424 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 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.

(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 and corporate bonds. Due to the dynamic nature of the underlying business, the Group's fund management center 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 2017					
Long-term bank loans	412	444	1,329	2,567	3,883
Corporate bonds	544	17,282	1,049	–	17,981
Promissory notes	18,440	–	–	–	17,960
Other obligations	3,006	293	48	47	3,419
Accounts payable and accrued liabilities	125,260	–	–	–	125,260
Amounts due to related parties	8,138	–	–	–	8,126
Amounts due to ultimate holding company	2,184	–	–	–	2,176
Amounts due to domestic carriers	2,538	–	–	–	2,538
Commercial papers	9,127	–	–	–	8,991
Short-term bank loans	22,945	–	–	–	22,500
	192,594	18,019	2,426	2,614	212,834
At 31 December 2016					
Long-term bank loans	207	472	1,299	4,119	4,656
Corporate bonds	2,583	544	18,331	–	19,970
Promissory notes	20,078	18,440	–	–	36,882
Other obligations	3,179	258	44	55	3,476
Accounts payable and accrued liabilities	143,224	–	–	–	143,224
Amounts due to related parties	8,700	–	–	–	8,700
Amounts due to ultimate holding company	2,463	–	–	–	2,463
Amounts due to domestic carriers	1,989	–	–	–	1,989
Commercial papers	36,395	–	–	–	35,958
Short-term bank loans	78,210	–	–	–	76,994
	297,028	19,714	19,674	4,174	334,312

Regarding the Group's use of the going concern basis for the preparation of its financial statements, please refer to Note 2.2(a) 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, 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. The interest-bearing debts do not include balance of deposits received by Finance Company from Unicom Group and its subsidiaries and a joint venture of RMB2,285 million and RMB12 million, respectively, as at 31 December 2017 (2016: balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,397 million).

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

	2017	2016
Interest-bearing debts:		
– Commercial papers	**8,991**	35,958
– Short-term bank loans	**22,500**	76,994
– Long-term bank loans	**3,473**	4,495
– Promissory notes	**–**	17,906
– Corporate bonds	**17,981**	17,970
– Obligations under finance lease included in other obligations	**231**	208
– Amounts due to ultimate holding company	**1,344**	–
– Amounts due to related parties	**475**	–
– Current portion of long-term bank loans	**410**	161
– Current portion of promissory notes	**17,960**	18,976
– Current portion of corporate bonds	**–**	2,000
– Current portion of obligations under finance lease	**461**	586
	73,826	175,254
Total equity	**304,347**	227,682
Interest-bearing debts plus total equity	**378,173**	402,936
Debt-to-capitalisation ratio	**19.5%**	43.5%

The decrease in debt-to-capitalisation ratio during 2017 resulted primarily from the decrease in interest-bearing debts and the increase in total equity.

(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 and restricted deposits, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, accounts receivable, receivables for the sales of mobile handsets, amounts due from ultimate holding company, 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, 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 2017:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	4,228	–	–	4,228
– Unlisted	–	–	58	58
	4,228	–	58	4,286
Financial assets at fair value through profit and loss				
– Equity securities				
– Unlisted	–	–	160	160
Total	4,228	–	218	4,446

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 2016:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	4,285	–	–	4,285
– Unlisted	–	–	41	41
	4,285	–	41	4,326
Financial assets at fair value through profit and loss				
– Equity securities				
– Unlisted	–	–	123	123
Total	4,285	–	164	4,449

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 2017 and 2016, 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 2017 and 2016. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amount as at 31 December 2017	Fair value as at 31 December 2017	Fair value measurement as at 31 December 2017 categorised into			Carrying amount as at 31 December 2016	Fair value as at 31 December 2016
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	3,473	3,187	–	3,187	–	4,495	4,339
Non-current portion of promissory notes	–	–	–	–	–	17,906	18,031
Non-current portion of corporate bonds	17,981	17,712	17,712	–	–	17,970	17,989

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 1.18% to 5.51% (2016: 1.28% to 4.48%) 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 2017 and 2016 due to the nature or short maturity of those instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

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.

No significant impairment loss on property, plant and equipment was recognised for the years ended 31 December 2017 and 2016.

4.3 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.

4.4 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 deductible tax losses, 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 net deferred tax assets amounting to approximately RMB5,973 million as at 31 December 2017 (2016: approximately RMB5,986 million) (see Note 13). 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.

(All amounts in RMB millions unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.5 Determining the type of lease

The Group analysed the substance of the leases to determine whether the arrangements should be classified as operating leases or finance leases in accordance with the requirements of the prevailing accounting standards. The Group bases its judgment on the lease agreements and related arrangements to assess whether substantially all the risks and rewards incidental to ownership of the leased assets has been transferred.

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 customer accounted for 10 percent or more of the Group's revenue in all periods presented.

6. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") and VAT 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, and leased lines and associated services etc. Value-added telecommunications services include business activities for the provision of Short Message Service and Multimedia Message Service, broadband and mobile data services, and data and internet application services etc. VAT is excluded from the revenue.

The major components of revenue are as follows:

	2017	2016
Voice usage and monthly fees	**39,154**	47,500
Broadband and mobile data services	**137,133**	118,209
Data and internet application services	**20,074**	17,782
Other value-added services	**22,793**	24,187
Interconnection fees	**14,233**	14,748
Leased lines and associated services	**12,519**	11,618
Other services	**3,109**	3,989
Total service revenue	**249,015**	238,033
Sales of telecommunications products	**25,814**	36,164
	274,829	274,197

7. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	2017	2016
Repairs and maintenance		10,531	11,150
Power and water charges		14,853	13,898
Operating lease charges for network, premises, equipment and facilities		10,724	9,779
Operating lease and other service charges to Tower Company	41.2	16,524	14,887
Others		1,875	1,453
		54,507	51,167

8. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries and wages	32,155	27,178
Contributions to defined contribution pension schemes	5,550	5,236
Contributions to medical insurance	2,010	1,889
Contributions to housing fund	2,722	2,569
Other benefits	34	35
	42,471	36,907

8.1 Directors' emoluments

The remuneration of each Director for the year of 2017 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		–	195	398	114	707
Lu Yimin		–	195	398	114	707
Li Fushen		–	166	367	114	647
Shao Guanglu	(a)	–	132	283	91	506
Cesareo Alierta Izuel		260	–	–	–	260
Cheung Wing Lam Linus		355	–	–	–	355
Wong Wai Ming		363	–	–	–	363
Chung Shui Ming Timpson		372	–	–	–	372
Law Fan Chiu Fun Fanny		337	–	–	–	337
Total		1,687	688	1,446	433	4,254

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

The remuneration of each Director for the year of 2016 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		–	185	275	113	573
Lu Yimin		–	185	476	113	774
Li Fushen		–	158	435	113	706
Zhang Junan	(b)	–	131	131	94	356
Cesareo Alierta Izuel		257	–	–	–	257
Cheung Wing Lam Linus		351	–	–	–	351
Wong Wai Ming		360	–	–	–	360
Chung Shui Ming Timpson		366	–	–	–	366
Law Fan Chiu Fun Fanny		332	–	–	–	332
Total		1,666	659	1,317	433	4,075

* In addition, according to the "Notice on the Compensation Information Disclosure of the Central Government Controlled Enterprises" (Guozifenpei [2016] No.339) (Translated from《關於做好中央企業負責人薪酬信息披露工作通知》(國資分配[2016]339號)), certain Directors were also entitled to deferred bonuses in relation to 2013 and 2014. The deferred bonuses paid to Mr. Lu Yimin and Mr. Li Fushen were RMB394,000 and RMB347,000 respectively.

Notes:

(a) Mr. Shao Guanglu was appointed as executive director on 16 March 2017.

(b) Mr. Zhang Junan resigned as executive director on 1 November 2016.

During 2017 and 2016, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2017 and 2016.

During 2017 and 2016, 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.

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.2 Senior management's emoluments

Of the 5 senior management of the Company for the year ended 31 December 2017, 4 of them are directors of the Company and their remuneration has been disclosed in Note 8.1. For the remuneration of the 5 senior management, all fall within the band from RMB Nil to RMB1,000,000.

8.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2017, 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 RMB2,500,001 to RMB3,000,000 (2016: 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 RMB2,000,001 to RMB2,500,000).

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

	2017 (RMB'000)	2016 (RMB'000)
Salaries and allowances	**3,363**	3,089
Bonuses paid and payable	**3,508**	3,480
Contributions to pension schemes	**788**	323
	7,659	6,892

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2017	2016
Handsets and other telecommunication products	**26,406**	38,888
Others	**237**	413
	26,643	39,301

(All amounts in RMB millions unless otherwise stated)

10. OTHER OPERATING EXPENSES

	2017	2016
Impairment losses for doubtful debts and write-down of inventories	3,955	4,173
Commission and other service expenses	22,658	23,826
Advertising and promotion expenses	3,894	3,188
Internet access terminal maintenance expenses	3,547	3,857
Customer retention costs	3,987	3,775
Auditors' remuneration	74	69
Property management fee	2,169	2,150
Office and administrative expenses	1,919	1,972
Transportation expense	1,642	1,676
Miscellaneous taxes and fees	1,251	1,375
Service technical support expenses	4,355	4,641
Repairs and maintenance expenses	824	852
Loss on disposal of property, plant and equipment	3,489	355
Others	3,402	2,676
	57,166	54,585

11. FINANCE COSTS

	Note	2017	2016
Finance costs:			
– Interest on bank loans repayable within 5 years		3,378	2,730
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		2,403	2,885
– Interest on related parties loans repayable within 5 years		73	–
– Interest on bank loans repayable over 5 years		53	62
– Less: Amounts capitalised in CIP	15	(670)	(769)
Total interest expense		5,237	4,908
– Net exchange loss/(gain)		231	(260)
– Others		266	369
		5,734	5,017

12. OTHER INCOME – NET

	2017	2016
Dividend income from financial assets at fair value through other comprehensive income	206	357
Others	1,074	1,234
	1,280	1,591

13. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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% (2016: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2016: 15%).

	2017	2016
Provision for income tax on the estimated taxable profits for the year		
– Hong Kong	44	13
– Mainland China and other countries	654	1,722
Under/(Over)-provision in respect of prior years	39	(41)
	737	1,694
Deferred taxation	6	(1,540)
Income tax expenses	743	154

Reconciliation between actual income tax expense and accounting profit at PRC statutory tax rate:

	Note	2017	2016
Profit before taxation		2,593	784
Expected income tax expense at PRC statutory tax rate of 25%		648	196
Impact of different tax rates outside mainland China		(55)	(14)
Tax effect of preferential tax rate	(i)	(82)	(68)
Tax effect of non-deductible expenses		300	191
Investment in joint ventures		(143)	(38)
Investment in associates	(ii)	(133)	39
Under/(Over)-provision in respect of prior years		39	(41)
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	49	(45)
Others		120	(66)
Actual tax expense		743	154

(i) According to the PRC enterprise income tax law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Certain subsidiaries of the Group obtained the approval of High and New Technology Enterprise and were entitled to a preferential income tax rate of 15%.

(ii) Adjustment to investment in associates represents the tax effect on share of profit/(loss) of associates, net of reversal of deferred tax assets on unrealised profit from transactions with China Tower Corporation Limited ("Tower Company").

(iii) As at 31 December 2017, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB1,923 million (2016: approximately RMB2,622 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 2022.

As at 31 December 2017, the Group did not recognise deferred tax assets of RMB1,849 million (2016: RMB1,832 million) in respect of changes in fair value on financial assets through other comprehensive income, since it is not probable that the related tax benefit will be realised.

(All amounts in RMB millions unless otherwise stated)

13. TAXATION (Continued)

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

	2017	2016
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	8,011	8,168
– Deferred tax asset to be recovered within 12 months	2,598	1,198
	10,609	9,366
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(4,079)	(2,897)
– Deferred tax liabilities to be settled within 12 months	(557)	(483)
	(4,636)	(3,380)
Net deferred tax assets after offsetting	5,973	5,986
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(108)	(113)
– Deferred tax liabilities to be settled within 12 months	–	–
	(108)	(113)
Net deferred tax liabilities after offsetting	(108)	(113)

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

	Note	2017	2016
Net deferred tax assets after offsetting:			
– Beginning of year		5,986	5,642
– Deferred tax (charged)/credited to the statement of income		(11)	1,635
– Deferred tax (charged)/credited to other comprehensive income		(2)	13
– Reclassified from current taxes payable	(i)	–	(1,304)
– End of year		5,973	5,986
Net deferred tax liabilities after offsetting:			
– Beginning of year		(113)	(18)
– Deferred tax credited/(charged) to the statement of income		5	(95)
– End of year		(108)	(113)

13. TAXATION (Continued)

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

(i) On 14 October 2015, The Group disposed tower assets ("Tower Assets Disposal") to Tower Company in exchange for cash and shares issued by Tower Company (see Note 41). According to the applicable tax laws issued by the MOF and the State Administration of Taxation ("SAT") of the PRC, the gain from Tower Assets Disposal in exchange for investment in Tower Company ("Qualified Income") is, upon fulfilling the filing requirement with in-charge tax bureau, eligible to be deferred and treated as taxable income on a straight-line basis over a period not exceeding five years. Before completing the filing, the Group accrued current taxes payable based on the total gain from Tower Asset Disposal. During the year ended 31 December 2016, the Group successfully completed the filing requirement with in-charge tax bureau with respect to the Qualified Income and since then has become eligible for deferring part of tax liability with respect to the Qualified Income, which will be reversed in the four years from 2016 to 2019. Accordingly, a balance of RMB1,304 million was reclassified from current taxes payable to net deferred tax assets, and RMB373 million (2016: RMB186 million) was subsequently utilised during the year ended 31 December 2017.

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

Deferred tax arising from:	Allowance for doubtful debts	Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations (Note (i))	Deductible tax losses	Accruals of expenses not yet deductible for tax purpose	Unrealised profit from the transactions with Tower Company	Accelerated depreciation of property, plant and equipment (Note (ii))	Gain from Tower Assets Disposal	Others	Total
At 1 January 2016	1,431	1,504	–	1,221	877	(992)	–	1,583	5,624
Credited/(charged) to the statement of income	122	(53)	2,433	472	(90)	(1,251)	186	(279)	1,540
Credited to other comprehensive income	–	–	–	–	–	–	–	13	13
Reclassification of current tax payable	–	–	–	–	–	–	(1,304)	–	(1,304)
At 31 December 2016	1,553	1,451	2,433	1,693	787	(2,243)	(1,118)	1,317	5,873
Credit/(charged) to the statement of income	50	(48)	(189)	861	(90)	(1,627)	373	664	(6)
Charged to other comprehensive income	–	–	–	–	–	–	–	(2)	(2)
At 31 December 2017	1,603	1,403	2,244	2,554	697	(3,870)	(745)	1,979	5,865

(All amounts in RMB millions unless otherwise stated)

13. 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	2017	2016
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Allowance for doubtful debts		1,603	1,553
Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(i)	1,403	1,451
Accruals of expenses not yet deductible for tax purpose		2,554	1,693
Deferred revenue on subscriber points reward program		183	156
Unrealised profit for the inter-company transactions		120	189
Unrealised profit from the transactions with Tower Company		697	787
Government grants related to assets		363	271
Intangible assets amortisation difference		423	345
Deductible tax losses		2,244	2,433
Others		1,019	488
		10,609	9,366
Deferred tax liabilities:			
Gain from Tower Assets Disposal		(745)	(1,118)
Accelerated depreciation of property, plant and equipment	(ii)	(3,870)	(2,243)
Others		(21)	(19)
		(4,636)	(3,380)
		5,973	5,986
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(108)	(113)
		(108)	(113)

13. 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 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.

14. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2017 and 2016 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 2017 and 2016 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 years ended 31 December 2017 and 2016.

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

	Note	**2017**	2016
Numerator (in RMB millions): Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share		**1,828**	625
Denominator (in millions): Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	(i)	**24,567**	23,947
Basic/Diluted earnings per share (in RMB)		**0.07**	0.03

(i) Weighted average number of ordinary shares

	2017 (in millions)	2016 (in millions)
Issued ordinary shares at 1 January	**23,947**	23,947
Effect of shares issued	**620**	–
Weighted average number of ordinary shares at 31 December	**24,567**	23,947

(All amounts in RMB millions unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2017 and 2016 are as follows:

	2017					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	67,140	876,452	20,007	4,035	78,905	1,046,539
Additions	129	293	426	290	41,510	42,648
Transfer from CIP	4,219	58,535	783	284	(63,821)	–
Transfer to other assets	–	–	–	–	(4,376)	(4,376)
Disposals	(411)	(64,588)	(1,046)	(319)	–	(66,364)
End of year	71,077	870,692	20,170	4,290	52,218	1,018,447
Accumulated depreciation and impairment:						
Beginning of year	(29,174)	(548,472)	(14,986)	(2,687)	(105)	(595,424)
Charge for the year	(2,765)	(62,311)	(1,386)	(810)	–	(67,272)
Disposals	225	59,384	928	308	–	60,845
End of year	(31,714)	(551,399)	(15,444)	(3,189)	(105)	(601,851)
Net book value:						
End of year	39,363	319,293	4,726	1,101	52,113	416,596
Beginning of year	37,966	327,980	5,021	1,348	78,800	451,115

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2016					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	62,969	838,995	19,464	3,878	97,601	1,022,907
Additions	57	748	427	186	70,418	71,836
Transfer from CIP	4,211	79,808	748	301	(85,068)	–
Transfer to other assets	–	–	–	–	(4,046)	(4,046)
Disposals	(97)	(43,099)	(632)	(330)	–	(44,158)
End of year	67,140	876,452	20,007	4,035	78,905	1,046,539
Accumulated depreciation and impairment:						
Beginning of year	(26,612)	(525,244)	(14,059)	(2,256)	(105)	(568,276)
Charge for the year	(2,621)	(62,932)	(1,516)	(681)	–	(67,750)
Disposals	59	39,704	589	250	–	40,602
End of year	(29,174)	(548,472)	(14,986)	(2,687)	(105)	(595,424)
Net book value:						
End of year	37,966	327,980	5,021	1,348	78,800	451,115
Beginning of year	36,357	313,751	5,405	1,622	97,496	454,631

As at 31 December 2017, the net book value of assets held under finance leases was approximately RMB789 million (2016: approximately RMB582 million).

For the year ended 31 December 2017, interest expense of approximately RMB670 million (2016: approximately RMB769 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings and varied from 3.21% to 3.88% for the year ended 31 December 2017 (2016: 3.33% to 3.79%).

For the year ended 31 December 2017, the Group disposed certain property, plant and equipment with carrying amounts RMB5,519 million (2016: RMB3,556 million) for sales proceeds of RMB2,030 million (2016: RMB3,201 million) in total, resulting in a net loss on disposal of property, plant and equipment of approximately RMB3,489 million (2016: a net loss of approximately RMB355 million), mainly as a result of Group's ongoing upgrade of its broadband network. In order to achieve a higher speed of transmission, the Group is gradually replacing copper cabling broadband network by optical fibre broadband network. Subscribers' migration progress, which is voluntary, is not entirely predictable. When all subscribers of a copper broadband network site have migrated to optical fibre broadband network site, the old broadband related equipment became idle and were then disposed by the Group.

(All amounts in RMB millions unless otherwise stated)

16. 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 year ended 31 December 2017 and 2016 are as follow:

	2017	2016
Beginning of the year	9,436	9,148
Addition	186	603
Amortisation	(309)	(315)
End of the year	9,313	9,436

17. 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 prior to the adoption of HKFRSs and AG 5 in 2005.

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 2% (2016: 1%) and the applicable discount rate of 11% (2016: 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 2017 and 2016, any adverse change in the assumptions used in the calculation of recoverable amount would result in impairment losses.

18. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2017, 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		
China United Network Communications Corporation Limited ("CUCL")	The PRC, 21 April 2000, limited liability company	100%	–	RMB213,044,797,828	Telecommunications operation in the PRC
China Unicom Global Limited	Hong Kong, 29 May 2015, limited company	100%	–	HKD137,745,892	Investment holding
China Unicom (Hong Kong) Operations Limited	Hong Kong, 24 May 2000, limited company	–	100%	HKD1,510,100,000	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
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%	30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
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	30%	70%	2,150,000 shares, USD1 each	Communications technology training in Myanmar

(All amounts in RMB millions unless otherwise stated)

18. 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 (Australia) Operations Pty Limited	Australia, 27 May 2014, limited liability company	100%	–	4,350,000 shares, AUD 1 each	Telecommunications operation in Australia
China Unicom (Russia) Operations Limited Liability Company	Russia, 28 December 2016, limited liability company	–	100%	RUB10,000	Telecommunications service in Russia
China Unicom (Brazil) Telecommunications Limited	Brazil, 23 June 2016, limited liability company	–	100%	R$1,120,776	Telecommunications service in Brazil
China Unicom (Brazil) Holdings Ltda.	Brazil, 27 October 2017, limited liability company	–	100%	R$1,109,128	Investment holding
China Unicom Operations (Thailand) Limited	Thailand, 20 November 2017, limited liability company	–	100%	Not applicable	Telecommunications service in Thailand
China Unicom Operations (Malaysia) Sdn. Bhd.	Malaysia, 10 November 2017, limited liability company	–	100%	Not applicable	Telecommunications service in Malaysia
China Unicom Operations Korea Co., Ltd	Korea, 24 November 2017, limited liability company	–	100%	Not applicable	Telecommunications service in Korea
Unicom Vsens Telecommunications Company Limited	The PRC, 19 August 2008, limited liability company	–	100%	RMB610,526,500	Sales of handsets, telecommunication 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

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held Direct	Percentage of equity interests held Indirect	Particular of issued share capital/ paid up capital	Principal activities and place of operation
China Unicom Online Information Technology Company Limited	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
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

(All amounts in RMB millions unless otherwise stated)

18. 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 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
Unicom Cloud Data Company Limited	The PRC, 4 June 2013, limited liability company	–	100%	RMB2,854,851,100	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%	RMB240,000,000	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
Finance Company	The PRC, 17 June 2016, limited liability company	–	91%	RMB3,000,000,000	Provision of financial services in the PRC

18. 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 Innovation Investment Company (Shenzhen) Limited	The PRC, 28 January 2016, limited liability company	–	100%	Not applicable	Venture capital investment business in the PRC
China Unicom Innovation Investment Company (Guizhou) Limited	The PRC, 8 October 2016, limited liability company	–	60%	RMB1,000,000	Venture capital investment business in the PRC
China Unicom Innovation Investment (Shenzhen) Investment Centre	The PRC, 1 February 2016, limited partnership	–	100%	RMB28,500,000	Venture capital investment business in the PRC
China Unicom Big Data Company Limited	The PRC, 24 August 2017, limited liability company	–	100%	RMB500,000,000	Provision of data processing service in the PRC
Liantong Travel Service (Beijing) Company Limited	The PRC, 30 September 2017, limited liability company	–	100%	RMB30,000,000	Provision of tourism and information services in the PRC
China Unicom (Guangdong Branch) Internet Industry Limited	The PRC, 5 January 2017, limited liability company	–	100%	RMB100,000,000	Provision of information communications technology services in the PRC
China Unicom (Zhejiang) Industry Internet Company Limited	The PRC, 20 June 2017, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology services in the PRC
China Unicom (ShanDong) Industrial Internet Company Limited	The PRC, 3 March 2017, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology services in the PRC

(All amounts in RMB millions unless otherwise stated)

19. INTEREST IN ASSOCIATES

	2017	2016
Share of net assets	33,233	32,248

The following list contains the particulars of material associate, which is unlisted corporate entity 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 41.2)

The above associate is accounted for using the equity method in the consolidated financial statements.

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	
	2017	2016
Current assets	30,517	39,565
Non-current assets	292,126	272,103
Current liabilities	(150,438)	(171,568)
Non-current liabilities	(44,710)	(14,548)
Equity	(127,495)	(125,552)
Revenue	68,665	54,474
Profit/(loss) for the year	1,943	(575)
Total comprehensive income for the year	1,943	(575)
Reconciled to the Group's interest in the associate:		
Net assets of the associate	127,495	125,552
Group's effective interest	28.1%	28.1%
	35,826	35,280
Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal	(2,784)	(3,145)
Carrying amount in the consolidated financial statements	33,042	32,135

20. INTEREST IN JOINT VENTURES

	2017	2016
Share of net assets	2,368	1,175

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
Merchants Union Consumer Finance Company Limited ("MUCFC")	Incorporated	The PRC	50%	RMB3,200,000,000*	Consumer finance consulting in the PRC
Smart Steps Digital Technology Co., Ltd.	Incorporated	The PRC	55%	RMB116,000,000	Information technology service and software research and development service in the PRC

* Each of the Group and China Merchants Bank injected RMB600 million to MUCFC in December 2017.

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

	MUCFC	
	2017	2016
Assets	46,980	18,548
Liabilities	(42,339)	(16,296)
Equity	(4,641)	(2,252)
Revenue	4,163	1,191
Profit for the year	1,189	336
Total comprehensive income for the year	1,189	336
Reconciled to the Group's interests in the joint venture:		
Net assets of the joint venture	4,641	2,252
Group's effective interest	50%	50%
Carrying amount in the consolidated financial statements	2,321	1,126

(All amounts in RMB millions unless otherwise stated)

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017	2016
Listed in the PRC	158	147
Listed outside the PRC	4,070	4,138
Unlisted	58	41
	4,286	4,326

For the year ended 31 December 2017, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB56 million (2016: decrease of approximately RMB544 million). The decrease, net of tax impact, of approximately RMB58 million (2016: decrease, net of tax impact, of approximately RMB530 million) has been recorded in the consolidated statement of comprehensive income.

22. OTHER ASSETS

	Note	2017	2016
Intangible assets	(i)	10,988	11,120
Prepaid rental for premises, leased lines and electricity cables		2,812	2,854
Direct incremental costs for activating broadband and IPTV subscribers	(ii)	4,522	7,690
Receivables for sales of mobile handsets, net of allowance	(iii)	753	1,432
VAT recoverable	(iv)	596	307
Others		1,050	1,476
		20,721	24,879

22. OTHER ASSETS (Continued)

(i) Intangible assets

	Computer software	Others	Total
Cost:			
At 1 January 2016	23,449	1,883	25,332
Additions	159	18	177
Transfer from CIP	2,761	242	3,003
Disposals	(1,148)	(67)	(1,215)
At 31 December 2016	25,221	2,076	27,297
Additions	**42**	**2**	**44**
Transfer from CIP	**3,222**	**568**	**3,790**
Disposals	**(1,327)**	**(60)**	**(1,387)**
At 31 December 2017	**27,158**	**2,586**	**29,744**
Accumulated amortisation and impairment:			
At 1 January 2016	(12,736)	(773)	(13,509)
Amortisation charge for the year	(3,618)	(228)	(3,846)
Disposals	1,129	49	1,178
At 31 December 2016	(15,225)	(952)	(16,177)
Amortisation charge for the year	**(3,657)**	**(290)**	**(3,947)**
Disposals	**1,323**	**45**	**1,368**
At 31 December 2017	**(17,559)**	**(1,197)**	**(18,756)**
Net book value:			
At 31 December 2017	**9,599**	**1,389**	**10,988**
At 31 December 2016	9,996	1,124	11,120

(ii) Direct incremental costs for activating broadband subscribers mainly include the costs of installing broadband and IPTV terminals at customer's homes for the provision of broadband and IPTV services. Such costs are amortised over the expected service period.

(iii) The amount includes the receivables from the sales of mobile handsets 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 25(i)).

(iv) VAT recoverable includes input VAT and prepaid VAT which will likely be deducted beyond one year. VAT recoverable which will be deducted within one year are included in prepayments and other current assets (see Note 25(ii)).

(All amounts in RMB millions unless otherwise stated)

23. INVENTORIES AND CONSUMABLES

	2017	2016
Handsets and other telecommunication products	2,005	2,163
Consumables	24	59
Others	210	209
	2,239	2,431

24. ACCOUNTS RECEIVABLE

	2017	2016
Accounts receivable	19,174	19,088
Less: Allowance for doubtful debts	(5,210)	(5,466)
	13,964	13,622

The aging analysis of accounts receivable, based on the billing date and net of allowance of doubtful debts, is as follows:

	2017	2016
Within one month	7,184	6,557
More than one month to three months	2,763	3,181
More than three months to one year	2,737	2,869
More than one year	1,280	1,015
	13,964	13,622

The normal credit period granted by the Group to individual subscribers is thirty 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 one 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 2017, accounts receivable of approximately RMB7,576 million (2016: approximately RMB7,565 million) were impaired. The Group makes a full or partial allowance against those accounts receivable 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.

24. ACCOUNTS RECEIVABLE (Continued)

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017	2016
Balance, beginning of year	5,466	4,910
Allowance for the year	3,325	3,999
Written-off during the year	(3,581)	(3,443)
Balance, end of year	5,210	5,466

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.

As at 31 December 2017, accounts receivable of approximately RMB10,284 million (2016: approximately RMB9,626 million) were neither past due nor impaired. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Accounts receivable of approximately RMB1,314 million (2016: approximately RMB1,890 million) were past due but not impaired. The aging analysis of these receivables is as follows:

	2017	2016
More than one month to three months	926	1,369
More than three months to one year	105	213
More than one year	283	308
	1,314	1,890

Receivables that were past due but not impaired mainly due to no objective evidence of impairment occurred. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality.

(All amounts in RMB millions unless otherwise stated)

25. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	2017	2016
Receivables for the sales of mobile handsets, net of allowance	(i)	**2,221**	3,266
Prepaid rental		**2,305**	2,334
Deposits and prepayments		**1,579**	1,876
Advances to employees		**20**	15
VAT recoverable	(ii)	**4,948**	4,952
Prepaid enterprise income tax		**438**	208
Others		**2,290**	1,372
		13,801	14,023

(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 which the prepaid amounts from customers less than the fair value of the mobile handsets, 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 beyond one year amounted to RMB753 million (2016: RMB1,432 million), and are included in long-term other assets (see Note 22(iii)).

(ii) VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

Prepayments and other current assets are expected to be recovered or recognised as expenses within one year.

As at 31 December 2017, there was no significant impairment for the prepayments and other current assets.

26. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	Note	2017	2016
Bank deposits with maturity exceeding three months		**3,124**	33
Statutory reserve deposits	(i)	**2,197**	1,577
Restricted deposits		**205**	144
		5,526	1,754

(i) In order to carry on its business, Finance Company placed statutory reserve deposits with the People's Bank of China according to "Notice of the People's Bank of China on Implementing the Average Method to Assess Deposit Reserves" (Yinfa [2015] No.289) (Translated from《中國人民銀行關於實施平均法考核存款準備金的通知》(銀發[2015]289號)). These statutory reserve deposits are not available for use by the Group in daily operations.

27. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2017	2016
Cash at bank and in hand	32,836	23,373
Bank deposits with original maturities of three months or less	–	260
	32,836	23,633

(b) Reconciliation of liabilities arising from financing activities

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

	Short-term bank loans (Note 36)	Long-term bank loans (Note 31)	Commercial papers (Note 37)	Promissory notes (Note 32)	Corporate bonds (Note 33)	Finance lease (Note 35(b))	Other borrowings (Note 41)	Total
At 1 January 2017	76,994	4,656	35,958	36,882	19,970	794	2,397	177,651
Changes from financing cash flows:								
Proceeds from commercial papers	–	–	26,941	–	–	–	–	26,941
Proceeds from short-term bank loans	117,571	–	–	–	–	–	–	117,571
Proceeds from long-term bank loans	–	1,549	–	–	–	–	–	1,549
Loans from ultimate holding company	–	–	–	–	–	–	5,237	5,237
Loans from related parties	–	–	–	–	–	–	535	535
Repayment of commercial papers	–	–	(54,000)	–	–	–	–	(54,000)
Repayment of short-term bank loans	(172,065)	–	–	–	–	–	–	(172,065)
Repayment of long-term bank loans	–	(2,686)	–	–	–	–	–	(2,686)
Repayment of ultimate holding company loan	–	–	–	–	–	–	(3,893)	(3,893)
Repayment of related parties loan	–	–	–	–	–	–	(60)	(60)
Repayment of finance lease	–	–	–	–	–	(695)	–	(695)
Repayment of promissory notes	–	–	–	(19,000)	–	–	–	(19,000)
Repayment of Corporate bonds	–	–	–	–	(2,000)	–	–	(2,000)
Payment of issuing expense for promissory notes	–	–	–	(82)	–	–	–	(82)
Net withdrawal by Unicom Group and its subsidiaries from Finance Company	–	–	–	–	–	–	(112)	(112)
Net deposits from a joint venture with Finance Company	–	–	–	–	–	–	12	12
Total changes form financing cash flows	(54,494)	(1,137)	(27,059)	(19,082)	(2,000)	(695)	1,719	(102,748)
Exchange adjustments	–	(13)	–	–	–	–	–	(13)
Other changes:								
New financing leases	–	–	–	–	–	573	–	573
Finance charges on obligations under finance leases	–	–	–	–	–	20	–	20
Interest expenses	–	377	92	160	11	–	–	640
Total other changes	–	377	92	160	11	593	–	1,233
At 31 December 2017	22,500	3,883	8,991	17,960	17,981	692	4,116	76,123

(All amounts in RMB millions unless otherwise stated)

28. SHARE CAPITAL

Issued and fully paid:	Note	Number of shares millions	Share capital
At 1 January 2016, at 31 December 2016		23,947	179,102
Shares issued	1	6,651	74,954
At 31 December 2017		30,598	254,056

On 28 November 2017, the Company issued 6,651,043,262 new shares to Unicom BVI in return for a cash consideration of RMB74,954 million.

29. RESERVES

(a) Movements in components of equity

The Company

	Share capital	Investment revaluation reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2016	179,102	(6,489)	572	10,070	183,255
Total comprehensive income for the year	–	(531)	–	1,870	1,339
Dividends relating to 2015 (Note 30)	–	–	–	(4,071)	(4,071)
Balance at 31 December 2016	179,102	(7,020)	572	7,869	180,523
Balance at 1 January 2017	179,102	(7,020)	572	7,869	180,523
Total comprehensive income for the year	–	(68)	–	906	838
Issue of share capital	74,954	–	–	–	74,954
Balance at 31 December 2017	254,056	(7,088)	572	8,775	256,315

29. 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 RMB50 million (2016: approximately RMB47 million) to the general reserve fund for the year ended 31 December 2017.

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 2017 and 2016, 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 the SAT of the PRC, 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) General risk reserve

CUCL and Unicom Group established the Finance Company to provide certain financial services. Pursuant to "Requirements on Impairment Allowance for Financial Institutions" (Caijin [2012] No. 20) (Translated from《金融企業準備金計提管理辦法》(財金[2012]20號)) issued by the MOF which effective on 1 July 2012 (the "Document"), the Finance Company establishes a general risk reserve within the shareholders' equity, through appropriation of retained profits, to address unidentified potential losses relating to risk assets. The general risk reserve balance should not be less than 1.5% of the ending balance of risk assets, as defined in the Document.

(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) 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.

(All amounts in RMB millions unless otherwise stated)

30. DIVIDENDS

At a meeting held on 15 March 2017, the Board of the Directors of the Company resolved not to pay a final dividend for the year ended 31 December 2016.

At a meeting held on 15 March 2018, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.052 per ordinary share to the shareholders for the year ended 31 December 2017 totaling approximately RMB1,591 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2017, but will be reflected in the financial statements for the year ending 31 December 2018.

	2017	2016
Proposed final dividend: RMB0.052 (2016: Nil) per ordinary share by the Company	1,591	–

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 the SAT of the PRC, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 31 December 2017, 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 HKSCC Nominees 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.

31. LONG-TERM BANK LOANS

	Interest rates and final maturity	2017	2016
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (2016: 1.08% to 1.20%) per annum with maturity through 2036 (2016: maturity through 2036)	3,533	4,246
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (2016: Nil to 1.55%) per annum with maturity through 2039 (2016: maturity through 2039)	278	321
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2016: 1.10% to 2.50%) per annum with maturity through 2034 (2016: maturity through 2034)	72	89
Sub-total		3,883	4,656
Less: Current portion		(410)	(161)
		3,473	4,495

31. LONG-TERM BANK LOANS (Continued)

As at 31 December 2017, long-term bank loans of approximately RMB105 million (2016: approximately RMB173 million) were guaranteed by third parties.

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

	2017	2016
Balances due:		
– no later than one year	**410**	161
– later than one year and no later than two years	**423**	385
– later than two years and no later than five years	**1,175**	1,047
– later than five years	**1,875**	3,063
	3,883	4,656
Less: Portion classified as current liabilities	**(410)**	(161)
	3,473	4,495

32. 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 (the "Notes") 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, and was fully repaid in April 2017. 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, and was fully repaid in July 2016.

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, and was fully repaid in April 2017.

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, and was fully repaid in July 2017.

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, and was fully repaid in November 2017.

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.

(All amounts in RMB millions unless otherwise stated)

33. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.50% per annum. The corporate bonds were secured by a corporate guarantee granted by Bank of China Limited, and was fully repaid in June 2017.

On 7 June 2016, the Group issued RMB7 billion 3-year corporate bonds and RMB1 billion 5-year corporate bond, bearing interest at 3.07% and 3.43% per annum respectively.

On 14 July 2016, the Group issued RMB10 billion 3-year corporate bonds, bearing interest at 2.95% per annum.

34. DEFERRED REVENUE

Deferred revenue mainly represents the unused portion of subscriber points and the unamortised portion of government grants.

	2017	2016
Balance at beginning of the year	**3,367**	2,399
Additions for the year		
– subscriber points	**813**	287
– government grants	**513**	1,199
– others	**36**	11
	1,362	1,497
Reductions for the year		
– usage of subscriber points	**(703)**	(247)
– recognition of government grants in profit or loss and other reductions	**(507)**	(100)
– others	**(149)**	(182)
Balance at end of the year	**3,370**	3,367
Representing:		
– current portion	**350**	369
– non-current portion	**3,020**	2,998
	3,370	3,367

35. OTHER OBLIGATIONS

	Note	2017	2016
One-off cash housing subsidies	(a)	2,496	2,496
Obligations under finance lease	(b)	692	794
Others		231	186
Sub-total		3,419	3,476
Less: Current portion		(2,987)	(3,141)
		432	335

(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 2017, 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.

(All amounts in RMB millions unless otherwise stated)

35. OTHER OBLIGATIONS (Continued)

(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:

	2017	2016
Total minimum lease payments under finance lease:		
– not later than one year	484	624
– later than one year and not later than two years	236	230
	720	854
Less: Future finance charges	(28)	(60)
Present value of minimum obligations	692	794
Representing obligations under finance lease:		
– current liabilities	461	586
– non-current liabilities	231	208

36. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2017	2016
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 5.80% (2016: 2.35% to 4.35%) per annum with maturity through 2018 (2016: maturity through 2017)	22,500	76,994
Total		22,500	76,994

At 31 December 2017 and 2016, all short-term bank loans were unsecured.

37. COMMERCIAL PAPERS

On 3 June 2016, CUCL issued tranche three of 2016 super short term commercial papers in an amount of RMB6 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.72% per annum, and was fully repaid in February 2017.

On 12 July 2016, CUCL issued tranche four of 2016 super 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 2.55% per annum, and was fully repaid in April 2017.

On 17 November 2016, CUCL issued tranche five of 2016 super 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 3.00% per annum, and was fully repaid in August 2017.

On 24 November 2016, CUCL issued tranche six of 2016 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 180 days from the date of issue and which carries interest at 3.00% per annum, and was fully repaid in May 2017.

On 24 November 2016, CUCL issued tranche seven of 2016 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 180 days from the date of issue and which carries interest at 3.00% per annum, and was fully repaid in May 2017.

On 20 April 2017, CUCL issued tranche one of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 90 days from the date of issue and which carries interest at 3.90% per annum, and was fully repaid in July 2017.

On 26 April 2017, CUCL issued tranche two of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 90 days from the date of issue and which carries interest at 3.95% per annum, and was fully repaid in July 2017.

On 11 May 2017, CUCL issued tranche three of 2017 super short term commercial papers in an amount of RMB6 billion, with a maturity period of 90 days from the date of issue and which carries interest at 4.40% per annum, and was fully repaid in August 2017.

On 6 July 2017, CUCL issued tranche four of 2017 super short term commercial papers in an amount of RMB1 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.38% per annum.

On 27 July 2017, CUCL issued tranche five of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 90 days from the date of issue and which carries interest at 4.09% per annum, and was fully repaid in October 2017.

On 7 August 2017, CUCL issued tranche six of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.26% per annum.

On 10 August 2017, CUCL issued tranche seven of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.23% per annum.

(All amounts in RMB millions unless otherwise stated)

38. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Payables to contractors and equipment suppliers	**82,444**	105,674
Payables to telecommunications products suppliers	**4,548**	5,005
Customer/contractor deposits	**5,262**	4,869
Repair and maintenance expense payables	**5,348**	4,795
Bills payable	**49**	68
Salary and welfare payables	**3,711**	2,798
Interest payable	**709**	1,303
Amounts due to services providers/content providers	**2,253**	1,412
Accrued expenses	**14,845**	12,583
Others	**6,091**	4,717
	125,260	143,224

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

	2017	2016
Less than six months	**104,691**	120,191
Six months to one year	**9,009**	11,689
More than one year	**11,560**	11,344
	125,260	143,224

39. 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.

39. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA IN EACH OTHER (Continued)

As at 31 December 2017, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,070 million (2016: approximately RMB4,138million). For the year ended 31 December 2017, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB68 million (2016: decrease of approximately RMB531million), has been recorded in the consolidated statement of comprehensive income.

40. EQUITY-SETTLED SHARE OPTION SCHEMES

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 2017, 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.

No options outstanding as at 31 December 2017 and 2016.

For the years ended 31 December 2017 and 2016, there were no employee share-based compensation expenses.

41. 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.

(All amounts in RMB millions unless otherwise stated)

41. RELATED PARTY TRANSACTIONS (Continued)

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

41.1 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	2017	2016
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	30	42
Rental charges for property leasing	(i), (iii)	1,017	1,050
Charges for lease of telecommunications resources	(i), (iv)	270	281
Charges for engineering design and construction services	(i), (v)	2,411	4,487
Charges for shared services	(i), (vi)	83	104
Charges for materials procurement services	(i), (vii)	60	88
Charges for ancillary telecommunications services	(i), (viii)	2,699	2,541
Charges for comprehensive support services	(i), (ix)	1,274	1,690
Income from comprehensive support services	(i), (ix)	67	51
Lending by Finance Company to Unicom Group	(i), (xi)	700	–
Repayment of loan lending by Finance Company	(i), (xi)	500	–
Interest income from lending services	(i), (xi)	8	–

(i) On 25 November 2016, CUCL entered into the new agreement, "2017–2019 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2017–2019 Comprehensive Services Agreement has a term of three years commencing on 1 January 2017 and expiring on 31 December 2019, 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.

(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 2017, the rental charge paid by Unicom Group was approximately RMB6.65 million, which was negligible.

41. RELATED PARTY TRANSACTIONS (Continued)

41.1 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 2017, 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.

41. RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(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.

(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.

(xi) Finance Company has agreed to provide financial services to Unicom Group and its subsidiaries, including deposit services, lending and other credit services, and other financial services.

For the lending services from Finance Company to Unicom Group and its subsidiaries, the interest rate will follow the interest rate standard promulgated by the People's Bank of China, and will be no less than the minimum interest rate offered to other clients for the same type of loan, and the applicable interest rate offered to Unicom Group by the general commercial banks in PRC for the same type of loan.

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

Amount due from Unicom Group as of 31 December 2017 included a loan from Finance Company to Unicom Group of RMB200 million with a maturity period of 1 year and floating interest rate at 90% of the one-year lending rate set by the People's Bank of China (2016: Nil).

Apart from the above and as disclosed in Note 41.3 below, 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.

41. RELATED PARTY TRANSACTIONS (Continued)

41.2 Related party transactions with Tower Company

(a) Related party transactions

		2017	2016
Transactions with Tower Company:			
Interest income from Cash Consideration	(i)	755	809
Operating lease and other service charges	(ii)	16,524	14,887
Income from engineering design and construction services	(iii)	267	151

(i) 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 Communications Company Limited and its related subsidiaries ("China Mobile"), China Telecom Corporation Limited ("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 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 outstanding Cash Consideration and related VAT carries interest at 3.92% per annum. The first tranche and remaining Cash Consideration of RMB3,000 million and RMB18,322 million payable by Tower Company were settled in February 2016 and December 2017, respectively. For the year ended 31 December 2017, the interest income arisen from outstanding Cash Consideration and related VAT was approximately RMB755 million (2016: approximately RMB809 million).

(ii) At the time the Tower Assets Disposal was completed, CUCL and the Tower Company were in the process of finalising the terms of lease and service. However, to ensure there were no interruptions in the operations of the Group, the Tower Company had undertaken to allow the Group to use the Tower Assets during a transition period, notwithstanding that the terms of the lease and service have not all been finalised, and CUCL paid service charges for the use of the Tower Assets from the Completion Date to the date that formal agreement was entered into. In addition, CUCL also leased other telecommunications towers and related assets from the Tower Company which were previously owned by China Mobile and China Telecom, or constructed by the Tower Company.

On 8 July 2016, CUCL and Tower Company entered into a framework agreement to confirm the pricing and related arrangements in relation to the usage of certain telecommunications towers and related assets (the "Agreement"). The Agreement finalised terms including assets categories, pricing basis for usage charges, and relevant service period etc. Provincial service agreements and detailed lease confirmation for specified towers have been signed subsequently.

(All amounts in RMB millions unless otherwise stated)

41. RELATED PARTY TRANSACTIONS (Continued)

41.2 Related party transactions with Tower Company (Continued)

(a) Related party transactions (Continued)

In connection with its use of telecommunication towers and related assets, the Group recognised operating lease and other service charges for the year ended 31 December 2017 totalled RMB16,524 million (2016: approximately RMB14,887 million).

(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

Amount due from Tower Company as at 31 December 2017 included VAT recoverable related Cash Consideration from Tower Company of RMB2,704 million (2016: included Cash Consideration of RMB18,322 million and related VAT recoverable RMB2,704 million, respectively), which carries interest at 3.92% per annum.

Amount due to Tower Company balance mainly included operating lease and other service charges payable, and payable balance in relation to power charges paid by Tower Company on behalf of the Group, of RMB2,480 million in total as at 31 December 2017 (2016: RMB4,377 million in total).

Except as mentioned above, 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.

41.3 Related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

	Note	2017	2016
Transactions with Unicom Group and its subsidiaries:			
Unsecured entrusted loan from Unicom Group	(i)	5,237	–
Repayment of unsecured entrusted loan to Unicom Group	(i)	3,893	1,344
Loan from related parties	(ii)	435	–
Interest expenses on unsecured entrusted loan	(i)	70	33
Net (withdrawal)/deposits by Unicom Group and its subsidiaries from/with Finance Company	(iii)	(112)	2,397
Interest expenses on the deposits in Finance Company	(iii)	34	11

(i) On 23 July 2015, the Group borrowed an unsecured entrusted loan from Unicom Group of RMB1,344 million with a maturity period of 1 year and interest rate at 4.37% per annum, and was fully repaid in July 2016.

On 27 February 2017, the Group borrowed an unsecured entrusted loan from Unicom Group of RMB1,344 million with a maturity period of 1 year and interest rate at 3.92% per annum.

On 24 August 2017, the Group borrowed an unsecured entrusted loan from Unicom Group of RMB3,893 million with a maturity period of 6 months and interest rate at 3.92% per annum, and was fully repaid in October 2017.

41. RELATED PARTY TRANSACTIONS (Continued)

41.3 Related party transactions with Unicom Group and its subsidiaries (Continued)

(a) Related party transactions (Continued)

(ii) On 21 December 2017, the Group borrowed a loan from Unicom Group BVI of RMB435 million with a maturity period of 1 year and floating interest rate at 1 year HIBOR plus 1.2%.

(iii) Finance Company has agreed to provide financial services to Unicom Group and its subsidiaries. For the deposit services, the interest rate for deposits placed by Unicom Group and its subsidiaries will be no more than the maximum interest rate promulgated by the People's Bank of China for the same type of deposit, the interest rate for the same type of deposit offered to other clients and the applicable interest rate offered by the general commercial banks in PRC for the same type of deposit.

(b) Amounts due to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as of 31 December 2017 also included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,285 million with interest rates ranging from 0.35% to 2.75% per annum for saving and fixed deposits of different terms (2016: RMB2,397 million with interest rates ranging from 0.46% to 1.50% per annum).

41.4 Related party transactions with a joint venture

(a) Related party transactions

	Note	2017	2016
Transactions with a joint venture			
Unsecured entrusted loans from joint venture	(i)	100	–
Repayment of unsecured entrusted loans to joint venture	(i)	60	–
Net deposits from a joint venture with Finance Company		12	–

(i) On 24 April 2017, the Group borrowed an unsecured entrusted loan from Smart Steps Digital Technology Co., Ltd., a joint venture company of the Group, of RMB50 million with a maturity period of 6 months and interest rate at 3.92% per annum, and was fully repaid in October 2017.

On 24 October 2017, the Group borrowed an unsecured loan from Smart Steps Digital Technology Co., Ltd., of RMB50 million with a maturity period of 1 year and interest rate at 3.92% per annum, and repaid RMB10 million in December 2017.

(b) Amounts due to a joint venture

Amounts due to a joint venture as of 31 December 2017 also included a balance of deposits received by Finance Company from Smart Steps Digital Technology Co., Ltd. of RMB12 million with interest rates ranging from 0.42% to 1.48% per annum for saving and fixed deposits of different terms (2016: Nil).

41.5 Operating lease and other commitments to related parties

As at 31 December 2017 and 2016, the Group had commitments to related parties in respect of total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments totalled RMB35,857 million and RMB49,038 million respectively.

(All amounts in RMB millions unless otherwise stated)

42. CONTINGENCIES AND COMMITMENTS

42.1 Capital commitments

As at 31 December 2017 and 2016, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2017			2016
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	1,541	11,543	13,084	13,473
Authorised but not contracted for	11,998	25,795	37,793	35,286
	13,539	37,338	50,877	48,759

42.2 Operating lease and other commitments

As at 31 December 2017 and 2016, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments as follows:

	2017				2016
	Land and buildings	Equipment	Ancillary facilities*	Total	Total
Arrangements expiring:					
– not later than one year	1,263	13,615	4,253	19,131	17,191
– later than one year and not later than five years	2,533	20,662	6,385	29,580	41,490
– later than five years	97	880	–	977	1,503
	3,893	35,157	10,638	49,688	60,184

* The amount included payment commitments for non-lease elements.

42.3 Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities and no material financial guarantees issued.

43. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2017	2016
ASSETS		
Non-current assets		
Property, plant and equipment	**5**	10
Investments in subsidiaries	**234,768**	159,815
Loan to a subsidiary	**22,832**	32,602
Financial assets at fair value through other comprehensive income	**4,070**	4,138
	261,675	196,565
Current assets		
Loan to subsidiaries	**202**	2,467
Amounts due from subsidiaries	**2,510**	5,729
Dividend receivable	**2,712**	16,158
Prepayments and other current assets	**60**	6
Short-term bank deposits	**3,091**	–
Cash and cash equivalents	**1,229**	1,443
	9,804	25,803
Total assets	**271,479**	222,368
EQUITY		
Equity attributable to equity shareholders of the Company		
Share capital	**254,056**	179,102
Reserves	**(6,516)**	(6,448)
Retained profits		
– Proposed final dividend	**1,591**	–
– Others	**7,184**	7,869
Total equity	**256,315**	180,523

(All amounts in RMB millions unless otherwise stated)

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

	As at 31 December	
	2017	2016
LIABILITIES		
Current liabilities		
Short-term bank loans	**12,694**	29,331
Accounts payable and accrued liabilities	**160**	211
Loan from immediate holding company	**435**	–
Loans from subsidiaries	**928**	970
Amounts due to subsidiaries	**–**	6,385
Taxes payable	**27**	29
Dividend payable	**920**	920
Current portion of promissory notes	**–**	3,999
	15,164	41,845
Total liabilities	**15,164**	41,845
Total equity and liabilities	**271,479**	222,368
Net current liabilities	**(5,360)**	(16,042)
Total assets less current liabilities	**256,315**	180,523

Approved and authorised for issue by the Board of Directors on 15 March 2018 and signed on behalf of the Board by:

Wang Xiaochu
Director

Li Fushen
Director

44. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

45. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Certain supplementary provisions

On 31 January 2018, after arm-length negotiations and discussions, CUCL and Tower Company agreed on certain supplementary provisions based on the agreement signed between the Group and Tower Company on 8 July 2016, which mainly relate to a reduction in cost margin of Tower Company which forms the benchmark for pricing and an increase in co-tenancy discount rates offered to the Group regarding towers under co-sharing arrangement. The new terms apply to the leased tower portfolio as confirmed by both parties and will be effective from 1 January 2018 for a period of five years.

(b) Restrictive shares

On 9 February 2018, the Board of Directors of A Share Company approved to implement an employee restrictive share incentive scheme. Under the initial grant, 848 million restrictive shares of A Share Company will be granted to employees, including the Group's eligible employees, with unlocking conditions prescribed for operating units and individuals on a predetermined basis.

(c) Proposed dividend

After the statement of financial position date, the Board of Directors proposed a final dividend for 2017. For details, please refer to Note 30.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15 March 2018.