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 China United Network Communications Limited (hereinafter referred to as "A Share Company"), a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002.

The directors of the Company consider Unicom BVI and China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group") as the immediately holding company and ultimate holding company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

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, and adjustment for corresponding deferred taxation;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005; and
- recognition of the dilution gain or loss of interest in equity-accounted investee.

(a) Going Concern Assumption

As at 31 December 2019, current liabilities of the Group exceeded current assets by approximately RMB121.6 billion (2018: approximately RMB139.0 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 RMB396.7 billion of revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which approximately RMB378.9 billion was unutilised as at 31 December 2019; 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, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2019 have been prepared on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(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 IASB and HKICPA have issued new IFRSs/HKFRSs and a number of amendments and interpretations to IFRSs/HKFRSs and IASs/HKASs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

- IFRS/HKFRS 16, "Leases" ("IFRS/HKFRS 16")
- IFRIC/HK(IFRIC) 23, "Uncertainty over income tax treatments"
- Annual improvement to IFRSs/HKFRSs 2015–2017 Cycle
- Amendments to IAS/HKAS 28, "Long-term interests in associates and joint ventures"
- Amendments to IAS/HKAS 19, "Plan amendment, curtailment or settlement"

Except for IFRS/HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

(i) IFRS/HKFRS 16, "Leases"

IFRS/HKFRS 16 replaces IAS/HKAS 17, "Leases" ("IAS/HKAS 17"), and the related interpretations, IFRIC/HK(IFRIC) 4, "Determining whether an arrangement contains a lease", SIC/HK(SIC) 15, "Operating leases-incentives" and SIC/HK(SIC) 27, "Evaluating the substance of transactions involving the legal form of a lease". It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS/HKAS 17 substantially unchanged.

IFRS/HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the consolidated financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS/HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and measure the carrying amount of right-of-use asset as if IFRS/HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS/HKAS 17.

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

(1) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS/HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS/HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS/HKAS 17 continue to be accounted for as leases under IFRS/HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(2) Lessee accounting and transitional impact

IFRS/HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS/HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS/HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to telecommunications equipment, properties and other assets. For an explanation of how the Group applies lessee accounting, see Note 2.28(a)(i).

At the date of transition to IFRS/HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.7%.

To ease the transition to IFRS/HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS/HKFRS 16:

a the Group elected not to apply the requirements of IFRS/HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS/HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

b when measuring the lease liabilities at the date of initial application of IFRS/HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(2) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in Note 47.2 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
Operating lease and other commitments at 31 December 2018	54,751
Less: commitments relating to non-lease elements at 31 December 2018	(14,345)
Operating lease commitments at 31 December 2018	40,406
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(721)
— leases of low-value assets	(36)
Less: total future interest expenses	(3,169)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	36,480
Add: finance lease liabilities recognised as at 31 December 2018	240
Total lease liabilities recognised at 1 January 2019	36,720

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if IFRS/HKFRS 16 had always been applied since the commencement date of the lease.

So far as the impact of the adoption of IFRS/HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS/HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Obligations under finance leases", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(2) Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of IFRS/HKFRS 16 on the Group's consolidated statement of financial position:

	Note	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
Line items in the consolidated statement of financial position impacted by the adoption of IFRS/HKFRS 16:				
ASSETS				
Property, plant and equipment	15	384,475	(343)	384,132
Lease prepayments	16	9,290	(9,290)	—
Right-of-use assets	17	—	47,359	47,359
Interest in associates	20	35,758	(264)	35,494
Deferred income tax assets	13	3,401	271	3,672
Other assets	25	14,645	(1,801)	12,844
Total non-current assets		464,411	35,932	500,343
Prepayments and other current assets	28	11,106	(526)	10,580
Total current assets		75,909	(526)	75,383
Total assets		540,320	35,406	575,726
EQUITY				
Reserves		(20,154)	(107)	(20,261)
Retained profits				
— Proposed 2018 final dividend		4,100	—	4,100
— Others		75,920	(967)	74,953
Total equity		314,286	(1,074)	313,212

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(2) Lessee accounting and transitional impact (Continued)

	Note	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
Line items in the consolidated statement of financial position impacted by the adoption of IFRS/HKFRS 16:				
Lease liabilities (non-current portion)	37	—	27,576	27,576
Other obligations	39	190	(6)	184
Total non-current liabilities		11,124	27,570	38,694
Lease liabilities (current portion)	37	—	9,144	9,144
Current portion of other obligations	39	2,844	(234)	2,610
Current liabilities		214,910	8,910	223,820
Net current liabilities		(139,001)	(9,436)	(148,437)
Total assets less current liabilities		325,410	26,496	351,906

(3) Impact on the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit for the year in the Group's consolidated statement of income, as compared to the results if IAS/HKAS 17 had been applied during the year.

In the statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 30(c)). Capital element of lease rentals paid are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS/HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS/HKAS 17. Similar to other interest payments of the Group, interest element of lease rentals paid are classified as operating activities in the consolidated cash flow statement. Although total cash flows are unaffected, the adoption of IFRS/HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (see Note 30(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(3) Impact on the financial results and cash flows of the Group (Continued)

The following tables give an indication of the estimated impact of adoption of IFRS/HKFRS 16 on the Group's financial results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS/HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS/HKAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS/HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS/HKAS 17.

	Year ended 31 December 2019				Year ended 31 December 2018
	Amounts reported under IFRS/HKFRS 16 (A)	Add back: IFRS/HKFRS 16 depreciation and interest expense (B)	Deduct: Estimated amounts related to operating lease as if under IAS/HKAS 17 (Note i) (C)	Hypothetical amounts for 2019 as if under IAS/HKAS 17 (D=A+B+C)	Compared to amounts reported for 2018 under IAS/HKAS 17
Financial results for the year ended 31 December 2019 impacted by the adoption of IFRS/HKFRS 16:					
Depreciation and amortisation	(83,080)	10,579	—	(72,501)	(75,777)
Network, operation and support expenses	(43,236)	—	(11,345)	(54,581)	(55,077)
Other operating expenses	(64,480)	—	(192)	(64,672)	(62,561)
Finance costs	(2,123)	1,349	—	(774)	(1,625)
Share of net profit of associates	1,359	37	—	1,396	2,477
Profit before income tax	14,167	11,965	(11,537)	14,595	13,081
Profit for the year	11,372	11,965	(11,537)	11,800	10,257

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(3) Impact on the financial results and cash flows of the Group (Continued)

	Year ended 31 December 2019			Year ended 31 December 2018
	Amounts reported under IFRS/ HKFRS 16 (A)	Estimated amounts related to operating leases as if under IAS/ HKAS 17 (Notes i & ii) (B)	Hypothetical amounts for 2019 as if under IAS/ HKAS 17 (C=A+B)	Compared to amounts reported for 2018 under IAS/ HKAS 17
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of IFRS/HKFRS 16:				
Cash generated from operations	94,952	(10,883)	84,069	93,882
Net cash inflow from operating activities	93,678	(10,883)	82,795	92,387
Capital element of lease rentals paid	(11,123)	10,883	(240)	—
Net cash outflow from financing activities	(29,765)	10,883	(18,882)	(34,058)

i The "estimated amounts related to operating leases" is an estimate of the amount that relate to leases which would have been classified as operating leases, if IAS/HKAS 17 had still applied in 2019. This estimate assumes that all of the new leases entered into in 2019 would have been classified as operating leases under IAS/HKAS 17, if IAS/HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

ii In this impact table, these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash inflow from operating activities and net cash outflow from financing activities as if IAS/HKAS 17 still applied.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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

(4) Lessor accounting

The Group mainly leases out a number of items of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS/HKAS 17.

Under IFRS/HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS/HKFRS 16 does not have a significant impact on the Group's consolidated financial statements in this regard.

(ii) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

The IASB and HKICPA has issued a new IFRS/HKFRS and a number of amendments to IFRSs/HKFRSs and IAS/HKAS which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. Of these, the following developments are relevant to the Group's consolidated financial statements:

	Effective for accounting periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS/HKFRS 3, "Definition of a business"	1 January 2020
Amendments to IAS/HKAS 1 and IAS/HKAS 8, "Definition of material"	1 January 2020
IFRS/HKFRS 17, "Insurance Contracts"	1 January 2021

The Group is assessing the impact of such new standards, amendments to standards and interpretations, and will adopt the relevant standards, amendments to standards and interpretations in the subsequent period as required. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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 2.20 depending on the nature of the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and Non-Controlling Interests (Continued)

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2.12) 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 2.13), 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 (after applying the ECL model to such other long-term interests where applicable).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and Joint Ventures (Continued)

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

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

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

2.5 Segment Reporting

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

2.6 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign Currency Translation (Continued)

(c) Group companies (Continued)

- All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity into other reserve.

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

2.7 Property, Plant and Equipment

(a) Construction-in-progress

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

(b) Property, plant and equipment

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, Plant and Equipment (Continued)

(c) Depreciation

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

(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 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 2.15), 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Contract costs (Continued)

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.

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 2.25.

2.10 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2.25) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit loss ("ECL") in accordance with the policy set out in Note 2.14 and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2.16).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2.25). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2.16).

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 2.25).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Other Assets

Other assets mainly represent (i) computer software; (ii) prepaid usage fees for 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 usage fees for transmission lines and electricity cables are amortised using a straight-line method over service period.

2.12 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial Assets (Continued)

Financial assets measured at fair value

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

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

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

2.13 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.

2.14 Credit losses from financial instruments and contract assets

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, "Revenue from contracts with customers" ("IFRS/HKFRS 15") (see Note 2.10).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Significant increases in credit risk (Continued)

— 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 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.

2.16 Accounts Receivable

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 2.10).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2.14).

2.17 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.

2.18 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.

2.19 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 revenue consequently are effectively recognised in profit or loss over the useful life of the asset as other income.

2.20 Borrowings

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

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

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share Capital

Ordinary shares are classified as equity.

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

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

2.22 Employee Benefits

(a) Retirement benefits

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

(b) Medical insurance

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

(c) Housing benefits

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

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

(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 2019, the amount of the liability was RMB70 million (2018: RMB73 million).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee Benefits (Continued)

(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).

(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.

2.23 Accounts Payable

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

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

2.24 Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Provisions (Continued)

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.

2.25 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.

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 upon fulfillment of services obligation;
- 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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue Recognition (Continued)

- Interconnection fees, which represent revenue 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 transmission 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 customers which include bundle sale of mobile handsets and provision of services. 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 handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of telecommunications services. 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.

2.26 Interest income

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

2.27 Dividend income

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

2.28 Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leased assets (Continued)

(a) As a lessee

(i) Policy applicable from 1 January 2019

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily computers and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2.13). Right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the unexpired term of lease. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property, and lease liabilities separately in the consolidated statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leased assets (Continued)

(a) As a lessee (Continued)

(ii) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Impairment losses were accounted for in accordance with the accounting policy as set out in note 2.13. Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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

(b) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2.28(a)(i), then the Group classifies the sub-lease as an operating lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Borrowing Costs

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

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

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

2.30 Taxation

(a) Current income tax

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

(b) Deferred income tax

Deferred 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Taxation (Continued)

(b) Deferred income tax (Continued)

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.

2.31 Dividend Distribution

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

2.32 Contingent Liabilities and Contingent Assets

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

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

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

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

2.33 Earnings per Share

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

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

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.34 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(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.

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

3.1 Financial risk factors (Continued)

(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 balances with international carriers, cash and cash equivalents and financial assets denominated in foreign currencies.

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 2019 and 2018, the Group had not entered into any forward exchange contracts or currency swap contracts.

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 2019 and 2018.

	2019			2018		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
— denominated in HK dollars	35	0.90	31	66	0.88	58
— denominated in US dollars	166	6.98	1,160	114	6.86	783
— denominated in Euro	19	7.82	146	16	7.85	123
— denominated in Japanese Yen	31	0.06	2	17	0.06	1
— denominated in SGD	1	5.17	6	—	5.01	—
— denominated in GBP	—	9.15	—	—	8.68	1
— denominated in AUD	1	4.88	4	—	4.83	—
— denominated in CHF	—	7.20	—	—	6.95	1
Sub-total			1,349			967
Accounts receivable:						
— denominated in HK dollars	2	0.90	2	1	0.88	1
— denominated in US dollars	231	6.98	1,612	233	6.86	1,599
— denominated in Euro	2	7.82	16	1	7.85	8
Sub-total			1,630			1,608

(All amounts in RMB millions unless otherwise stated)

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

	2019			2018		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Financial assets at fair value through other comprehensive income:						
— denominated in Euro	400	7.82	3,125	471	7.85	3,698
Total			6,104			6,273
Borrowings:						
— denominated in US dollars	33	6.98	232	37	6.86	252
— denominated in Euro	5	7.82	42	8	7.85	62
— denominated in HK dollars	—	0.90	—	2	0.88	2
Sub-total			274			316
Accounts payable:						
— denominated in US dollars	62	6.98	433	73	6.86	501
— denominated in Euro	1	7.82	8	1	7.85	8
Sub-total			441			509
Total			715			825

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 2019, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen, SGD, CHF, AUD and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB170 million (2018: approximately RMB131 million) for cash and cash equivalents, borrowings, accounts receivable and accounts payable denominated in foreign currencies, and the effect on other comprehensive income would be approximately RMB313 million (2018: approximately RMB370 million) for financial assets denominated in foreign currency, which were recorded in fair value through other comprehensive income.

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 2019, 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 RMB313 million (2018: approximately RMB370 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, related parties loans and lease liabilities. 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 2019 and 2018, 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 2019 and 2018.

As at 31 December 2019, the Group had approximately RMB19,496 million (2018: approximately RMB19,784 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB42,669 million (2018: approximately RMB24,889 million) of long-term fixed rate borrowings and lease liabilities.

For the year ended 31 December 2019, 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 RMB73 million (2018: approximately RMB74 million).

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

3.1 Financial risk factors (Continued)

(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 sales of mobile handsets. The Group assesses the credit quality of all its customers and sets credit limits on them 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 settlement pattern of 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 telecommunications 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 2019					
Long-term bank loans	448	434	1,344	1,710	3,306
Promissory notes	34	34	1,030	—	998
Corporate bonds	108	1,088	2,034	—	2,998
Lease liabilities (note)	11,085	10,183	12,112	1,430	32,325
Other obligations	2,657	46	29	49	2,778
Short-term bank loans	5,704	—	—	—	5,564
Commercial papers	9,116	—	—	—	8,995
Accounts payable and accrued liabilities	121,564	—	—	—	121,564
Amounts due to ultimate holding company	1,779	—	—	—	1,779
Amounts due to related parties	7,984	132	3,304	—	10,893
Amounts due to domestic carriers	2,174	—	—	—	2,174
Dividend payable	920	—	—	—	920
	163,573	11,917	19,853	3,189	194,294

(All amounts in RMB millions unless otherwise stated)

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

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	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
Short-term bank loans	15,449	—	—	—	15,085
Accounts payable and accrued liabilities	122,458	—	—	—	122,458
Amounts due to ultimate holding company	1,214	—	—	—	1,214
Amounts due to related parties	8,977	132	3,436	—	11,885
Amounts due to domestic carriers	2,144	—	—	—	2,144
Dividend payable	920	—	—	—	920
	171,749	637	5,833	2,199	178,347

Note: The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach. Lease liabilities include amounts recognised at the date of transition to IFRS/HKFRS 16 in respect of leases previously classified as operating leases under IAS/HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See Note 2.2(c).

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.

3.2 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.

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

3.2 Capital risk management (Continued)

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, lease liabilities, obligations under finance lease, and amounts due to 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 an associate of RMB4,879 million and of RMB8 million, respectively, as at 31 December 2019 (2018: RMB4,621 million and RMB30 million, respectively).

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

	31 December 2019	1 January 2019 (Note)	31 December 2018 (Note)
Interest-bearing debts:			
— Short-term bank loans	5,564	15,085	15,085
— Long-term bank loans	2,869	3,173	3,173
— Promissory notes	998	—	—
— Corporate bonds	2,998	999	999
— Commercial papers	8,995	—	—
— Lease liabilities (non-current portion)	21,535	27,576	—
— Obligations under finance lease included in other obligations	—	—	6
— Amounts due to related parties	3,092	3,090	3,090
— Current portion of long-term bank loans	437	441	441
— Current portion of corporate bonds	—	16,994	16,994
— Lease liabilities (current portion)	10,790	9,144	—
— Current portion of obligations under finance lease	—	—	234
	57,278	76,502	40,022
Total equity	320,755	313,212	314,286
Interest-bearing debts plus total equity	378,033	389,714	354,308
Debt-to-capitalisation ratio	15.2%	19.6%	11.3%

Note: The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS/HKAS 17. Under this approach, the comparative information is not restated. See Note 2.2(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

3.3 Fair value estimation

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, prepayments and other current assets, contract assets, amounts due from ultimate holding company, related parties and domestic carriers, financial assets at fair value through other comprehensive income and financial assets at fair value through profit and loss. 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 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 2019:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
— Equity securities				
— Listed	3,268	—	—	3,268
— Unlisted	—	—	55	55
	3,268	—	55	3,323
Financial assets at fair value through profit and loss				
— Equity securities				
— Listed	151	—	—	151
— Unlisted	—	—	568	568
— Wealth management products	—	51	—	51
	151	51	568	770
Total	3,419	51	623	4,093

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

3.3 Fair value estimation (Continued)

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

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
	—	570	200	770
Total	3,845	570	258	4,673

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 2019 and 2018, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(All amounts in RMB millions unless otherwise stated)

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

3.3 Fair value estimation (Continued)

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

The carrying amounts of the Group's financial liabilities carried at amortised cost are not materially different from their fair values as at 31 December 2019 and 2018. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amount as at 31 December 2019	Fair value as at 31 December 2019	Fair value measurement as at 31 December 2019 categorised into			Carrying amount as at 31 December 2018	Fair value as at 31 December 2018
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	2,869	2,849	—	2,849	—	3,173	3,098
Non-current portion of promissory notes	998	1,010	1,010	—	—	—	—
Non-current portion of corporate bonds	2,998	3,081	3,081	—	—	999	1,014

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 0.70% to 4.41% (2018: 0.79% to 4.48%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 31 December 2019 and 2018 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 2.13. 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 2019 and 2018.

4.3 Allowance for expected credit losses

Management estimates expected credit loss allowance on accounts receivable 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).

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.

(All amounts in RMB millions unless otherwise stated)

6. REVENUE

Revenue from telecommunications services are subject to Value-added tax ("VAT") and VAT rates applicable to various telecommunications services. The Ministry of Finance, the State Administration of Taxation ("SAT") and General Administration of Customs of the PRC jointly issued a notice dated 20 March 2019 which stipulates downward adjustments of VAT rate for basic telecommunications services from 10% to 9% and VAT rate for sales of telecommunications products from 16% to 13% from 1 April 2019. 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:

	2019	2018
Voice usage and monthly fees	26,440	32,486
Broadband and mobile data services	146,534	148,431
Data and internet application services	37,218	26,489
Other value-added services	21,251	24,606
Interconnection fees	12,893	13,708
Transmission lines usage and associated services	15,595	14,178
Other services	4,456	3,785
Total service revenue	264,387	263,683
Sales of telecommunications products	26,128	27,194
Total	290,515	290,877
Include: Revenue from contracts with customers within the scope of IFRS/HKFRS 15	289,332	289,810
Revenue from other sources	1,183	1,067

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	2019	2018
			Note
Repairs and maintenance		**10,303**	11,102
Power and water charges		**12,319**	14,481
Charges for use of network, premises, equipment and facilities	(ii), (iv)	**8,146**	11,445
Charges for use of tower assets	(iii), (iv)	**10,492**	15,982
Others		**1,976**	2,067
		43,236	55,077

Note:

(i) The Group has initially applied IFRS/HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.2(c).

(ii) During the year ended 31 December 2019, charges for use of network, premises, equipment and facilities mainly included the non-lease components charges and charges relating to short-term leases, leases of low-value assets and variable lease payments which are recorded in profit or loss as incurred. In 2018, this item mainly included the non-lease components charges and minimum lease payments for leases previously classified as operating leases under IAS/HKAS 17, which were recognised as expense in the period.

(iii) During the year ended 31 December 2019, charges for use of tower assets included the non-lease components charges (maintenance service, certain ancillary facilities usage and other related support services charges) and variable lease payments which are recorded in profit or loss as incurred. In 2018, this item mainly included the operating lease charges under IAS/HKAS 17 and other service charges in connection with the use of telecommunication towers and related assets. For related party transactions with China Tower Corporation Limited ("Tower Company"), see Note 46.2.

(iv) Expense relating to short-term leases and variable lease payments not included in the measurement of lease liabilities

	2019
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019, and leases of low value assets	**1,971**
Variable lease payments not included in the measurement of lease liabilities*	**4,478**

* During the year ended 31 December 2019, variable lease payments not included in the measurement of lease liabilities mainly included charges for use of Tower Assets and network, premises, equipment and facilities, which are measured based on revenue or usage and recorded in profit or loss when the event or condition that triggers those payments occurred.

(All amounts in RMB millions unless otherwise stated)

8. EMPLOYEE BENEFIT EXPENSES

	Note	2019	2018
Salaries and wages		37,143	35,498
Contributions to defined contribution pension schemes		7,080	6,823
Contributions to medical insurance		2,471	2,241
Contributions to housing fund		3,235	2,944
Other housing benefits		16	23
Share-based compensation	45	571	614
		50,516	48,143

8.1 Directors' emoluments

The remuneration of each Director for the year of 2019 is set out below:

Name of Director	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	—	221	492	126	839
Li Guohua	—	221	331	126	678
Li Fushen	—	199	448	126	773
Shao Guanglu	—	199	477	126	802
Zhu Kebing	—	199	295	114	608
Cesareo Alierta Izuel	264	—	—	—	264
Cheung Wing Lam Linus	422	—	—	—	422
Wong Wai Ming	431	—	—	—	431
Chung Shui Ming Timpson	440	—	—	—	440
Law Fan Chiu Fun Fanny	405	—	—	—	405
Total	1,962	1,039	2,043	618	5,662

* 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 years of 2016 to 2018. The deferred bonuses paid to Mr. Wang Xiaochu, Mr. Li Guohua, Mr. Li Fushen, Mr. Shao Guanglu and Mr. Zhu Kebing were RMB542,200, RMB75,300, RMB488,000, RMB477,100 and RMB65,500 respectively.

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

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		—	176	416	125	717
Zhu Kebing	(c)	—	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.

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. Zhu Kebing was appointed as executive director on 17 August 2018.

During the years of 2019 and 2018, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2019 and 2018.

During the years of 2019 and 2018, 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 eight senior management of the Company for the year ended 31 December 2019, five of them are directors of the Company and their remuneration has been disclosed in Note 8.1. For the remuneration of the remaining three senior management, all fall within the band from RMBNil to RMB1,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2019, five of them are staffs and two fall within the band from RMB2,500,001 to RMB3,000,000, one falls within the band from RMB3,000,001 to RMB3,500,000 and two fall within the band from RMB3,500,001 to RMB4,000,000 (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).

The aggregate of the emoluments in respect of the five (2018: five) individuals are as follows:

	2019 (RMB'000)	2018 (RMB'000)
Salaries and allowances	3,378	3,941
Bonuses paid and payable	11,840	8,749
Contributions to pension schemes	912	703
	16,130	13,393

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2019	2018
Handsets and other telecommunication products	26,220	27,403
Others	192	201
	26,412	27,604

10. OTHER OPERATING EXPENSES

	Note	2019	2018 Note
Credit loss allowance and write-down of inventories		3,663	3,846
Commission and other service expenses		23,010	23,151
Advertising and promotion expenses		2,563	2,882
Internet access terminal maintenance expenses		2,937	3,358
Customer retention costs		3,601	4,085
Auditors' remuneration		78	78
Property management fee		2,188	2,192
Office and administrative expenses		1,606	1,763
Transportation expense		1,471	1,565
Miscellaneous taxes and fees		1,236	1,387
Service technical support expenses		13,981	8,035
Repairs and maintenance expenses		704	770
Loss on disposal of property, plant and equipment	15	2,179	4,148
Others		5,263	5,301
		64,480	62,561

Note: The Group has initially applied IFRS/HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.2(c).

11. FINANCE COSTS

	Note	2019	2018
Finance costs:			
— Interest on bank loans repayable within 5 years		519	908
— Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		359	1,113
— Interest on lease liabilities	(i)	1,349	—
— Interest on related party loans repayable within 5 years		133	33
— Interest on bank loans repayable over 5 years		43	47
— Less: Amounts capitalised in CIP	15	(387)	(534)
Total interest expense		2,016	1,567
— Net exchange loss/(gain)		39	(80)
— Others		68	138
		2,123	1,625

(i) The Group has initially applied IFRS/HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.2(c).

12. OTHER INCOME — NET

	2019	2018
Dividend income from financial assets at fair value through other comprehensive income	205	203
Government grants	385	257
Others	1,145	323
	1,735	783

13. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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% (2018: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2018: 15%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

13. TAXATION (Continued)

	2019	2018
Provision for income tax on the estimated taxable profits for the year		
— Hong Kong	66	88
— Mainland China and other countries	556	459
(Over)/under provision in respect of prior years	(250)	18
	372	565
Deferred taxation	2,423	2,259
Income tax expenses	2,795	2,824

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

	Note	2019	2018
Profit before taxation		14,167	13,081
Expected income tax expense at PRC statutory tax rate of 25%		3,542	3,270
Impact of different tax rates outside Mainland China		(22)	(47)
Tax effect of preferential tax rate	(i)	(121)	(91)
Tax effect of non-deductible expenses		227	421
Tax effect of non-taxable income from share of net profit of joint ventures		(162)	(150)
Tax effect of non-taxable income from share of net profit of associates	(ii)	(274)	(369)
(Over)/under provision in respect of prior years		(250)	18
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	(79)	(162)
Others		(66)	(66)
Actual tax expense		2,795	2,824

(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 unrealised profit from transactions with Tower Company.

(iii) As at 31 December 2019, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB997 million (2018: approximately RMB1,313 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 2024.

13. TAXATION (Continued)

As at 31 December 2019, the Group did not recognise deferred tax assets of RMB2,085 million (2018: RMB1,942 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.

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

	2019	2018
Deferred tax assets:		
— Deferred tax asset to be recovered after 12 months	6,942	7,931
— Deferred tax asset to be recovered within 12 months	2,914	2,011
	9,856	9,942
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after 12 months	(8,292)	(5,770)
— Deferred tax liabilities to be settled within 12 months	(338)	(771)
	(8,630)	(6,541)
Net deferred tax assets after offsetting	1,226	3,401
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after 12 months	(87)	(111)
— Deferred tax liabilities to be settled within 12 months	—	—
Net deferred tax liabilities after offsetting	(87)	(111)

(All amounts in RMB millions unless otherwise stated)

13. TAXATION (Continued)

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

	Note	2019	2018
Net deferred tax assets after offsetting:			
— Balance at 31 December 2018 and 2017		3,401	5,973
— Impact on initial application of IFRS/HKFRS 15		—	(584)
— Impact on initial application of IFRS/HKFRS 9 (2014), "Financial instruments" ("IFRS/HKFRS 9 (2014)")		—	265
— Impact on initial application of IFRS/HKFRS 16	(i)	271	—
— Balance at 1 January 2019 and 2018		3,672	5,654
— Deferred tax charged to the statement of income		(2,447)	(2,256)
— Deferred tax credited to other comprehensive income		1	3
— End of year		1,226	3,401
Net deferred tax liabilities after offsetting:			
— Beginning of year		(111)	(108)
— Deferred tax credited/(charged) to the statement of income		24	(3)
— End of year		(87)	(111)

(i) The Group has initially applied IFRS/HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.2(c).

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	Gain from Tower Assets Disposal (Note (ii))	Accelerated depreciation of property, plant and equipment (Note (iii))	Contract costs	Depreciation charge of right-of-use assets	Others	Total
At 1 January 2018	1,868	1,403	2,244	2,554	697	(745)	(3,870)	(584)	—	1,979	5,546
(Charged)/Credited to the statement of income	(154)	(49)	(941)	626	(252)	373	(2,051)	355	—	(166)	(2,259)
Credited to other comprehensive income	—	—	—	—	—	—	—	—	—	3	3
At 31 December 2018	1,714	1,354	1,303	3,180	445	(372)	(5,921)	(229)	—	1,816	3,290
Impact on initial application of IFRS/HKFRS 16	—	—	—	—	—	—	—	—	271	—	271
At 1 January 2019	1,714	1,354	1,303	3,180	445	(372)	(5,921)	(229)	271	1,816	3,561
Credited/(Charged) to the statement of income	204	(48)	(933)	161	(64)	372	(2,651)	190	99	247	(2,423)
Credited to other comprehensive income	—	—	—	—	—	—	—	—	—	1	1
At 31 December 2019	1,918	1,306	370	3,341	381	—	(8,572)	(39)	370	2,064	1,139

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	2019	2018
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Credit loss allowance		1,918	1,714
Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(i)	1,306	1,354
Deductible tax losses		370	1,303
Accruals of expenses not yet deductible for tax purpose		3,341	3,180
Unrealised profit from the transactions with Tower Company		381	445
Depreciation charge of right-of-use assets		370	—
Deferred revenue on subscriber points reward program		229	203
Unrealised profit for the inter-company transactions		227	153
Government grants related to assets		695	536
Intangible assets amortisation difference		464	418
Others		555	636
		9,856	9,942
Deferred tax liabilities:			
Gain from Tower Assets Disposal	(ii)	—	(372)
Accelerated depreciation of property, plant and equipment	(iii)	(8,572)	(5,921)
Contract costs		(39)	(229)
Others		(19)	(19)
		(8,630)	(6,541)
		1,226	3,401
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(87)	(111)
		(87)	(111)

13. TAXATION (Continued)

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

(ii) 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 46). 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 is then reversed in the four years from 2016 to 2019.

(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 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 2019 and 2018 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 2019 and 2018 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 2019 and 2018.

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

	2019	2018
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	**11,330**	10,197
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	**30,598**	30,598
Basic/Diluted earnings per share (in RMB)	**0.37**	0.33

15. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2019 and 2018 are as follows:

	2019					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
At 31 December 2018	73,876	846,385	20,080	3,916	42,306	986,563
Impact on initial application of IFRS/HKFRS 16 (Note)	—	(461)	—	—	—	(461)
At 1 January 2019	73,876	845,924	20,080	3,916	42,306	986,102
Additions	160	225	369	116	55,565	56,435
Transfer from CIP	1,279	36,871	839	194	(39,183)	—
Transfer to other assets	—	—	—	—	(4,415)	(4,415)
Disposals	(155)	(49,597)	(1,196)	(498)	(12)	(51,458)
End of year	75,160	833,423	20,092	3,728	54,261	986,664
Accumulated depreciation and impairment:						
At 31 December 2018	(34,222)	(549,211)	(15,559)	(2,978)	(118)	(602,088)
Impact on initial application of IFRS/HKFRS 16 (Note)	—	118	—	—	—	118
At 1 January 2019	(34,222)	(549,093)	(15,559)	(2,978)	(118)	(601,970)
Charge for the year	(2,744)	(60,598)	(1,226)	(439)	(5)	(65,012)
Disposals	126	45,956	1,127	498	12	47,719
End of year	(36,840)	(563,735)	(15,658)	(2,919)	(111)	(619,263)
Net book value:						
End of year	38,320	269,688	4,434	809	54,150	367,401
At 1 January 2019	39,654	296,831	4,521	938	42,188	384,132
At 31 December 2018	39,654	297,174	4,521	938	42,188	384,475

(All amounts in RMB millions unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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

On the date of transition to IFRS/HKFRS 16, assets previously under finance leases of net book value RMB343 million previously included in "Property, plant and equipment" were adjusted to "Right-of-use assets" recognised at 1 January 2019. See Note 2.2(c).

For the year ended 31 December 2019, interest expense of approximately RMB387 million (2018: approximately RMB534 million) was capitalised as CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings and varied from 3.07% to 3.49% for the year ended 31 December 2019 (2018: 3.16% to 3.61%).

Mainly 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 RMB3,739 million for consideration of RMB1,560 million for the year ended 31 December 2019 (2018: RMB5,253 million and RMB1,105 million, respectively), resulting in a net loss of approximately RMB2,179 million for the year ended 31 December 2019 (2018: approximately RMB4,148 million).

16. LEASE PREPAYMENTS

The Group's recognised prepaid operating lease payments for land use rights in "Lease prepayments" before 1 January 2019. On the date of transition to IFRS/HKFRS 16, such lease prepayments adjusted to "Right-of-use assets" recognised at 1 January 2019. See Note 2.2(c). The movement of lease prepayments for the year ended 31 December 2018 is as follow:

	2018
Beginning of the year	9,313
Addition	282
Amortisation	(305)
End of the year	9,290

17. RIGHT-OF-USE ASSETS

	2019				
	Buildings	Tele-communications equipment	Land use rights	Others	Total
Cost:					
At 31 December 2018	—	—	—	—	—
Impact on initial application of IFRS/HKFRS 16 (Note)	14,110	35,631	13,504	643	63,888
At 1 January 2019	**14,110**	**35,631**	**13,504**	**643**	**63,888**
Additions	**3,620**	**2,814**	**178**	**294**	**6,906**
Disposals	**—**	**(461)**	**—**	**—**	**(461)**
End of year	**17,730**	**37,984**	**13,682**	**937**	**70,333**
Accumulated depreciation and impairment:					
At 31 December 2018	—	—	—	—	—
Impact on initial application of IFRS/HKFRS 16 (Note)	(4,962)	(7,215)	(4,214)	(138)	(16,529)
At 1 January 2019	**(4,962)**	**(7,215)**	**(4,214)**	**(138)**	**(16,529)**
Charge for the year	**(3,443)**	**(7,308)**	**(295)**	**(146)**	**(11,192)**
Disposals	**—**	**461**	**—**	**—**	**461**
End of year	**(8,405)**	**(14,062)**	**(4,509)**	**(284)**	**(27,260)**
Net book value:					
End of year	**9,325**	**23,922**	**9,173**	**653**	**43,073**
At 1 January 2019	9,148	28,416	9,290	505	47,359

(All amounts in RMB millions unless otherwise stated)

17. RIGHT-OF-USE ASSETS (Continued)

The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS/HKAS 17.

On the date of transition to IFRS/HKFRS 16, assets previously under finance leases of net book value RMB343 million previously included in "Property, plant and equipment" and long-term prepayment for land use rights of net book value RMB9,290 million previously included in "Lease prepayments" were adjusted to "Right-of-use assets" recognised at 1 January 2019. See Note 2.2(c).

After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2.2(c).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 30(c) and 37, respectively.

18. 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% (2018: 1%) and the applicable discount rate of 11% (2018: 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 2019 and 2018, any adverse change in the assumptions used in the calculation of recoverable amount would result in impairment losses.

19. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2019, 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	—	100%	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
China Unicom (Brazil) Holdings Ltda.	Brazil, 27 October 2017, limited liability company	—	100%	R$21,277,298	Investment holding

(All amounts in RMB millions unless otherwise stated)

19. 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 Operations (Thailand) Limited	Thailand, 20 November 2017, limited liability company	—	100%	40,000 shares, Baht100 each	Telecommunications service in Thailand
China Unicom Operations (Malaysia) Sdn. Bhd.	Malaysia, 10 November 2017, limited liability company	—	100%	3,200,000 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 (Cambodia) Operations Co. Ltd	Cambodia, 11 May 2018, limited liability company	—	100%	10,000 shares, Riels4,000 each	Telecommunications service in Cambodia
PT China Unicom Indonesia Operations	Indonesia, 25 October 2019, limited liability company	—	100%	20,000,000,001 shares, Rp1 each	Telecommunications service in Indonesia
China Unicom (Philippines) Operations Inc	Philippines, 6 November 2019, limited liability company	—	100%	103,012 shares, Php100 each	Telecommunications service in Philippines
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%	RMB987,200,000	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

19. 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 design consultation and monitoring 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
Guangdong Unicom Communication Construction Co., Ltd	The PRC, 28 May 2013, limited liability company	—	100%	RMB30,000,000	Provision of telecommunications network construction, maintenance and technical services in the PRC
China Unicom Intelligence Security Technology Corporation Limited	The PRC, 15 August 2007, limited liability company	—	100%	RMB150,000,000	Provision of technical development and consultation 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

19. 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		
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	—	68.88%	RMB246,796,148	Auto informatisation in the PRC
Unicom Intelligent Network Ruixing Technology (Beijing) Co., Ltd.	The PRC, 26 September 2018, limited liability company	—	55.10%	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	—	68.88%	RMB10,000,000	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%	RMB200,000	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%	RMB425,356,995.97	Provision of data processing service in the PRC
Liantong Travel Service (Beijing) Company Limited	The PRC, 30 September, 2017, limited liability company	—	100%	RMB30,000,000	Provision of tourism and information services in the PRC
China Unicom (Guangdong Branch) Internet Industry Limited	The PRC, 5 January, 2017, limited liability company	—	100%	RMB100,000,000	Provision of information communications technology services in the PRC
China Unicom (Zhejiang) Industry Internet Company Limited	The PRC, 20 June, 2017, limited liability company	—	100%	RMB11,000,000	Provision of information communications technology services in the PRC

19. 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 (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
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%	RMB40,000,000	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%	RMB50,000,000	Provision of information communications technology services in the PRC
Henan Industrial Interconnection & Technology Co, Ltd	The PRC, 30 May 2019, limited liability company	—	40%	RMB53,000,000	Provision of information communications technology services in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

19. 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%	RMB207,000,000	Provision of internet of things technology, system development and technical consultation, sales and maintenance of system and equipment and 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	—	51%	RMB10,000,000	Provision of Big Data Service, cloud computation and infrastructure 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%	RMB2,500,000,000	Provision of Financing leasing business in the PRC
Yunjing Culture And Tourism Technology Co., LTD	The PRC, 27 February 2019, limited liability company	—	60%	RMB12,500,000	Provision of data analysis, processing and application services in the PRC
Yundun Intelligent Security Technology Co., Ltd	The PRC, 11 November 2019, limited liability company	—	51%	RMB12,750,000	Provision of software development; technology promotion and development in the PRC

20. INTEREST IN ASSOCIATES

	2019	2018
Share of net assets	**36,445**	35,758

The following list contains the particulars of material associate as at 31 December 2019:

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 46.2)

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

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 approximately RMB793 million and a one-off reversal of partial realisation of unrealised profit from transactions with Tower Company by approximately 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	
	2019	2018
Current assets	**40,995**	31,799
Non-current assets	**297,072**	283,565
Current liabilities	**(128,364)**	(114,759)
Non-current liabilities	**(27,142)**	(20,103)
Equity	**(182,561)**	(180,502)
Revenue	**76,428**	71,819
Profit for the year	**5,221**	2,650
Total comprehensive income for the year	**5,221**	2,650
Reconciled to the Group's interest in the associate:		
Net assets of the associate	**182,561**	180,502
The Group's effective interest	**20.65%**	20.65%
	37,697	37,278
Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal	**(1,521)**	(1,780)
Carrying amount in the consolidated financial statements	**36,176**	35,498

(All amounts in RMB millions unless otherwise stated)

20. INTEREST IN ASSOCIATES (Continued)

Tower Company has initially applied IFRS/HKFRS 16 using the modified retrospective approach and has not restated comparative amounts for the year prior to the first adoption, with the cumulative effect of initial adoption recognised as an adjustment to equity as at 1 January 2019 amounted RMB1,281 million.

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 2019		As at 31 December 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Interest in listed associate — Tower Company	**36,176**	**56,000**	35,498	47,133

21. INTEREST IN JOINT VENTURES

	2019	2018
Share of net assets	**4,771**	3,966

The following list contains the particulars of material joint venture, which is unlisted corporate entity which has no available quoted market price as at 31 December 2019:

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

21. INTEREST IN JOINT VENTURES (Continued)

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	
	2019	2018
Assets	**92,697**	74,748
Liabilities	**(83,337)**	(66,854)
Equity	**(9,360)**	(7,894)
Revenue	**10,740**	6,956
Profit for the year	**1,466**	1,253
Total comprehensive income for the year	**1,466**	1,253
Included in above income:		
Interest income	**13,055**	9,887
Interest expense	**(3,178)**	(3,079)
Income tax expense	**(426)**	(391)
Reconciled to the Group's interests in the joint venture:		
Net assets of the joint venture	**9,360**	7,894
The Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**4,680**	3,947

22. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019	2018
Contract assets from bundle sales of mobile handsets and provision of service, net of allowance	**1,856**	1,824
Others	**47**	—
Sub-total	**1,903**	1,824
Less: Current portion	**(1,308)**	(1,254)
	595	570

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.

(All amounts in RMB millions unless otherwise stated)

22. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities

	Note	2019	2018
Advances received from customers for future services	(i)	**39,498**	41,567
Others		**1,150**	1,083
		40,648	42,650

(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 31 December 2018 was recognised as revenue for the year ended 31 December 2019 (2018: approximately 96%).

23. CONTRACT COSTS

	Note	2019	2018
Direct incremental costs of broadband and IPTV service	(i)	**3,079**	3,785
Sales commissions	(ii)	**1,844**	1,847
		4,923	5,632

(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. The amount of capitalised direct incremental costs for activating broadband and IPTV subscribers recognised in profit or loss during the year was RMB2,891 million (2018: 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 RMB893 million (2018: RMB1,417 million).

(ii) Sales commissions are paid to agents whose selling activities resulted in new customers entering into contracts with the Group. The amount of capitalised sales commissions recognised in profit or loss during the year was RMB1,472 million (2018: RMB1,642 million). There was no significant impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year (2018: Nil). The amount of capitalised sales commissions that is expected to be recovered after more than one year is RMB811 million (2018: RMB683 million).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
Listed in the PRC	143	147
Listed outside the PRC	3,125	3,698
Unlisted	55	58
	3,323	3,903

For the year ended 31 December 2019, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB583 million (2018: decrease of approximately RMB383 million). The decrease, net of tax impact, of approximately RMB581 million (2018: decrease, net of tax impact, of approximately RMB381 million) has been recorded in the consolidated statement of comprehensive income.

25. OTHER ASSETS

	Note	2019	2018
Intangible assets	(i)	11,324	11,156
Prepaid rental	(ii)	—	1,801
Prepaid services charges for transmission lines and electricity cables and other services		995	459
VAT recoverable	(iii)	216	424
Others		1,273	805
		13,808	14,645

(All amounts in RMB millions unless otherwise stated)

25. OTHER ASSETS (Continued)

(i) Intangible assets

	Computer software	Others	Total
Cost:			
At 1 January 2018	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**
Additions	**174**	**21**	**195**
Transfer from CIP	**3,956**	**205**	**4,161**
Disposals	**(1,728)**	**(53)**	**(1,781)**
At 31 December 2019	**31,358**	**3,578**	**34,936**
Accumulated amortisation and impairment:			
At 1 January 2018	(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)**
Amortisation charge for the year	**(3,736)**	**(427)**	**(4,163)**
Disposals	**1,708**	**48**	**1,756**
At 31 December 2019	**(21,773)**	**(1,839)**	**(23,612)**
Net book value:			
At 31 December 2019	**9,585**	**1,739**	**11,324**
At 31 December 2018	9,211	1,945	11,156

(ii) On the date of transition to IFRS/HKFRS 16, prepaid rentals of RMB1,801 million previously included in "Other assets" were adjusted to "Right-of-use assets" recognised at 1 January 2019. See Note 2.2(c).

(iii) 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 28(ii).

26. INVENTORIES AND CONSUMABLES

	2019	2018
Handsets and other telecommunication products	**2,027**	2,111
Consumables	**16**	27
Others	**316**	250
	2,359	2,388

27. ACCOUNTS RECEIVABLE

	2019	2018
Accounts receivable	**24,601**	21,142
Less: Credit loss allowance	**(7,368)**	(6,709)
	17,233	14,433

The gross carrying amount of accounts receivable from contracts with customers amounted to RMB24,569 million as at 31 December 2019 (2018: RMB21,053 million).

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

	2019	2018
Within one month	**9,472**	8,158
More than one month to three months	**2,545**	2,285
More than three months to one year	**3,881**	2,843
More than one year	**1,335**	1,147
	17,233	14,433

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.

(All amounts in RMB millions unless otherwise stated)

27. ACCOUNTS RECEIVABLE (Continued)

The Group measures loss allowances for accounts receivable 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.

The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivable as at 31 December 2019:

For individual subscribers and general corporate customers

	Expected loss rate %	Gross carrying amount	Loss allowance
Current (not past due)	6%	2,929	(175)
1–90 days past due	50%	1,363	(683)
91–180 days past due	90%	840	(755)
More than 180 days past due	100%	2,250	(2,250)
		7,382	(3,863)

For major corporate customers

	Expected loss rate %	Gross carrying amount	Loss allowance
Current (not past due)	4%	9,602	(372)
Within 1 year past due	15%	4,517	(674)
1–2 years past due	48%	1,037	(498)
2–3 years past due	88%	795	(699)
More than 3 years past due	100%	1,268	(1,262)
		17,219	(3,505)

27. ACCOUNTS RECEIVABLE (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivable 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.

(All amounts in RMB millions unless otherwise stated)

27. ACCOUNTS RECEIVABLE (Continued)

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

	2019	2018
Balance, beginning of year	6,709	5,210
Impact on initial application of IFRS/HKFRS 9 (2014)	—	1,118
Allowance for the year	3,128	3,300
Written-off during the year	(2,469)	(2,919)
Balance, end of year	7,368	6,709

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.

28. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	2019	2018
Prepaid rental	(i)	—	526
Prepaid services charges for transmission lines and electricity cables and other services		1,028	1,119
Prepaid power and water charges		648	562
Deposits and prepayments		2,068	1,847
Advances to employees		13	22
VAT recoverable	(ii)	5,286	4,568
Prepaid enterprise income tax		329	312
Others		3,084	2,150
		12,456	11,106

(i) On the date of transition to IFRS/HKFRS 16, prepaid rentals of RMB526 million previously included in "Prepayments and other current assets" were adjusted to "Right-of-use assets" recognised at 1 January 2019. See Note 2.2(c).

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

28. PREPAYMENTS AND OTHER CURRENT ASSETS (Continued)

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

As at 31 December 2019, there was no significant impairment for the prepayments and other current assets.

29. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	Note	2019	2018
Bank deposits with maturity exceeding three months		—	34
Statutory reserve deposits	(i)	3,228	2,877
Restricted deposits		488	809
		3,716	3,720

(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.

30. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2019	2018
Cash at bank and in hand	34,945	30,060

(All amounts in RMB millions unless otherwise stated)

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

(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 statement of cash flow as cash flows from financing activities.

	Short-term bank loans (Note 40)	Long-term bank loans (Note 34)	Commercial papers (Note 41)	Promissory notes (Note 35)	Corporate bonds (Note 36)	Finance lease (Note 39(b))	Lease liabilities (Note 37)	Other borrowings (Note 46)	Total
At 31 December 2018	15,085	3,614	—	—	17,993	240	—	7,741	44,673
Impact on initial application of IFRS/HKFRS 16 (Note)	—	—	—	—	—	(240)	36,720	—	36,480
At 1 January 2019	15,085	3,614	—	—	17,993	—	36,720	7,741	81,153
Changes from financing cash flows:									
Proceeds from short-term bank loans	28,784	—	—	—	—	—	—	—	28,784
Proceeds from commercial papers	—	—	8,995	—	—	—	—	—	8,995
Proceeds from promissory notes	—	—	—	992	—	—	—	—	992
Proceeds from corporate bonds	—	—	—	—	2,000	—	—	—	2,000
Loans from related parties	—	—	—	—	—	—	—	50	50
Repayment of short-term bank loans	(38,290)	—	—	—	—	—	—	—	(38,290)
Repayment of long-term bank loans	—	(418)	—	—	—	—	—	—	(418)
Repayment of related parties loan	—	—	—	—	—	—	—	(48)	(48)
Repayment of corporate bonds	—	—	—	—	(17,000)	—	—	—	(17,000)
Capital element of lease rentals paid	—	—	—	—	—	—	(11,123)	—	(11,123)
Net deposits with Finance Company by related parties	—	—	—	—	—	—	—	236	236
Total changes from financing cash flows	(9,506)	(418)	8,995	992	(15,000)	—	(11,123)	238	(25,822)
Exchange adjustments	(15)	27	—	—	—	—	—	—	12
Other changes:									
Increase in lease liabilities from entering into new leases during the year	—	—	—	—	—	—	6,728	—	6,728
Others	—	83	—	6	5	—	—	—	94
Total other changes	—	83	—	6	5	—	6,728	—	6,822
At 31 December 2019	5,564	3,306	8,995	998	2,998	—	32,325	7,979	62,165

Note: The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS/HKAS 17.

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

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

	Short-term bank loans (Note 40)	Long-term bank loans (Note 34)	Commercial papers (Note 41)	Promissory notes (Note 35)	Corporate bonds (Note 36)	Finance lease (Note 39(b))	Other borrowings (Note 46)	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 deposits by Unicom Group and its subsidiaries with 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
Others	—	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

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019
Within operating cash flows	**7,798**
Within investing cash flows	**178**
Within financing cash flows	**11,123**
	19,099

Note: The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS/HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee were classified as operating activities in the consolidated cash flow statement. Under IFRS/HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element and the capital element is classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS/HKFRS 16 are set out in Note 2.2(c).

(All amounts in RMB millions unless otherwise stated)

31. SHARE CAPITAL

Issued and fully paid:	Number of shares millions	Share capital
At 1 January 2018, at 31 December 2018 and at 31 December 2019	30,598	254,056

32. RESERVES

(a) Movement in components of equity

The Company

	Share capital	Investment revaluation reserve	Other reserve	Retained profits	Total equity
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
Balance at 1 January 2019	**254,056**	**(7,460)**	**572**	**11,015**	**258,183**
Total comprehensive income for the year	**—**	**(573)**	**—**	**15,106**	**14,533**
Dividends relating to 2018	**—**	**—**	**—**	**(4,100)**	**(4,100)**
Balance at 31 December 2019	**254,056**	**(8,033)**	**572**	**22,021**	**268,616**

(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.

32. RESERVES (Continued)

(b) Nature and purpose (Continued)

(i) Statutory reserves (Continued)

Accordingly, CUCL appropriated approximately RMB1,273 million (2018: approximately RMB52 million) to the general reserve fund for the year ended 31 December 2019.

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 IFRS/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 2019 and 2018, 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.

(All amounts in RMB millions unless otherwise stated)

33. DIVIDENDS

At the annual general meeting held on 10 May 2019, the shareholders of the Company approved the payment of a final dividend of RMB0.134 per ordinary share for the year ended 31 December 2018, totaling approximately RMB4,100 million which has been reflected as a reduction of retained profit for the year ended 31 December 2019.

At a meeting held on 23 March 2020, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.148 per ordinary share to the shareholders for the year ended 31 December 2019 totaling approximately RMB4,529 million. This proposed dividend has not been reflected as a dividend payable in the consolidated financial statements as at 31 December 2019, but will be reflected in the consolidated financial statements for the year ending 31 December 2020.

	2019	2018
Proposed final dividend: RMB0.148 (2018: RMB0.134) per ordinary share by the Company	4,529	4,100

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 2019, 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.

34. LONG-TERM BANK LOANS

	Interest rates and final maturity	2019	2018
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (2018: 1.08% to 1.20%) per annum with maturity through 2036 (2018: maturity through 2036)	3,032	3,300
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (2018: Nil to 1.55%) per annum with maturity through 2039 (2018: maturity through 2039)	232	252
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2018: 1.10% to 2.50%) per annum with maturity through 2034 (2018: maturity through 2034)	42	62
Sub-total		3,306	3,614
Less: Current portion		(437)	(441)
		2,869	3,173

34. LONG-TERM BANK LOANS (Continued)

As at 31 December 2019, long-term bank loans of approximately RMB61 million (2018: approximately RMB96 million) were guaranteed by third parties.

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

	2019	2018
Balances due:		
— no later than one year	**437**	441
— later than one year and no later than two years	**413**	417
— later than two years and no later than five years	**1,183**	1,173
— later than five years	**1,273**	1,583
	3,306	3,614
Less: Portion classified as current liabilities	**(437)**	(441)
	2,869	3,173

35. PROMISSORY NOTES

On 18 November 2019, CUCL issued tranche one of 2019 promissory notes in an amount of RMB1 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.39% per annum.

36. CORPORATE BONDS

On 7 June 2016, the Group issued RMB7 billion 3-year corporate bonds, bearing interest at 3.07% per annum, and were fully redeemed in June 2019.

On 7 June 2016, the Group issued RMB1 billion 5-year corporate bond, bearing interest at 3.43% per annum.

On 14 July 2016, the Group issued RMB10 billion 3-year corporate bonds, bearing interest at 2.95% per annum, and were fully redeemed in July 2019.

On 19 June 2019, the Group issued RMB2 billion 3-year corporate bonds, bearing interest at 3.67% per annum.

(All amounts in RMB millions unless otherwise stated)

37. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS/HKFRS 16:

	31 December 2018 (Note)		1 January 2019 (Note)		31 December 2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year:	234	243	9,144	9,377	10,790	11,085
After 1 year but within 2 years	6	7	9,492	10,013	9,602	10,183
After 2 years but within 5 years	—	—	16,746	18,842	10,871	12,112
After 5 years	—	—	1,338	1,667	1,062	1,430
	6	7	27,576	30,522	21,535	23,725
	240	250	36,720	39,899	32,325	34,810
Less: total future interest expenses		(10)		(3,179)		(2,485)
Present value of lease liabilities		240		36,720		32,325

Note: The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS/HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS/HKFRS 16 are set out in Note 2.2(c).

38. DEFERRED REVENUE

Deferred revenue mainly represents the unamortised portion of government grants.

	2019	2018
Balance at 31 December 2018 and 2017	3,687	3,370
— Impact on initial application of IFRS/HKFRS 15	—	(1,093)
Balance at 1 January 2019 and 2018	3,687	2,277
Additions for the year		
— government grants	1,017	972
— others	985	831
	2,002	1,803
Reductions for the year		
— recognition of government grants in profit or loss and other reductions	(469)	(323)
— others	(369)	(70)
Balance at end of the year	4,851	3,687
Representing:		
— current portion	—	78
— non-current portion	4,851	3,609
	4,851	3,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

39. OTHER OBLIGATIONS

	Note	2019	2018
One-off cash housing subsidies	(a)	2,496	2,496
Obligations under finance lease	(b)	—	240
Others		282	298
Sub-total		2,778	3,034
Less: Current portion		(2,604)	(2,844)
		174	190

(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 2019, 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.

39. OTHER OBLIGATIONS (Continued)

(b) Obligations under finance lease

The Group recognised the payables for the finance lease of telecommunications equipment in “obligations under finance lease” before 1 January 2019. On the date of transition to IFRS/HKFRS 16, obligations under finance lease of RMB240 million previously included in “Other obligations” were adjusted to “Lease liabilities” recognised at 1 January 2019. See Note 2.2(c).

The lease payments under finance lease as at 31 December 2018 are analysed as follows:

	2018
Total minimum lease payments under finance lease:	
— not later than one year	243
— later than one year and not later than two years	2
— later than two years and not later than three years	4
	249
Less: Future finance charges	(9)
Present value of minimum obligations	240
Representing obligations under finance lease:	
— current liabilities	234
— non-current liabilities	6

40. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2019	2018
RMB denominated bank loans	Fixed interest rates ranging from 2.15% to 3.92% (2018: 2.35% to 4.77%) per annum with maturity through 2020 (2018: maturity through 2019)	5,564	15,085

At 31 December 2019 and 2018, all short-term bank loans were unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

41. COMMERCIAL PAPERS

On 25 October 2019, CUCL issued tranche one of 2019 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.24% per annum.

On 15 November 2019, CUCL issued tranche two of 2019 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 2.20% per annum.

42. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Payables to contractors and equipment suppliers	63,390	70,526
Payables to telecommunications products suppliers	5,096	4,349
Customer/contractor deposits	5,771	6,381
Repair and maintenance expense payables	6,526	6,252
Bills payable	4,039	—
Salary and welfare payables	7,249	5,900
Interest payable	101	299
Amounts due to services providers/content providers	2,591	1,920
VAT received from customer in advance	3,052	3,398
Accrued expenses	16,486	15,935
Others	7,263	7,498
	121,564	122,458

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

	2019	2018
Less than six months	105,363	105,606
Six months to one year	9,250	6,984
More than one year	6,951	9,868
	121,564	122,458

43. 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 2019, the related financial assets at fair value through other comprehensive income amounted to approximately RMB3,125 million (2018: approximately RMB3,698 million). For the year ended 31 December 2019, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB573 million (2018: decrease of approximately RMB372 million), has been recorded in the consolidated statement of comprehensive income.

44. 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 2019, 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 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

45. RESTRICTED A-SHARE INCENTIVE SCHEME

Pursuant to the share incentive scheme of A Share Company ("the Restricted A-Share Incentive Scheme"), 848 million restricted shares of A Share Company ("Restricted Shares") were approved for granting to the core employees of the Group, the first batch granted Restricted Shares of 793,861,000 and second batch granted Restricted Shares of 13,156,000 were subscribed by them ("the Participants", including certain core employees of the Company's subsidiaries) on 21 March 2018 and 1 February 2019 ("the Grant Dates"), respectively, with a subscription price of RMB3.79 per share. The fair value of the Restricted Shares granted under the respective Grant Dates is RMB2.34 and RMB1.57 per share, respectively, as determined based on the difference between the market price of A Share Company of RMB6.13 per share and RMB5.36 per share at the respective Grant Dates, 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 Grant Date. 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.

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. If the vesting conditions are not fulfilled and hence the Restricted Shares cannot be unlocked, the A Share Company shall repurchase the Restricted Shares at the respective subscription price from the Participants.

During the year ended 31 December 2019, Restricted Shares of 7,262,000 were forfeited and repurchased (2018: Nil).

For the year ended 31 December 2019, the Group recognised share-based payment expenses and other reserve of RMB571 million during the year under the Restricted A-Share Incentive Scheme (2018: RMB614 million).

46. MATERIAL 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 carriers are all derived from contracts with customers.

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

46. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

46.1 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	2019	2018
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	69	43
Rental charges for short-term property leasing and related services charges	(i), (iii)	989	1,033
Charges for short-term lease of telecommunications resources and related services	(i), (iv)	290	277
Charges for engineering design and construction services	(i), (v)	1,537	2,055
Charges for shared services	(i), (vi)	77	77
Charges for materials procurement services	(i), (vii)	20	34
Charges for ancillary telecommunications services	(i), (viii)	2,417	2,905
Charges for comprehensive support services	(i), (ix)	1,052	1,231
Income from comprehensive support services	(i), (ix)	203	83
Lending by Finance Company to Unicom Group and its subsidiary	(i), (xi)	11,434	13,558
Repayment of loans lending by Finance Company to Unicom Group	(i), (xi)	11,134	6,354
Interest income from lending services	(i), (xi)	370	150

(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 expired on 31 December 2019.

On 21 October 2019, CUCL and Unicom Group entered into the "2020–2022 Comprehensive Services Agreement". The services are existing continuing connected transactions and their respective terms are substantially the same as those set out in the "2017–2019 Comprehensive Services Agreement", and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for those transactions have not been changed under the new agreement as compared to the year ended 31 December 2019.

(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.

(All amounts in RMB millions unless otherwise stated)

46. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(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 2019, the rental charge paid by Unicom Group was approximately RMB2.87 million, which was negligible.

(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 2019, the services charges paid by Unicom Group to CUCL was negligible.

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

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

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

(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.

46. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(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 and its subsidiaries as at 31 December 2019 included loans from Finance Company to Unicom Group and its subsidiaries of RMB7,704 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 (2018: RMB7,404 million with floating interest rate at 90% to 110% of the benchmark interest rate published by the PBOC).

Apart from the above and as disclosed in Note 46.3 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.

46.2 Related party transactions with Tower Company

(a) Related party transactions

(i) Sale of Tower Assets to Tower Company

On 14 October 2015, CUCL and Unicom Horizon Mobile Communications Company Limited (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 sold certain of their telecommunications towers and related assets (the "Tower Assets") to Tower Company in exchange for shares issued by Tower Company and cash consideration. In addition, CRHC made 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 Cash Consideration, remaining Cash Consideration and related VAT of RMB3,000 million, RMB18,322 million and RMB382 million payable by Tower Company were settled in February 2016, December 2017 and June 2019, respectively.

(All amounts in RMB millions unless otherwise stated)

46. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

46.2 Related party transactions with Tower Company (Continued)

(a) Related party transactions (Continued)

(ii) Lease of the Tower Assets and other related services

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-plus 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 arrangements. The new terms apply to the leased tower portfolio as confirmed by both parties are effective from 1 January 2018 for a period of five years.

The Group has initially applied IFRS/HKFRS 16 as from 1 January 2019. Based on IFRS/HKFRS 16, the minimum amount of lease payments payable by the Group under the terms of the arrangement in connection with its use of telecommunications towers and related assets had resulted in recognition of a lease liability with the balance of RMB22,076 million, and a right-of-use asset with the balance of RMB21,269 million as at 31 December 2019. In addition, the Group recorded depreciation of right-of-use asset of RMB6,498 million, interest expense of RMB894 million, and variable lease payments and other related service charges of RMB10,492 million in its consolidated statement of comprehensive income for the year ended 31 December 2019.

The total amounts of lease payments and service charges incurred by the Group under the Agreement with Tower Company for the year ended 31 December 2019 were RMB17,652 million (2018: RMB15,982 million). The related payable balance to Tower Company included in the balance of amounts due to related parties as at 31 December 2019 was RMB2,745 million (2018: RMB2,635 million).

(iii) Income from engineering design and construction services

The Group provide engineering design and construction services, including system integration and engineering design services to Tower Company. Income for the year ended 31 December 2019 was RMB262 million (2018: RMB235 million).

Except as mentioned in (a), 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 above.

46. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

46.3 Related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

	Note	2019	2018
Transactions with Unicom Group and its subsidiaries:			
Unsecured entrusted loan from A Share Company	(i)	—	3,042
Repayment of unsecured entrusted loan to Unicom Group	(ii)	—	1,344
Interest expenses on unsecured entrusted loan	(i)	132	10
Loan from a related party	(iii)	—	48
Repayment of loan from a related party	(iii)	48	435
Interests expenses on loan from a related party	(iii)	—	12
Net deposits by Unicom Group and its subsidiaries with Finance Company	(iv)	258	2,336
Interest expenses on the deposits in Finance Company	(iv)	64	93

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

(iii) 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%, which 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%, and the loan was fully repaid in January 2019.

(iv) 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.

(b) Amounts due to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as at 31 December 2019 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB4,879 million with interest rates ranging from 0.42% to 2.75% per annum for saving and deposits of different terms (2018: RMB4,621 million with interest rates ranging from 0.42% to 2.75% per annum).

Amount due to Unicom Group and its subsidiaries as at 31 December 2019 and 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.

(All amounts in RMB millions unless otherwise stated)

47. CONTINGENCIES AND COMMITMENTS

47.1 Capital commitments

As at 31 December 2019 and 2018, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2019			2018
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**3,014**	**20,860**	**23,874**	18,381
Authorised but not contracted for	**7,905**	**39,740**	**47,645**	39,496
	10,919	**60,600**	**71,519**	57,877

47.2 Lease and other commitments

As at 31 December 2018, the total future minimum payments under non-cancellable operating leases and other commitments were payable as follows:

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

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

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

The Group is the lessee in respect of telecommunications equipment, properties and other assets under leases which were previously classified as operating leases under IAS/HKAS 17. The Group has initially applied IFRS/HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2.2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in Note 2.2(c).

47.3 Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities and no material financial guarantees issued.

48. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2019	2018
		Note
ASSETS		
Non-current assets		
Property, plant and equipment	**3**	4
Investments in subsidiaries	**237,426**	237,301
Loan to a subsidiary	**12,241**	6,829
Right-of-use assets	**31**	—
Financial assets at fair value through other comprehensive income	**3,125**	3,698
	252,826	247,832
Current assets		
Loan to subsidiaries	**—**	5,615
Amounts due from subsidiaries	**230**	223
Dividend receivable	**15,804**	4,612
Prepayments and other current assets	**22**	23
Cash and cash equivalents	**796**	969
	16,852	11,442
Total assets	**269,678**	259,274
EQUITY		
Equity attributable to equity shareholders of the Company		
Share capital	**254,056**	254,056
Reserves	**(7,461)**	(6,888)
Retained profits		
— Proposed final dividend	**4,529**	4,100
— Others	**17,492**	6,915
Total equity	**268,616**	258,183

(All amounts in RMB millions unless otherwise stated)

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

	As at 31 December	
	2019	2018
		Note
LIABILITIES		
Non-current liabilities		
Lease liabilities	**10**	—
	10	—
Current liabilities		
Lease liabilities	**21**	—
Accounts payable and accrued liabilities	**90**	99
Loan from immediate holding company	**—**	48
Taxes payable	**21**	24
Dividend payable	**920**	920
	1,052	1,091
Total liabilities	**1,062**	1,091
Total equity and liabilities	**269,678**	259,274
Net current assets	**15,800**	10,351
Total assets less current liabilities	**268,626**	258,183

Note: The Company has initially applied IFRS/HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

Approved and authorised for issue by the Board of Directors on 23 March 2020 and signed on behalf of the Board by:

Wang Xiaochu
Director

Zhu Kebing
Director

49. COMPARATIVE FIGURES

The Group has initially applied IFRS/HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

50. 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 2019. For detail, please refer to Note 33.

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 March 2020.