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 internet application services, other value-added services, transmission lines usage 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 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.

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, China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"), a substantial shareholder of A Share Company, 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, the shareholding of Unicom BVI in the Company increased from 40.61% to 53.52%.

The directors of the Company consider Unicom Group 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 IFRS/HKFRS 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;
- adjustments for deferred taxation in relation to the above adjustments; and
- recognition of the dilution gain or loss of interest in equity-accounted investee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(a) Going Concern Assumption

As at 31 December 2018, current liabilities of the Group exceeded current assets by approximately RMB139.0 billion (2017: approximately RMB165.9 billion). Considering the current 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 RMB260.9 billion of revolving banking facilities, of which approximately RMB245.6 billion was unutilised as at 31 December 2018; 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 commitments and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2018 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 judgments, 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 judgments 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.

Judgments 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.

(c) New Accounting Standards and Amendments

The Group has early adopted IFRS/HKFRS 9 (2010) "Financial Instruments" ("IFRS/HKFRS 9 (2010)") in 2011. In 2018, the Group has been impacted by IFRS/HKFRS 9 (2014), "Financial Instruments" ("IFRS/HKFRS 9 (2014)") in relation to measurement of credit losses, and impacted by IFRS/HKFRS 15, "Revenue from Contracts with Customers" ("IFRS/HKFRS 15") in relation to capitalisation of contract costs and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in Note 2.2(c)(ii) for IFRS/HKFRS 9 (2014) and Note 2.2(c)(iii) for IFRS/HKFRS 15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(i) Overview

Under the transition method chosen, the Group recognises cumulative effect of the initial application of IFRS/HKFRS 9 (2014) and IFRS/HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS/HKFRS 9 (2014) and IFRS/HKFRS 15:

	At 31 December 2017	Impact on initial application of IFRS/ HKFRS 9 (2014) (Note 2.2(c)(ii))	Impact on initial application of IFRS/HKFRS 15 (Note 2.2(c)(iii))	At 1 January 2018
ASSETS				
Deferred income tax assets	5,973	265	(584)	5,654
Contract assets	–	–	753	753
Other assets	20,721	–	(5,275)	15,446
Contract costs	–	–	6,856	6,856
Total non-current assets	495,261	265	1,750	497,276
Accounts receivable	13,964	(1,118)	–	12,846
Prepayments and other current assets	13,801	–	(2,221)	11,580
Contract assets	–	–	2,221	2,221
Total current assets	76,722	(1,118)	–	75,604
Total assets	571,983	(853)	1,750	572,880
EQUITY				
Reserves	(20,912)	(85)	175	(20,822)
Retained profits				
– Proposed final dividend	1,591	–	–	1,591
– Others	69,315	(768)	1,575	70,122
Total equity	304,347	(853)	1,750	305,244
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	125,260	–	3,671	128,931
Current portion of deferred revenue	350	–	(311)	39
Advances from customers	49,283	–	(49,000)	283
Contract liabilities	–	–	45,640	45,640
NON-CURRENT LIABILITIES				
Deferred revenue	3,020	–	(782)	2,238
Contract liabilities	–	–	782	782
Total equity and liabilities	571,983	(853)	1,750	572,880
Net current liabilities	(165,900)	(1,118)	–	(167,018)
Total assets less current liabilities	329,361	(853)	1,750	330,258

Further details of these changes are set out in sub-sections (ii) and (iii) of this note.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(ii) IFRS/HKFRS 9 (2014), "Financial instruments", including the amendments to IFRS/HKFRS 9, "Prepayment features with negative compensation"

The Group has early adopted IFRS/HKFRS 9 (2010) in 2011 and has applied 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 Group has applied IFRS/HKFRS 9 (2014) retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IFRS/HKFRS 9 (2010).

The following table summarises the impact of transition to IFRS/HKFRS 9 (2014) on retained profits and reserves and the related tax impact at 1 January 2018.

Reserves and Retained profits	
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	(1,118)
Related tax	265
Net decrease in retained profits and reserves at 1 January 2018	(853)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

i. Credit losses

IFRS/HKFRS 9 (2014) replaces the "incurred loss" model in IFRS/HKFRS 9 (2010) with an "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IFRS/HKFRS 9 (2010).

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, prepayments and other current assets, amounts due from ultimate holding company, amounts due from related parties, amounts due from domestic carriers and certain other assets); and

- contract assets as defined in IFRS/HKFRS 15 (see Note 2.2(c)(iii)).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2.15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(ii) IFRS/HKFRS 9 (2014), "Financial instruments", including the amendments to IFRS/HKFRS 9, "Prepayment features with negative compensation" (Continued)

i. Credit losses (Continued)

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB1,118 million, which decreased statutory reserve and retained profits by RMB853 million and increased gross deferred tax assets by RMB265 million at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with IFRS/HKFRS 9 (2010) as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS/HKFRS 9 (2014) as at 1 January 2018:

Loss allowance at 31 December 2017 under IFRS/HKFRS 9 (2010)	6,657
Additional credit loss recognised at 1 January 2018 on:	
– Accounts receivable	1,118
Loss allowance at 1 January 2018 under IFRS/HKFRS 9 (2014)	7,775

ii. Transition

Changes in accounting policies resulting from the adoption of IFRS/HKFRS 9 (2014) have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS/HKFRS 9 (2014) are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IFRS/HKFRS 9 (2010) and thus may not be comparable with the current period.

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(iii) IFRS/HKFRS 15, "Revenue from Contracts with Customers"

IFRS/HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS/HKFRS 15 replaces IAS/HKAS 18, "Revenue", which covered revenue arising from sale of goods and rendering of services, and IAS/HKAS 11, "Construction contracts", which specified the accounting for construction contracts.

IFRS/HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS/HKAS 11 and IAS/HKAS 18. As allowed by IFRS/HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The Group's previous revenue recognition accounting policies of bundled sales transactions were generally consistent with the requirements of IFRS/HKFRS 15 in material respects.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

i. Sales commission

The Group previously recognised sales commissions payable as other operating expenses when they were incurred. Under IFRS/HKFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related contract is recognised and are included as other operating expenses at that time.

The following table summarises the impact of transition to IFRS/HKFRS 15 on retained profits and reserves and the related tax impact at 1 January 2018:

Reserves and Retained profits	
Capitalisation of sales commissions	2,334
Related tax	(584)
Net increase in retained profits and reserves at 1 January 2018	1,750

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(iii) IFRS/HKFRS 15, "Revenue from Contracts with Customers" (Continued)

ii. Presentation of contract assets, contract cost and contract liabilities

Under IFRS/HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contracts in progress were presented in the consolidated statement of financial position under "Prepayments and other current assets", "Other assets", "Advances from customers" and "Deferred revenue".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS/HKFRS 15:

a. "Receivables for the sales of mobile handsets, net of allowance" which were previously included in "Prepayments and other current assets" and "Other assets", amounting to RMB2,221 million and RMB753 million, respectively, are now included under contract assets.

b. "Direct incremental costs for activating broadband and Internet Protocol Television ("IPTV") subscribers" which were previously included in "Other assets", amounting to RMB4,522 million, are now included under contract costs.

c. (1) "Advances received from customers for prepaid cards, other calling cards and prepaid service fees" amounting to RMB45,329 million, which were previously included in "Advances from customers"; (2) "allocated portion of fair value for the subscriber points reward" which were previously included in "Deferred revenue" and "Current portion of deferred revenue", amounting to RMB525 million and RMB207 million, respectively; (3) "installation fees of fixed-line service" which were previously included in "Deferred revenue" and "Current portion of deferred revenue", amounting to RMB207 million and RMB104 million, respectively; and (4) "Advances received from customers for transmission lines usage and associated services" amounting to RMB50 million, which were previously included in "Deferred revenue", are now included under contract liabilities. "Value-added tax ("VAT") received from customer in advance" amounting to RMB3,671 million, which were previously included in "Advances from customers" are now included in accounts payables and accrued liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(iii) IFRS/HKFRS 15, "Revenue from Contracts with Customers" (Continued)

iii. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS/HKFRS 15 on 1 January 2018.

The following tables summarise the estimated impact of adoption of IFRS/HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS/HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS/HKAS 18 and IAS/HKAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS/HKFRS 15. These tables show only those line items impacted by the adoption of IFRS/HKFRS 15:

	Amounts reported in accordance with IFRS/ HKFRS 15	Hypothetical amounts under IASs/ HKASs 18 and 11	Difference: Estimated impact of adoption of IFRS/HKFRS 15 on 2018
Line items in the consolidated statement of income for the year ended 31 December 2018 impacted by the adoption of IFRS/HKFRS 15:			
Other operating expenses	62,561	62,074	487
Profit before income tax	13,081	13,568	(487)
Income tax expenses	(2,824)	(2,946)	122
Profit for the year	10,257	10,622	(365)
Profit attributable to equity shareholders of the Company	10,197	10,562	(365)
Earnings per share for profit attributable to equity shareholders of the Company during the year:			
Basic earnings per share (RMB)	0.33	0.34	(0.01)
Diluted earnings per share (RMB)	0.33	0.34	(0.01)
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of IFRS/HKFRS 15:			
Total comprehensive income for the year	10,012	10,377	(365)
Total comprehensive income attributable to:			
Equity shareholders of the Company	9,952	10,317	(365)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(iii) IFRS/HKFRS 15, "Revenue from Contracts with Customers" (Continued)

iii. (Continued)

	Amounts reported in accordance with IFRS/ HKFRS 15	Hypothetical amounts under IASs/ HKASs 18 and 11	Difference: Estimated impact of adoption of IFRS/HKFRS 15 on 2018
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS/HKFRS 15:			
ASSETS			
Deferred income tax assets	3,401	3,630	(229)
Contract assets	570	–	570
Other assets	14,645	19,000	(4,355)
Contract costs	5,632	–	5,632
Total non-current assets	464,411	462,793	1,618
Prepayments and other current assets	11,106	12,360	(1,254)
Contract assets	1,254	–	1,254
Total current assets	75,909	75,909	–
Total assets	540,320	538,702	1,618
EQUITY			
Reserves	(20,154)	(20,293)	139
Retained profits			
– Others	75,920	74,674	1,246
Total equity	314,286	312,901	1,385
LIABILITIES			
Accounts payable and accrued liabilities	122,458	119,060	3,398
Taxes payable	911	678	233
Current portion of deferred revenue	78	1,161	(1,083)
Advances from customers	328	45,293	(44,965)
Contract liabilities	42,650	–	42,650
Total current liabilities	214,910	214,677	233
Total equity and liabilities	540,320	538,702	1,618
Net current liabilities	(139,001)	(138,768)	(233)
Total assets less current liabilities	325,410	324,025	1,385
Line items in the reconciliation of profit before taxation to cash generated from operations for the year ended 31 December 2018 impacted by the adoption of IFRS/HKFRS 15:			
Profit before income tax	13,081	13,568	(487)
Increase in contract costs	(3,001)	–	(3,001)
Decrease/(Increase) in other assets	1,584	(1,721)	3,305
Decrease in contract assets	1,150	—	1,150
Decrease in prepayments and other current assets	60	1,027	(967)
Increase in accounts payable and accrued liabilities	6,591	6,268	323
Decrease in contract liabilities	(4,322)	—	(4,322)
Increase in deferred revenue	1,474	1,464	10
Increase/(Decrease) in advances from customers	45	(3,944)	3,989

The differences arise as a result of the changes in accounting policies described above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(iv) IFRIC/HK(IFRIC) 22, "Foreign currency transactions and advance consideration" ("IFRIC/HK(IFRIC) 22")

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC/HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(v) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

The IASB and HKICPA has issued a number of new IFRSs/HKFRSs and amendments to IFRSs/HKFRSs and IAS/HKAS which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. Of these, the following developments are relevant to the Group's financial statements:

	Effective for accounting periods beginning on or after
IFRS/HKFRS 16, "Leases"	1 January 2019
IFRIC/HK(IFRIC) 23, "Uncertainty over income tax treatments"	1 January 2019
Annual Improvements to IFRSs/HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS/HKAS 28, "Long-term interest in associates and joint ventures"	1 January 2019

The Group is assessing the impact of such new standards, amendments to standards and interpretation, and will adopt the relevant standards, amendments to standards and interpretation in the subsequent period as required. In particular, the Group provides the following information in respect of IFRS/HKFRS 16, "Leases" which may has a significant impact on the Group's consolidated financial statements. While the assessment has been substantially completed for IFRS/HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS/HKFRS 16, "Leases" ("IFRS/HKFRS 16")

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(v) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

IFRS/HKFRS 16, "Leases" ("IFRS/HKFRS 16") (Continued)

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 income over the period of the lease.

IFRS/HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS/HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS/HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS/HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 45.2, the Group's future aggregate minimum operating lease and other service payments amounted to RMB54,751 million at 31 December 2018. Upon the initial adoption of IFRS/HKFRS 16, certain of the lease commitments will be recognised as the opening balances of lease liabilities and the corresponding right-of-use assets as at 1 January 2019, after taking account the effects of discounting.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS/HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2.21 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and Non-Controlling Interests (Continued)

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 2.13) 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 2.14), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and Joint Ventures (Continued)

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2.5 Segment Reporting

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

2.6 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, Plant and Equipment (Continued)

(c) Depreciation (Continued)

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 2.14).

(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. 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.

2.10 Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2.16), property, plant and equipment (see Note 2.7) or intangible assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Contract costs (Continued)

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2.26.

2.11 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2.26) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2.2(c)(ii) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2.17).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2.26). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2.17).

The Group provides subscriber points reward program, the transaction price of providing telecommunications services and the subscriber points reward is allocated based on their standalone price. The allocated portion of transaction price for the subscriber points reward is recorded as contract liability when the rewards are granted and recognised as revenue when the points are redeemed or expired.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2.26).

2.12 Other Assets

Other assets mainly represent (i) computer software; (ii) prepaid rental for premises, transmission lines and electricity cables.

(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 and usage fees for premises, transmission lines and electricity cables are amortised using a straight-line method over service period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 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.

Cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, prepayments and other current assets, amounts due from ultimate holding company, amounts due from related parties, amounts due from domestic carriers and certain other assets are also classified under this category.

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

Financial assets measured at fair value

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 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.

2.15 Credit losses from financial instruments and contract assets

a) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, prepayments and other current assets, amounts due from ultimate holding company, amounts due from related parties, amounts due from domestic carriers and certain other assets); and

- contract assets as defined in IFRS/HKFRS 15 (see Note 2.2(c)(iii)).

Financial assets measured at fair value, including financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- twelve month ECLs: these are losses that are expected to result from possible default events within the twelve months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Credit losses from financial instruments and contract assets (Continued)

a) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

Loss allowances for accounts receivable and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to twelve months ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

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

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

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

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Credit losses from financial instruments and contract assets (Continued)

a) Policy applicable from 1 January 2018 (Continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

b) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, 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.

2.16 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)

2.17 Accounts Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2.11).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2.15).

2.18 Short-term Bank Deposits

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

2.19 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 three months or less.

2.20 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.

2.21 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 twelve months after the statement of financial position date.

2.22 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 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.

(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 2018, the amount of the liability was RMB73 million (2017: RMB68 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee Benefits (Continued)

(f) Restricted A-Share Incentive Scheme

Restricted shares granted by A Share Company to the employees of the Group is treated as a capital contribution. The fair value of the core employee services received in exchange for the grant of the restricted shares is recognised as an expense over the vesting period, with a corresponding credit to equity. The total amount to be expensed is determined by reference to the fair value of the granted shares measured as of the grant date less the subscription price.

At the end of each reporting period, the Group revises its estimates of the number of restricted shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

2.24 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.

2.25 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.

2.26 Revenue Recognition

Income is classified by the Group as revenue when it arises from the provision of services and the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than twelve months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in IFRS/HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is twelve months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue Recognition (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

- 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, which represent revenue received or receivable from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, are recognised when services are rendered;
- Revenue from transmission lines usage and associated services, which mainly represent income from offering lines and customer-end equipment to customers for usage and related services, are recognised upon fulfillment of services obligation over the respective usage and service period;
- Standalone sales of telecommunications products, which mainly represent handsets and accessories, and telecommunications equipment, are recognised when title have 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 standalone selling prices. 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.

In general, revenue from rendering of telecommunication services are recognised over-time upon fulfillment of services obligation, whereas revenue from sales of handsets and other telecommunications equipment, in case they are treated as separate performance obligations, are recognised at a point in time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Interest income

Interest income from deposits in banks or other financial institutions is recognised on a time proportion basis, using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost of the asset.

2.28 Dividend income

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

2.29 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.

2.30 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Borrowing Costs (Continued)

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.

2.31 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.32 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.

2.33 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.

2.34 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.

2.35 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)

2.35 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 headquarters, following the overall direction determined by the Executive Directors of the Company. The Group's fund management center at its headquarters 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 headquarters 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 2018 and 2017, 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 ("PBOC") as at 31 December 2018 and 2017.

	2018			2017		
	Original currency millions	**Exchange rate**	**RMB equivalent millions**	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	**66**	**0.88**	**58**	508	0.84	425
– denominated in US dollars	**114**	**6.86**	**783**	150	6.53	980
– denominated in Euro	**16**	**7.85**	**123**	12	7.80	95
– denominated in Japanese Yen	**17**	**0.06**	**1**	17	0.06	1
– denominated in SGD	**–**	**5.01**	**–**	–	4.88	1
– denominated in GBP	**–**	**8.68**	**1**	1	8.78	10
– denominated in CHF	**–**	**6.95**	**1**	–	6.68	–
Sub-total			**967**			1,512
Accounts receivable：						
– denominated in HK dollars	**1**	**0.88**	**1**	–	0.84	–
– denominated in US dollars	**233**	**6.86**	**1,599**	229	6.53	1,496
– denominated in Euro	**1**	**7.85**	**8**	2	7.80	16
Sub-total			**1,608**			1,512
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	**471**	**7.85**	**3,698**	522	7.80	4,070
Total			**6,273**			7,094
Borrowings:						
– denominated in US dollars	**37**	**6.86**	**252**	43	6.53	278
– denominated in Euro	**8**	**7.85**	**62**	9	7.80	72
– denominated in HK dollars	**2**	**0.88**	**2**	520	0.84	435
Sub-total			**316**			785
Accounts payable：						
– denominated in US dollars	**73**	**6.86**	**501**	58	6.53	379
– denominated in Euro	**1**	**7.85**	**8**	2	7.80	16
Sub-total			**509**			395
Total			**825**			1,180

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 2018, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen, SGD, CHF and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB131 million (2017: approximately RMB138 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 RMB370 million (2017: approximately RMB407 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 2018, 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 RMB370 million (2017: approximately RMB407 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 the years of 2018 and 2017, 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 the years of 2018 and 2017.

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 2018, the Group had approximately RMB19,784 million (2017: approximately RMB35,607 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB24,889 million (2017: approximately RMB40,516 million) of long-term fixed rate borrowings.

For the year ended 31 December 2018, 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 RMB74 million (2017: approximately RMB134 million).

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. 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 major corporate customers, individual subscribers and general corporate customers, 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 individual subscribers and corporate customers. 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 and general corporate customers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For major 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.

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 headquarters 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 2018					
Long-term bank loans	**452**	**439**	**1,334**	**2,150**	**3,614**
Corporate bonds	**17,282**	**34**	**1,015**	**–**	**17,993**
Other obligations	**2,853**	**32**	**48**	**49**	**3,034**
Accounts payable and accrued liabilities	**122,458**	**–**	**–**	**–**	**122,458**
Amounts due to related parties	**8,977**	**132**	**3,436**	**–**	**11,885**
Amounts due to ultimate holding company	**1,214**	**–**	**–**	**–**	**1,214**
Amounts due to domestic carriers	**2,144**	**–**	**–**	**–**	**2,144**
Short-term bank loans	**15,449**	**–**	**–**	**–**	**15,085**
	170,829	**637**	**5,833**	**2,199**	**177,427**
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

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 RMB4,621 million and of RMB30 million, respectively, as at 31 December 2018 (2017: RMB2,285 million and RMB12 million, respectively).

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

	2018	2017
Interest-bearing debts:		
– Commercial papers	**–**	8,991
– Short-term bank loans	**15,085**	22,500
– Long-term bank loans	**3,173**	3,473
– Corporate bonds	**999**	17,981
– Obligations under finance lease included in other obligations	**6**	231
– Amounts due to ultimate holding company	**–**	1,344
– Amounts due to related parties	**3,090**	475
– Current portion of long-term bank loans	**441**	410
– Current portion of promissory notes	**–**	17,960
– Current portion of corporate bonds	**16,994**	–
– Current portion of obligations under finance lease	**234**	461
	40,022	73,826
Total equity	**314,286**	304,347
Interest-bearing debts plus total equity	**354,308**	378,173
Debt-to-capitalisation ratio	**11.3%**	19.5%

The decrease in debt-to-capitalisation ratio during the year of 2018 resulted primarily from the decrease in interest-bearing debts and the increase in total equity.

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 2018:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	3,845	–	–	3,845
– Unlisted	–	–	58	58
	3,845	–	58	3,903
Financial assets at fair value through profit and loss				
– Equity securities				
– Unlisted	–	–	200	200
– Wealth management products	–	570	–	570
Total	3,845	570	258	4,673

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 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	–	–	63	63
– Wealth management products	–	97	–	97
Total	4,228	97	121	4,446

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 2018 and 2017, 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.

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 2018 and 2017. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amount as at 31 December 2018	**Fair value as at 31 December 2018**	**Fair value measurement as at 31 December 2018 categorised into**			Carrying amount as at 31 December 2017	Fair value as at 31 December 2017
			Level 1	**Level 2**	**Level 3**		
Non-current portion of long-term bank loans	**3,173**	**3,098**	**–**	**3,098**	**–**	3,473	3,187
Non-current portion of corporate bonds	**999**	**1,014**	**1,014**	**–**	**–**	17,981	17,712

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 0.79% to 4.48% (2017: 1.18% to 5.51%) 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 2018 and 2017 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 2.14. 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 2018 and 2017.

4.3 Allowance for expected credit losses

Management estimates expected credit loss allowance on account receivables and contract assets using a provision matrix based on the Group's historical credit loss experience, and adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. The Group monitored and reviewed the assumptions relating to expected credit loss regularly. For the Group's detailed assessment of credit risk please refer to Note 3.1(b).

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 credit loss allowance. Due to the effects of these temporary differences on income tax, the Group has recorded net deferred tax assets amounting to approximately RMB3,401 million as at 31 December 2018 (2017: approximately RMB5,973 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.

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 VAT and VAT rates applicable to various telecommunications services. The Ministry of Finance and the State Administration of Taxation ("SAT") of the PRC jointly issued a notice dated 4 April 2018 which stipulates downward adjustments of VAT rate for basic telecommunications services from 11% to 10% and VAT rate for sales of telecommunications products from 17% to 16% from 1 May 2018. The VAT rate for value-added telecommunications services remains at 6%. Basic telecommunications services include business activities for the provision of voice services, and transmission lines usage 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.

Disaggregation of revenue from customers by major services and products:

	2018	2017 (Note)
Voice usage and monthly fees	**32,486**	39,154
Broadband and mobile data services	**148,431**	137,133
Data and internet application services	**26,489**	20,074
Other value-added services	**24,606**	22,793
Interconnection fees	**13,708**	14,233
Transmission lines usage and associated services	**14,178**	12,519
Other services	**3,785**	3,109
Total service revenue	**263,683**	249,015
Sales of telecommunications products	**27,194**	25,814
Total	**290,877**	274,829
Include: Revenue from contracts with customers within the scope of IFRS/HKFRS 15	**289,810**	
Revenue from other sources	**1,067**	

Note: The Group has initially applied IFRS/HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS/HKAS 18 and IAS/HKAS 11 (see Note 2.2(c)(iii)).

6. REVENUE (Continued)

The Group's revenue is primarily generated from the provision of voice usage, broadband and mobile data services, data and internet application services, other value-added services, transmission lines usage and associated services and sale of telecommunication products. The Group bills the majority of its customers based on a fixed rate and service volume each month, and then has a right to consideration from the customers. Transaction prices that were allocated to unsatisfied performance obligations as of the end of the reporting period are expected to be recognised within one to five years when services are rendered. The Group has applied the practical expedient in paragraph 121 of IFRS/HKFRS 15 and therefore the information about remaining performance obligations is not disclosed for contracts that have an original expected duration of one year or less and also for those performance obligations which are regarded as satisfied as invoiced.

7. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	**2018**	2017
Repairs and maintenance		**11,102**	10,531
Power and water charges		**14,481**	14,853
Operating lease and other services charges for network, premises, equipment and facilities		**11,445**	10,724
Operating lease and other service charges from China Tower Corporation Limited ("Tower Company")	44.2	**15,982**	16,524
Others		**2,067**	1,875
		55,077	54,507

8. EMPLOYEE BENEFIT EXPENSES

	Note	**2018**	2017
Salaries and wages		**35,498**	32,155
Contributions to defined contribution pension schemes		**6,823**	5,550
Contributions to medical insurance		**2,241**	2,010
Contributions to housing fund		**2,944**	2,722
Other housing benefits		**23**	34
Share-based compensation	43	**614**	–
		48,143	42,471

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments

The remuneration of each Director for the year of 2018 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		–	207	466	128	801
Li Guohua	(a)	–	78	78	49	205
Lu Yimin	(b)	–	108	368	70	546
Li Fushen		–	176	429	119	724
Shao Guanglu	(c)	–	176	416	125	717
Zhu Kebing	(d)	–	66	66	47	179
Cesareo Alierta Izuel		254	–	–	–	254
Cheung Wing Lam Linus		347	–	–	–	347
Wong Wai Ming		356	–	–	–	356
Chung Shui Ming Timpson		364	–	–	–	364
Law Fan Chiu Fun Fanny		330	–	–	–	330
Total		1,651	811	1,823	538	4,823

* 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的通知》（國資分配[2016]339號）), certain Directors were also entitled to deferred bonuses in relation to the year of 2015. The deferred bonuses paid to Mr. Wang Xiaochu, Mr. Lu Yimin, Mr. Li Fushen and Mr. Shao Guanglu were RMB58,900, RMB176,600, RMB158,900 and RMB155,400 respectively.

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	(b)	–	195	398	114	707
Li Fushen		–	166	367	114	647
Shao Guanglu	(c)	–	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)

Notes:

(a) Mr. Li Guohua was appointed as executive director on 17 August 2018.

(b) Mr. Lu Yimin resigned as executive director on 10 July 2018.

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

(d) Mr. Zhu Kebing was appointed as executive director on 17 August 2018.

During the years of 2018 and 2017, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2018 and 2017.

During the years of 2018 and 2017, 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.

8.2 Senior management's emoluments

Of the seven senior management of the Company for the year ended 31 December 2018, five of them are directors of the Company and their remuneration has been disclosed in Note 8.1. For the remuneration of the remaining two 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 2018, five of them are staffs and three fall within the band from RMB1,500,001 to RMB2,000,000, one falls within the band from RMB2,500,001 to RMB3,000,000 and one falls within the band from RMB5,000,001 to RMB5,500,000 (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).

The aggregate of the emoluments in respect of the five (2017: five) individuals are as follows:

	2018 **(RMB'000)**	2017 (RMB'000)
Salaries and allowances	**3,941**	3,363
Bonuses paid and payable	**8,749**	3,508
Contributions to pension schemes	**703**	788
	13,393	7,659

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2018	2017
Handsets and other telecommunication products	**27,403**	26,406
Others	**201**	237
	27,604	26,643

10. OTHER OPERATING EXPENSES

	Note	2018	2017
Credit loss allowance and write-down of inventories		**3,846**	3,955
Commission and other service expenses		**23,151**	22,658
Advertising and promotion expenses		**2,882**	2,463
Internet access terminal maintenance expenses		**3,358**	3,547
Customer retention costs		**4,085**	3,987
Auditors' remuneration		**78**	74
Property management fee		**2,192**	2,169
Office and administrative expenses		**1,763**	1,919
Transportation expense		**1,565**	1,642
Miscellaneous taxes and fees		**1,387**	1,251
Service technical support expenses		**8,035**	4,355
Repairs and maintenance expenses		**770**	824
Loss on disposal of property, plant and equipment	15	**4,148**	3,489
Others		**5,301**	4,833
		62,561	57,166

11. FINANCE COSTS

	Note	2018	2017
Finance costs:			
– Interest on bank loans repayable within 5 years		908	3,378
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		1,113	2,403
– Interest on related party loans repayable within 5 years		33	73
– Interest on bank loans repayable over 5 years		47	53
– Less: Amounts capitalised CIP	15	(534)	(670)
Total interest expense		1,567	5,237
– Net exchange (gain)/loss		(80)	231
– Others		138	266
		1,625	5,734

12. OTHER INCOME – NET

	2018	2017
Dividend income from financial assets at fair value through other comprehensive income	203	206
Others	580	1,074
	783	1,280

13. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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% (2017: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2017: 15%).

	2018	2017
Provision for income tax on the estimated taxable profits for the year		
– Hong Kong	88	44
– Mainland China and other countries	459	654
Under-provision in respect of prior years	18	39
	565	737
Deferred taxation	2,259	6
Income tax expenses	2,824	743

13. TAXATION (Continued)

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

	Note	2018	2017
Profit before taxation		**13,081**	2,593
Expected income tax expense at PRC statutory tax rate of 25%		**3,270**	648
Impact of different tax rates outside Mainland China		**(47)**	(55)
Tax effect of preferential tax rate	(i)	**(91)**	(82)
Tax effect of non-deductible expenses		**421**	300
Tax effect of non-taxable income from share of net profit of joint ventures		**(150)**	(143)
Tax effect of non-taxable income from share of net profit of associates	(ii)	**(369)**	(133)
Under-provision in respect of prior years		**18**	39
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	**(162)**	49
Others		**(66)**	120
Actual tax expense		**2,824**	743

(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 net profit of associates, including dilution gain, net of reversal of deferred tax assets on release of unrealised profit from transactions with Tower Company.

(iii) As at 31 December 2018, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB1,313 million (2017: approximately RMB1,923 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 the year of 2023.

As at 31 December 2018, the Group did not recognise deferred tax assets of RMB1,942 million (2017: RMB1,849 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.

13. TAXATION (Continued)

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

	2018	2017
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	**7,931**	8,011
– Deferred tax asset to be recovered within 12 months	**2,011**	2,598
	9,942	10,609
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	**(5,770)**	(4,079)
– Deferred tax liabilities to be settled within 12 months	**(771)**	(557)
	(6,541)	(4,636)
Net deferred tax assets after offsetting	**3,401**	5,973
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	**(111)**	(108)
– Deferred tax liabilities to be settled within 12 months	**–**	–
	(111)	(108)
Net deferred tax liabilities after offsetting	**(111)**	(108)

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

	2018	2017
Net deferred tax assets after offsetting:		
– Balance at 31 December 2017 and 2016	**5,973**	5,986
– Impact on initial application of IFRS/HKFRS 15	**(584)**	–
– Impact on initial application of IFRS/HKFRS 9 (2014)	**265**	–
– Balance at 1 January 2018 and 2017	**5,654**	5,986
– Deferred tax charged to the statement of income	**(2,256)**	(11)
– Deferred tax credited/(charged) to other comprehensive income	**3**	(2)
– End of year	**3,401**	5,973
Net deferred tax liabilities after offsetting:		
– Beginning of year	**(108)**	(113)
– Deferred tax (charged)/credited to the statement of income	**(3)**	5
– End of year	**(111)**	(108)

13. TAXATION (Continued)

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:	Credit loss allowance	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 (iii))	Gain from Tower Assets Disposal (Note(ii))	Contract costs	Others	Total
At 1 January 2017	1,553	1,451	2,433	1,693	787	(2,243)	(1,118)	–	1,317	5,873
Credited/(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
Impact on initial application of IFRS/HKFRS 15	–	–	–	–	–	–	–	(584)	–	(584)
Impact on initial application of IFRS/HKFRS 9	265	–	–	–	–	–	–	–	–	265
At 1 January 2018	**1,868**	**1,403**	**2,244**	**2,554**	**697**	**(3,870)**	**(745)**	**(584)**	**1,979**	**5,546**
(Charged)/Credited to the statement of income	**(154)**	**(49)**	**(941)**	**626**	**(252)**	**(2,051)**	**373**	**355**	**(166)**	**(2,259)**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**
At 31 December 2018	**1,714**	**1,354**	**1,303**	**3,180**	**445**	**(5,921)**	**(372)**	**(229)**	**1,816**	**3,290**

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	2018	2017
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Credit loss allowance		**1,714**	1,603
Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(i)	**1,354**	1,403
Accruals of expenses not yet deductible for tax purpose		**3,180**	2,554
Deferred revenue on subscriber points reward program		**203**	183
Unrealised profit for the inter-company transactions		**153**	120
Unrealised profit from the transactions with Tower Company		**445**	697
Government grants related to assets		**536**	363
Intangible assets amortisation difference		**418**	423
Deductible tax losses		**1,303**	2,244
Others		**636**	1,019
		9,942	10,609
Deferred tax liabilities:			
Gain from Tower Assets Disposal	(ii)	**(372)**	(745)
Accelerated depreciation of property, plant and equipment	(iii)	**(5,921)**	(3,870)
Contract costs		**(229)**	–
Others		**(19)**	(21)
		(6,541)	(4,636)
		3,401	5,973
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		**(111)**	(108)
		(111)	(108)

(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.

13. TAXATION (Continued)

(ii) 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 44). According to the applicable tax laws issued by the MOF and the 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, amounted to RMB373 million was subsequently utilised during the year ended 31 December 2018 (2017: RMB373 million).

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

14. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2018 and 2017 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 2018 and 2017 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 2018 and 2017.

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

	Note	**2018**	2017
Numerator (in RMB millions):			
Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share		**10,197**	1,828
Denominator (in millions):			
Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	(i)	**30,598**	24,567
Basic/Diluted earnings per share (in RMB)		**0.33**	0.07

14. EARNINGS PER SHARE (Continued)

(i) Weighted average number of ordinary shares

	2018 (in millions)	2017 (in millions)
Issued ordinary shares at 1 January	30,598	23,947
Effect of shares issued	–	620
Weighted average number of ordinary shares at 31 December	30,598	24,567

15. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2018 and 2017 are as follows:

	2018					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	71,077	870,692	20,170	4,290	52,218	1,018,447
Additions	136	469	396	135	43,574	44,710
Transfer from CIP	2,959	44,805	746	253	(48,763)	–
Transfer to other assets	–	–	–	–	(4,723)	(4,723)
Disposals	(296)	(69,581)	(1,232)	(762)	–	(71,871)
End of year	73,876	846,385	20,080	3,916	42,306	986,563
Accumulated depreciation and impairment:						
Beginning of year	(31,714)	(551,399)	(15,444)	(3,189)	(105)	(601,851)
Charge for the year	(2,712)	(62,308)	(1,271)	(551)	(13)	(66,855)
Disposals	204	64,496	1,156	762	–	66,618
End of year	(34,222)	(549,211)	(15,559)	(2,978)	(118)	(602,088)
Net book value:						
End of year	39,654	297,174	4,521	938	42,188	384,475
Beginning of year	39,363	319,293	4,726	1,101	52,113	416,596

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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

As at 31 December 2018, the net book value of assets held under finance leases was approximately RMB343 million (2017: approximately RMB789 million).

For the year ended 31 December 2018, interest expense of approximately RMB534 million (2017: approximately RMB670 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings and varied from 3.16% to 3.61% for the year ended 31 December 2018 (2017: 3.21% to 3.88%).

As a result of the Group's ongoing modification of its telecommunications network and following subscribers' voluntarily cross-network migration progress, the Group disposed certain property, plant and equipment with carrying amounts of RMB5,253 million for sales consideration of RMB1,105 million for the year ended 31 December 2018 (2017: RMB5,519 million and RMB2,030 million, respectively), resulting in a net loss of approximately RMB4,148 million for the year ended 31 December 2018 (2017: approximately RMB3,489 million).

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 years ended 31 December 2018 and 2017 are as follow:

	2018	2017
Beginning of the year	**9,313**	9,436
Addition	**282**	186
Amortisation	**(305)**	(309)
End of the year	**9,290**	9,313

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 1% (2017: 2%) and the applicable discount rate of 11% (2017: 11%). 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 2018 and 2017, 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 2018, 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%	–	HKD2,625,097,491	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%	100 shares, ZAR1 each	Telecommunications operation in South Africa
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
China Unicom (Australia) Operations Pty Limited	Australia, 27 May 2014, limited liability company	–	100%	4,350,000 shares, AUD1 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$21,165,840	Telecommunications service in Brazil

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 (Brazil) Holdings Ltda.	Brazil, 27 October 2017, limited liability company	–	100%	R$21,277,298	Investment holding
China Unicom Operations (Thailand) Limited	Thailand, 20 November 2017, limited liability company	–	100%	20,000 shares, Baht100 each	Telecommunications service in Thailand
China Unicom Operations (Malaysia) Sdn. Bhd.	Malaysia, 10 November 2017, limited liability company	–	100%	10,000 shares, MYR1 each	Telecommunications service in Malaysia
China Unicom Operations Korea Co., Ltd	Korea, 24 November 2017, limited liability company	–	100%	60,000 shares, KRW5,000 each	Telecommunications service in Korea
China Unicom (Vietnam) Operations Company Limited	Vietnam, 19 April 2018, limited liability company	–	100%	VND2,276,000,000	Telecommunications service in Vietnam
China Unicom Operations (Cambodia) Operations Co. Ltd	Cambodia, 11 May 2018, limited liability company	–	100%	10,000 shares, Riels4,000 each	Telecommunications service in Cambodia
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%	RMB932,200,000	Provision of information communications technology services in the PRC
China Unicom Online Information Technology Company Limited	The PRC, 29 March 2006, limited liability company	–	100%	RMB400,000,000	Provision of internet information services and value-added telecommunications services in the PRC
Beijing Telecom Planning and Designing Institute Company 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

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 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%	RMB50,100,000	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
Beijing Wo Digital Media Advertising Co., Ltd	The PRC, 21 July 2006, limited liability company	–	100%	RMB20,000,000	Provision of advertising design, production, agency and publication in the PRC
Unicom Horizon Mobile Communications Company Limited ("Unicom Horizon")	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%	RMB740,000,000	Venture capital investment business in the PRC
Xiaowo Technology Co. Ltd	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%	RMB170,000,000	Auto informatisation 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		
Unicom Intelligent Network Ruixing Technology (Beijing) Co., Ltd.	The PRC, 26 September 2018, limited liability company	–	80%	RMB10,000,000	Provision of technology promotion service of intelligent transportation system's products in the PRC
Unicom Intelligent Vehicle Technology (Shanghai) Co., Ltd	The PRC, 28 September 2018, limited liability company	–	100%	Not applicable	Provision of technology development, technology consultation and other services 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
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
Unicom Big Data Co., Ltd.	The PRC, 24 August 2017, limited liability company	–	100%	RMB165,000,000	Provision of data processing service in the PRC
Liantong Travel Service (Beijing) Company Limited	The PRC, 30 September 2017, limited liability company	–	100%	RMB12,000,000	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%	RMB11,000,000	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

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 (Fujian) Industrial Internet Company Limited	The PRC, 23 February 2018, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology services in the PRC
China Unicom (Shanxi) Industrial Internet Company Limited	The PRC, 21 March 2018, limited liability company	–	100%	RMB20,000,000	Provision of information communications technology services in the PRC
China Unicom Xiongan Industrial Internet Company Limited	The PRC, 25 April 2018, limited liability company	–	100%	RMB15,000,000	Provision of information communications technology services in the PRC
China Unicom (Sichuan) Industrial Internet Company Limited	The PRC, 29 March 2018, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology services in the PRC
China Unicom (Liaoning) Industrial Internet Company Limited	The PRC, 28 March 2018, limited liability company	–	100%	RMB5,000,000	Provision of information communications technology services in the PRC
China Unicom (Shaanxi) Industrial Internet Company Limited	The PRC, 27 March 2018, limited liability company	–	100%	RMB20,000,000	Provision of information communications technology services in the PRC
China Unicom (Jiangsu) Industrial Internet Company Limited	The PRC, 9 May 2018, limited liability company	–	100%	RMB26,200,000	Provision of information communications technology services in the PRC
China Unicom (Shanghai) Industrial Internet Company Limited	The PRC, 13 March 2018, limited liability company	–	100%	RMB20,000,000	Provision of information communications technology services in the PRC
China Unicom (Heilongjiang) Industrial Internet Company Limited	The PRC, 14 March 2018, limited liability company	–	100%	RMB15,000,000	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		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom Video Technology Co., Ltd.	The PRC, 17 January 2018, limited liability company	–	100%	RMB100,000,000	Provision of technology research and development, consultation and services of TV Video and Mobile Video in the PRC
China Unicom Internet of Things Corporation Limited	The PRC, 16 March 2018, limited liability company	–	100%	RMB107,000,000	Online Data Processing and Transaction Business in the PRC
China Unicom High-tech Big Data Artificial Intelligence Technology (Chengdu) Co., Ltd.	The PRC, 29 March 2018, limited liability company	–	100%	RMB10,000,000	Provision of Big Data Service in the PRC
China Unicom iRead Science and Culture Co., Ltd.	The PRC, 28 April 2018, limited liability company	–	100%	RMB51,000,000	Provision of Online Video, Online Reading Material in the PRC
China Unicom WO Music & Culture Co., Ltd.	The PRC, 8 May 2018, limited liability company	–	100%	RMB100,000,000	Provision of Network Music Service in the PRC
China Unicom Leasing Co., Ltd.	The PRC, 11 April 2018, limited liability company	25%	75%	RMB2,000,000,000	Provision of Financing leasing business in the PRC

19. INTEREST IN ASSOCIATES

	2018	2017
Share of net assets	**35,758**	33,233

The following list contains the particulars of material associate:

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	20.65%	RMB176,008,471,024	Construction, maintenance and operation of communications towers in the PRC (Note 44.2)

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

19. INTEREST IN ASSOCIATES (Continued)

In August 2018, Tower Company was listed on the SEHK and issued new shares in connection there of, which resulted in a decrease in the Group's shareholding percentage in Tower Company from 28.1% to 20.65%. The associated dilution has resulted in an increase in the Group's share of net profit of associates accounted for under equity method by RMB793 million and a one-off reversal of partial realisation of unrealised profit from transactions with Tower Company by RMB682 million.

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	
	2018	2017
Current assets	**31,799**	30,517
Non-current assets	**283,565**	292,126
Current liabilities	**(114,759)**	(150,041)
Non-current liabilities	**(20,103)**	(45,107)
Equity	**(180,502)**	(127,495)
Revenue	**71,819**	68,665
Profit for the year	**2,650**	1,943
Total comprehensive income for the year	**2,650**	1,943
Reconciled to the Group's interest in the associate:		
Net assets of the associate	**180,502**	127,495
The Group's effective interest	**20.65%**	28.1%
	37,278	35,826
Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal	**(1,780)**	(2,784)
Carrying amount in the consolidated financial statements	**35,498**	33,042

The fair values of the interests in Tower Company is based on quoted market prices (level 1: quoted price (unadjusted) in active markets) at the financial position date without any deduction for transaction costs and disclosed as follows:

	As at 31 December 2018	
	Carrying amount Million	Fair value Million
Tower Company	**35,498**	**53,792**
Interest in listed associate	**35,498**	**53,792**

20. INTEREST IN JOINT VENTURES

	2018	2017
Share of net assets	**3,966**	2,368

20. INTEREST IN JOINT VENTURES (Continued)

The following list contains the particulars of material joint venture, which is unlisted corporate entity which has no available quoted market price:

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%	RMB3,868,960,000	Consumer finance consulting in the PRC

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	
	2018	2017
Assets	**74,748**	46,980
Liabilities	**(66,854)**	(42,339)
Equity	**(7,894)**	(4,641)
Revenue	**6,956**	4,163
Profit for the year	**1,253**	1,189
Total comprehensive income for the year	**1,253**	1,189
Included in above income:		
Interest income	**9,887**	5,593
Interest expense	**(3,079)**	(1,516)
Income tax expense	**(391)**	(383)
Reconciled to the Group's interests in the joint venture:		
Net assets of the joint venture	**7,894**	4,641
The Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**3,947**	2,321

21. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018	1 January 2018	31 December 2017
Receivables for the sales of mobile handsets, net of allowance	**1,824**	2,974	–
Less: Current portion	**1,254**	2,221	–
	570	753	–

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 standalone selling prices. The revenue relating to the sale of the handsets is recognised when the titles are passed to the customers and the consideration allocated to the sales of mobile handsets is gradually received during the contract period when the customers pay the monthly package fee.

Before 1 January 2018, the Group recognised such consideration outstanding from the customers in "Prepayments and other current assets" and "Other assets".

As stated in Note 2.2 (c)(iii), upon the adoption of IFRS/HKFRS 15 from 1 January 2018, the outstanding balance of such consideration was reclassified to contract assets as the Group's right to receive this balance is conditional on the provision of services.

(b) Contract liabilities

	Note	31 December 2018	1 January 2018	31 December 2017
Advances received from customers for future services	(i)	**41,567**	45,329	–
Others		**1,083**	1,093	–
		42,650	46,422	–

(i) Contract liabilities primarily arises from relates to the considerations received from customers before the Group satisfying performance obligations. It would be recognised as revenue upon the rendering of services. Approximately 96% of the contract liability balance as at 1 January 2018 was recognised as revenue during the year.

22. CONTRACT COSTS

	Note	31 December 2018	1 January 2018	31 December 2017
Direct incremental costs of broadband and IPTV service	(i)	**3,785**	4,522	–
Sales commissions	(ii)	**1,847**	2,334	–
		5,632	6,856	–

(i) 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, and are amortised over the expected service period. As stated in Note 2.2 (c)(iii), such costs are presented as other assets before 1 January 2018. Upon the adoption of IFRS/HKFRS 15, the unamortised balance of such costs are presented as contract costs. The amount of capitalised direct incremental costs for activating broadband and IPTV subscribers recognised in profit or loss during the year was RMB4,044 million. The amount of capitalised direct incremental costs for activating broadband and IPTV subscribers that is expected to be recovered after more than one year is RMB1,417 million.

(ii) Sales commissions are paid to agents whose selling activities resulted in new customers entering into contracts with the Group. As stated in Note 2.2 (c)(iii), such costs are recognised as other operating expenses when they were incurred before 1 January 2018. Upon the adoption of IFRS/HKFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset. The amount of capitalised sales commissions recognised in profit or loss during the year was RMB1,642 million. There was no significant impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year. The amount of capitalised sales commissions that is expected to be recovered after more than one year is RMB683 million.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
Listed in the PRC	**147**	158
Listed outside the PRC	**3,698**	4,070
Unlisted	**58**	58
	3,903	4,286

For the year ended 31 December 2018, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB383 million (2017: decrease of approximately RMB56 million). The decrease, net of tax impact, of approximately RMB381 million (2017: decrease, net of tax impact, of approximately RMB58 million) has been recorded in the consolidated statement of comprehensive income.

24. OTHER ASSETS

	Note	2018	2017
Intangible assets	(i)	**11,156**	10,988
Prepaid rental for premises, transmission lines and electricity cables		**2,260**	2,812
Direct incremental costs for activating broadband and IPTV subscribers	22	**–**	4,522
Receivables for sales of mobile handsets, net of allowance	21(a)	**–**	753
VAT recoverable	(ii)	**424**	596
Others		**805**	1,050
		14,645	20,721

(i) Intangible assets

	Computer software	Others	Total
Cost:			
At 1 January 2017	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**
Additions	**170**	**581**	**751**
Transfer from CIP	**3,693**	**405**	**4,098**
Disposals	**(2,065)**	**(167)**	**(2,232)**
At 31 December 2018	**28,956**	**3,405**	**32,361**
Accumulated amortisation and impairment:			
At 1 January 2017	(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)**
Amortisation charge for the year	**(4,220)**	**(413)**	**(4,633)**
Disposals	**2,034**	**150**	**2,184**
At 31 December 2018	**(19,745)**	**(1,460)**	**(21,205)**
Net book value:			
At 31 December 2018	**9,211**	**1,945**	**11,156**
At 31 December 2017	9,599	1,389	10,988

24. OTHER ASSETS (Continued)

(ii) 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 27(i)).

25. INVENTORIES AND CONSUMABLES

	2018	2017
Handsets and other telecommunication products	2,111	2,005
Consumables	27	24
Others	250	210
	2,388	2,239

26. ACCOUNTS RECEIVABLE

	2018	2017
Accounts receivable	21,142	19,174
Less: Credit loss allowance	(6,709)	(5,210)
	14,433	13,964

The gross carrying amount of accounts receivable from contracts with customers amounted to RMB21,053 million as at 31 December 2018.

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

	2018	2017
Within one month	8,158	7,184
More than one month to three months	2,285	2,763
More than three months to one year	2,843	2,737
More than one year	1,147	1,280
	14,433	13,964

The normal credit period granted by the Group to individual subscribers and general corporate customers is thirty days from the date of billing unless they meet certain specified credit assessment criteria. For major 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 customers receivables, as the Group has a large number of customers.

The Group measures loss allowances for account receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicate that there are different loss patterns for different customer types, the loss allowance based on past due status is distinguished between the Group's different customer types.

26. ACCOUNTS RECEIVABLE (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for account receivables as at 31 December 2018:

For individual subscribers and general corporate customers

	Expected loss rate %	Gross carrying amount	Loss allowance
Current (not past due)	7%	3,202	(212)
1–90 days past due	50%	1,395	(702)
91–180 days past due	90%	862	(776)
More than 180 days past due	100%	2,188	(2,188)
		7,647	(3,878)

For major corporate customers

	Expected loss rate %	Gross carrying amount	Loss allowance
Current (not past due)	4%	7,539	(286)
Within 1 year past due	13%	3,141	(404)
1–2 years past due	47%	1,063	(500)
2–3 years past due	88%	549	(485)
More than 3 years past due	96%	1,203	(1,156)
		13,495	(2,831)

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

Comparative information under IFRS/HKFRS 9 (2010)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. 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.

26. ACCOUNTS RECEIVABLE (Continued)

Comparative information under IFRS/HKFRS 9 (2010) (Continued)

As at 31 December 2017, accounts receivable of approximately RMB10,284 million were neither past due nor impaired.

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

	2017
More than one month to three months	926
More than three months to one year	105
More than one year	283
	1,314

The movement in the credit loss allowance in respect of accounts receivable during the year, is as follows:

	2018	2017
Balance, beginning of year	**5,210**	5,466
Impact on initial application of IFRS/HKFRS 9 (2014) (Note2.2(c)(ii))	**1,118**	–
Allowance for the year	**3,300**	3,325
Written-off during the year	**(2,919)**	(3,581)
Balance, end of year	**6,709**	5,210

The creation and release of allowance for impaired receivables have been recognised in the consolidated 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 of the statement of financial position date is the carrying value of accounts receivable mentioned above. The Group does not hold any collateral as security.

27. PREPAYMENTS AND OTHER CURRENT ASSETS

The nature of prepayments and other current assets, net of credit loss allowance, are as follows:

	Note	2018	2017
Receivables for the sales of mobile handsets, net of allowance	21(a)	–	2,221
Prepaid rental		2,207	2,305
Deposits and prepayments		1,847	1,579
Advances to employees		22	20
VAT recoverable	(i)	4,568	4,948
Prepaid enterprise income tax		312	438
Others		2,150	2,290
		11,106	13,801

(i) 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 2018, there was no significant impairment for the prepayments and other current assets.

28. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	Note	2018	2017
Bank deposits with maturity exceeding three months		34	3,124
Statutory reserve deposits	(i)	2,877	2,197
Restricted deposits		809	205
		3,720	5,526

(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.

29. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2018	2017
Cash at bank and in hand	30,060	32,836

(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, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Short-term bank loans (Note 38)	Long-term bank loans (Note 33)	Commercial papers (Note 39)	Promissory notes (Note 34)	Corporate bonds (Note 35)	Finance lease (Note 37(b))	Other borrowings (Note 44)	Total
At 1 January 2018	22,500	3,883	8,991	17,960	17,981	692	4,116	76,123
Changes from financing cash flows:								
Proceeds from short-term bank loans	53,306	–	–	–	–	–	–	53,306
Loans from related parties	–	–	–	–	–	–	3,090	3,090
Repayment of commercial papers	–	–	(9,000)	–	–	–	–	(9,000)
Repayment of short-term bank loans	(60,730)	–	–	–	–	–	–	(60,730)
Repayment of long-term bank loans	–	(435)	–	–	–	–	–	(435)
Repayment of ultimate holding company loan	–	–	–	–	–	–	(1,344)	(1,344)
Repayment of related parties loan	–	–	–	–	–	–	(475)	(475)
Repayment of finance lease	–	–	–	–	–	(493)	–	(493)
Repayment of promissory notes	–	–	–	(18,000)	–	–	–	(18,000)
Payment of issuing expense for promissory notes	–	–	–	(67)	–	–	–	(67)
Net withdrawal by Unicom Group and its subsidiaries from Finance Company	–	–	–	–	–	–	2,354	2,354
Total changes from financing cash flows	(7,424)	(435)	(9,000)	(18,067)	–	(493)	3,625	(31,794)
Exchange adjustments	9	77	–	–	–	–	–	86
Other changes:								
New financing leases	–	–	–	–	–	10	–	10
Interest expenses	–	89	9	107	12	31	–	248
Total other changes	–	89	9	107	12	41	–	258
At 31 December 2018	15,085	3,614	–	–	17,993	240	7,741	44,673

29. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Short-term bank loans (Note 38)	Long-term bank loans (Note 33)	Commercial papers (Note 39)	Promissory notes (Note 34)	Corporate bonds (Note 35)	Finance lease (Note 37(b))	Other borrowings (Note 44)	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 from 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

30. SHARE CAPITAL

Issued and fully paid:

	Note	Number of shares millions	Share capital
At 1 January 2017		23,947	179,102
Shares issued	1	6,651	74,954
At 31 December 2018 and 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.

31. RESERVES

(a) Movement in components of equity

The Company

	Share capital	Investment revaluation reserve	Other reserve	Retained profits	Total equity
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
Balance at 1 January 2018	**254,056**	**(7,088)**	**572**	**8,775**	**256,315**
Total comprehensive income for the year	**–**	**(372)**	**–**	**3,831**	**3,459**
Dividends relating to 2017	**–**	**–**	**–**	**(1,591)**	**(1,591)**
Balance at 31 December 2018	**254,056**	**(7,460)**	**572**	**11,015**	**258,183**

(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.

31. RESERVES (Continued)

(b) Nature and purpose (Continued)

(i) Statutory reserves (Continued)

Accordingly, CUCL appropriated approximately RMB52 million (2017: approximately RMB50 million) to the general reserve fund for the year ended 31 December 2018.

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 2018 and 2017, 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) 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, the effect of CUCL's capitalisation of retained profits, and capital contribution relating to share-based payment borne by A Share Company.

32. DIVIDENDS

At the annual general meeting held on 11 May 2018, the shareholders of the Company approved the payment of a final dividend of RMB0.052 per ordinary share for the year ended 31 December 2017 totaling approximately RMB1,591 million which has been reflected as a reduction of retained profit for the year ended 31 December 2018.

At a meeting held on 13 March 2019, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.134 per ordinary share to the shareholders for the year ended 31 December 2018 totaling approximately RMB4,100 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2018, but will be reflected in the financial statements for the year ending 31 December 2019.

	2018	2017
Proposed final dividend:		
RMB0.134 (2017: RMB0.052) per ordinary share by the Company	**4,100**	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 2018, 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 shareholders (including HKSCC Nominees Limited), the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-PRC TRE 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.

33. LONG-TERM BANK LOANS

	Interest rates and final maturity	**2018**	2017
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (2017: 1.08% to 1.20%) per annum with maturity through 2036 (2017: maturity through 2036)	**3,300**	3,533
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (2017: Nil to 1.55%) per annum with maturity through 2039 (2017: maturity through 2039)	**252**	278
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2017: 1.10% to 2.50%) per annum with maturity through 2034 (2017: maturity through 2034)	**62**	72
Sub-total		**3,614**	3,883
Less: Current portion		**(441)**	(410)
		3,173	3,473

33. LONG-TERM BANK LOANS (Continued)

As at 31 December 2018, long-term bank loans of approximately RMB96 million (2017: approximately RMB105 million) were guaranteed by third parties.

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

	2018	2017
Balances due:		
– no later than one year	**441**	410
– later than one year and no later than two years	**417**	423
– later than two years and no later than five years	**1,173**	1,175
– later than five years	**1,583**	1,875
	3,614	3,883
Less: Portion classified as current liabilities	**(441)**	(410)
	3,173	3,473

34. PROMISSORY NOTES

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, and was fully repaid in June 2018.

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, and was fully repaid in June 2018.

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, and was fully repaid in November 2018.

35. CORPORATE BONDS

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.

36. DEFERRED REVENUE

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

	2018	2017
Balance at 31 December 2017 and 2016	**3,370**	3,367
– Impact on initial application of IFRS/HKFRS 15	**(1,093)**	–
Balance at 1 January 2018 and 2017	**2,277**	3,367
Additions for the year		
– subscriber points	**–**	813
– government grants	**972**	513
– others	**831**	36
	1,803	1,362
Reductions for the year		
– usage of subscriber points	**–**	(703)
– recognition of government grants in profit or loss and other reductions	**(323)**	(507)
– others	**(70)**	(149)
Balance at end of the year	**3,687**	3,370
Representing:		
– current portion	**78**	350
– non-current portion	**3,609**	3,020
	3,687	3,370

37. OTHER OBLIGATIONS

	Note	2018	2017
One-off cash housing subsidies	(a)	**2,496**	2,496
Obligations under finance lease	(b)	**240**	692
Others		**298**	231
Sub-total		**3,034**	3,419
Less: Current portion		**(2,844)**	(2,987)
		190	432

(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 2018, 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.

37. 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:

	2018	2017
Total minimum lease payments under finance lease:		
– not later than one year	243	484
– later than one year and not later than two years	2	236
– later than two years and not later than three years	4	–
	249	720
Less: Future finance charges	(9)	(28)
Present value of minimum obligations	240	692
Representing obligations under finance lease:		
– current liabilities	234	461
– non-current liabilities	6	231

38. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2018	2017
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 4.77% (2017: 2.35% to 5.80%) per annum with maturity through 2019 (2017: maturity through 2018)	15,085	22,500
Total		15,085	22,500

At 31 December 2018 and 2017, all short-term bank loans were unsecured.

39. COMMERCIAL PAPERS

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, and was fully repaid in April 2018.

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, and was fully repaid in May 2018.

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, and was fully repaid in May 2018.

40. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Payables to contractors and equipment suppliers	**70,526**	82,444
Payables to telecommunications products suppliers	**4,349**	4,548
Customer/contractor deposits	**6,381**	5,262
Repair and maintenance expense payables	**6,252**	5,348
Bills payable	**–**	49
Salary and welfare payables	**5,900**	3,711
Interest payable	**299**	709
Amounts due to services providers/content providers	**1,920**	2,253
VAT received from customer in advance	**3,398**	–
Accrued expenses	**15,935**	14,845
Others	**7,498**	6,091
	122,458	125,260

40. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Continued)

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

	2018	2017
Less than six months	**105,606**	104,691
Six months to one year	**6,984**	9,009
More than one year	**9,868**	11,560
	122,458	125,260

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

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

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

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

As at 31 December 2018, the related financial assets at fair value through other comprehensive income amounted to approximately RMB3,698 million (2017: approximately RMB4,070 million). For the year ended 31 December 2018, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB372 million (2017: decrease of approximately RMB68 million), has been recorded in the consolidated statement of comprehensive income.

42. 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 2018, 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 2018 and 2017.

43. RESTRICTED A-SHARE INCENTIVE SCHEME

Pursuant to the share incentive scheme of A Share Company ("the Restricted A-Share Incentive Scheme"), 848,000,000 restricted shares of A Share Company ("Restricted Shares") were approved for granting to the core employees of the Group and the first batch of 793,861,000 Restricted Shares were subscribed by them ("the Participants", including certain core employees of the Company's subsidiaries) on 21 March 2018 (the "Grant Date") with a subscription price of RMB3.79 per share. The fair value of the Restricted Shares granted under the Restricted A-Share Incentive Scheme is RMB2.34 per share as determined based on the difference between the market price of A Share Company on the Grant Date of RMB6.13 per share and the subscription price of RMB3.79 per share.

The Restricted Shares are subject to various lock-up periods (the "Lock-Up Period") of approximately 2 years, 3 years and 4 years, respectively, immediately from the Date of Grant. During the Lock-up Period, these shares are not transferrable, nor subject to any guarantee or indemnity. The Restricted Shares shall be unlocked (or repurchased and cancelled by the A Share Company) separately in three tranches in proportion of 40%, 30% and 30% of the total number of the Restricted Shares granted upon the expiry of each of the Lock-Up period.

43. RESTRICTED A-SHARE INCENTIVE SCHEME (Continued)

Subject to fulfilment of all service and performance conditions under the Restricted A-Share Incentive Scheme which include the achievement of certain revenue and profit targets of the A Share Company and the Participants' individual performance appraisal (collectively referred to as "vesting conditions"), the restriction over the Restricted Shares will be removed after the expiry of the corresponding lock-up period for each tranche and the Participants will be fully entitled to these incentive shares, including the dividends declared or received on the underlying shares of A Share Company during the Lock-Up Period. If the vesting conditions are not fulfilled and hence the Restricted Shares cannot be unlocked, the A Share Company shall repurchase the Restricted Shares from the Participants at a repurchase price which shall be determined based on the original subscription price and adjusted for any dividends received during the Lock-up Period.

During the year ended 31 December 2018, no Restricted Shares are considered forfeited or repurchased.

For the year ended 31 December 2018, the Group recognised share-based payment expenses and other reserve of RMB614 million as a result of subscription during the year under the Restricted A-Share Incentive Scheme.

On 1 February 2019, additional 13,156,000 Restricted Shares were subscribed by eligible employees with a subscription price of RMB3.79 per share. The additional Restricted Shares are also subject to various lock-up periods of approximately 2 years, 3 years and 4 years, and similar performance conditions are applicable to the Restricted Shares granted in first and second batch.

44. 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 service provided by 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. Amounts due from domestic carries are all derived from contracts with customers.

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

44. RELATED PARTY TRANSACTIONS (Continued)

44.1 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	2018	2017
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	**43**	30
Rental charges for property leasing	(i), (iii)	**1,033**	1,017
Charges for lease of telecommunications resources	(i), (iv)	**277**	270
Charges for engineering design and construction services	(i), (v)	**2,055**	2,411
Charges for shared services	(i), (vi)	**77**	83
Charges for materials procurement services	(i), (vii)	**34**	60
Charges for ancillary telecommunications services	(i), (viii)	**2,905**	2,699
Charges for comprehensive support services	(i), (ix)	**1,231**	1,274
Income from comprehensive support services	(i), (ix)	**83**	67
Lending by Finance Company to Unicom Group	(i), (xi)	**13,558**	700
Repayment of loan lending by Finance Company	(i), (xi)	**6,354**	500
Interest income from lending services	(i), (xi)	**150**	8

(i) On 25 November 2016, CUCL entered into the 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 2018, the rental charge paid by Unicom Group was approximately RMB5.75 million, which was negligible.

44. RELATED PARTY TRANSACTIONS (Continued)

44.1 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 2018, 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.

44. RELATED PARTY TRANSACTIONS (Continued)

44.1 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 2018 included loans from Finance Company to Unicom Group of RMB7,404 million in total with respective floating interest rate agreed at 90% to 110% of the benchmark interest rate published by the People's Bank of China ("PBOC") for the same class of loans (2017：RMB200 million with floating interest rate at 90% of the benchmark interest rate published by the PBOC).

Apart from the above and as disclosed in Note 44.3 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.

44. RELATED PARTY TRANSACTIONS (Continued)

44.2 Related party transactions with Tower Company

(a) Related party transactions

	Note	2018	2017
Transactions with Tower Company:			
Interest income from Cash Consideration	(i)	**49**	755
Operating lease and other service charges	(ii)	**15,982**	16,524
Income from engineering design and construction services	(iii)	**235**	267

(i) On 14 October 2015, CUCL and Unicom Horizon ("Unicom 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 ("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 2018, the interest income arisen from outstanding VAT related to Cash Consideration were approximately RMB49 million (2017: approximately RMB755 million arisen from outstanding Cash Consideration and related VAT).

(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.

44. RELATED PARTY TRANSACTIONS (Continued)

44.2 Related party transactions with Tower Company (Continued)

(a) Related party transactions (Continued)

(ii) (Continued)

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.

On 31 January 2018, after further arm-length negotiations and discussions, CUCL and Tower Company agreed on certain supplementary provisions based on the Agreement dated 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 are effective from 1 January 2018 for a period of five years.

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 2018 of totalled RMB15,982 million (2017: approximately RMB16,524 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 2018 included VAT recoverable related to Cash Consideration from Tower Company of RMB382 million (2017: RMB2,704 million).

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 RMB2,635 million in total as at 31 December 2018 (2017: RMB2,480 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.

44. RELATED PARTY TRANSACTIONS (Continued)

44.3 Related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

	Note	2018	2017
Transactions with Unicom Group and its subsidiaries:			
Unsecured entrusted loan from Unicom Group and its subsidiaries	(i)	**3,042**	5,237
Repayment of unsecured entrusted loan to Unicom Group	(i)	**1,344**	3,893
Loan from a related party	(ii)	**48**	435
Repayment of loan from a related party	(ii)	**435**	–
Interest expenses on unsecured entrusted loan	(i)	**10**	70
Interests expenses on loan from a related party	(ii)	**12**	–
Net deposits/(withdrawal) by Unicom Group and its subsidiaries with/from Finance Company	(iii)	**2,336**	(112)
Interest expenses on the deposits in Finance Company	(iii)	**93**	34

(i) 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, and was fully repaid in February 2018.

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.

On 26 December 2018, the Group borrowed an unsecured entrusted loan from A Share Company of RMB3,042 million with a maturity period of 5 years and interest rate at 4.28% per annum.

(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%, and was fully repaid in December 2018.

On 28 December 2018, the Group borrowed a loan from Unicom Group BVI of RMB48 million with a maturity period of 1 year, of which RMB46 million with a maturity period of 1 year and interest rate at 4.77% per annum and HKD2 million with a maturity period of 1 year and floating interest rate at 1 year HIBOR plus 1.11%.

(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 PBOC 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.

44. RELATED PARTY TRANSACTIONS (Continued)

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

(b) Amounts due to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as at 31 December 2018 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB4,621 million with interest rates ranging from 0.42% to 2.75% per annum for saving and deposits of different terms (2017: RMB2,285 million with interest rates ranging from 0.35% to 2.75% per annum).

Amount due to Unicom Group and its subsidiaries as at 31 December 2018 also included a balance of loan from Unicom Group BVI of approximately RMB48 million with a maturity period of 1 year, of which RMB46 million with a maturity period of 1 year and interest rate at 4.77% per annum and HKD2 million with a maturity period of 1 year and floating interest rate at 1 year HIBOR plus 1.11%. (2017: approximately RMB435 million with a maturity period of 1 year and floating interest rate at 1 year HIBOR plus 1.2%).

Amount due to Unicom Group and its subsidiaries as at 31 December 2018 also included a balance of unsecured entrusted loan from A Share Company of approximately RMB3,042 million with a maturity period of 5 years and interest rate at 4.28% per annum.

44.4 Related party transactions with joint ventures

(a) Related party transactions

	Note	2018	2017
Transactions with joint ventures			
Unsecured entrusted loans from joint venture	(i)	–	100
Repayment of unsecured entrusted loans to joint venture	(i)	**40**	60
Interest expenses on unsecured entrusted loans		**1**	1
Net deposits from a joint venture with Finance Company		**18**	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 and RMB40 million during the year of 2018.

(b) Amounts due to joint ventures

Amounts due to a joint venture as at 31 December 2018 also included a balance of deposits received by Finance Company from Smart Steps Digital Technology Co., Ltd. of RMB30 million with interest rates ranging from 0.42% to 1.48% per annum for saving and deposits of different terms (2017: RMB12 million with interest rates ranging from 0.42% to 1.48% per annum).

44. RELATED PARTY TRANSACTIONS (Continued)

44.5 Operating lease and other commitments to related parties

As at 31 December 2018 and 2017, 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 RMB46,821 million and RMB35,857 million respectively.

45. CONTINGENCIES AND COMMITMENTS

45.1 Capital commitments

As at 31 December 2018 and 2017, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2018			2017
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	3,882	14,499	18,381	13,084
Authorised but not contracted for	7,495	32,001	39,496	37,793
	11,377	46,500	57,877	50,877

45.2 Operating lease and other commitments

As at 31 December 2018 and 2017, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments as follows:

	2018				2017
	Land and buildings	Equipment	Ancillary facilities*	Total**	Total
Arrangements expiring:					
– not later than one year	1,147	7,524	4,154	12,825	19,131
– later than one year and not later than five years	2,044	25,098	12,825	39,967	29,580
– later than five years	290	1,669	—	1,959	977
	3,481	34,291	16,979	54,751	49,688

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

** Variable lease payments are not included in the commitments.

45. CONTINGENCIES AND COMMITMENTS (Continued)

45.3 Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities and no material financial guarantees issued.

46. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2018	2017
ASSETS		
Non-current assets		
Property, plant and equipment	**4**	5
Investments in subsidiaries	**237,301**	234,768
Loan to a subsidiary	**6,829**	22,832
Financial assets at fair value through other comprehensive income	**3,698**	4,070
	247,832	261,675
Current assets		
Loan to subsidiaries	**5,615**	202
Amounts due from subsidiaries	**223**	2,510
Dividend receivable	**4,612**	2,712
Prepayments and other current assets	**23**	60
Short-term bank deposits	**–**	3,091
Cash and cash equivalents	**969**	1,229
	11,442	9,804
Total assets	**259,274**	271,479
EQUITY		
Equity attributable to equity shareholders of the Company		
Share capital	**254,056**	254,056
Reserves	**(6,888)**	(6,516)
Retained profits		
– Proposed final dividend	**4,100**	1,591
– Others	**6,915**	7,184
Total equity	**258,183**	256,315

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

	As at 31 December	
	2018	2017
LIABILITIES		
Current liabilities		
Short-term bank loans	**–**	12,694
Accounts payable and accrued liabilities	**99**	160
Loan from immediate holding company	**48**	435
Loans from subsidiaries	**–**	928
Taxes payable	**24**	27
Dividend payable	**920**	920
	1,091	15,164
Total liabilities	**1,091**	15,164
Total equity and liabilities	**259,274**	271,479
Net current liabilities	**10,351**	(5,360)
Total assets less current liabilities	**258,183**	256,315

Approved and authorised for issue by the Board of Directors on 13 March 2019 and signed on behalf of the Board by:

Wang Xiaochu
Director

Zhu Kebing
Director

47. COMPARATIVE FIGURES

The Group has initially applied IFRS/HKFRS 15 and IFRS/HKFRS 9 (2014) at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

48. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Proposed dividend

After the statement of financial position date, the Board of Directors proposed a final dividend for 2018. For detail, please refer to Note 32.

49. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 13 March 2019.