NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(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 of the Company were listed on the New York Stock Exchange on 21 June 2000.

The substantial shareholders of the Company are China Unicom (BVI) Limited ("Unicom BVI") and China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI"). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited ("A Share Company", a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002).

Under a mixed ownership reform, A Share Company completed a non-public share issuance to certain strategic investors in October 2017. The gross proceeds of the non-public share issuance amounted to RMB61,725 million. Immediately upon the completion of non-public share issuance by A Share Company, China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"), a substantial shareholder of A share Company, also transferred certain shares in A Share Company to China Structural Reform Fund Corporation Limited at a cash consideration of RMB12,975 million.

On 28 November 2017, the Company issued 6,651,043,262 new shares to Unicom BVI for a cash consideration of RMB74,954 million. As a result, the shareholding of Unicom BVI in the Company increased from 40.61% to 53.52%.

The directors of the Company consider Unicom Group as the ultimate holding company.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard ("IAS") 34, "Interim financial reporting" issued by the International Accounting Standards Board ("IASB"). IAS 34 is consistent with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accordingly this unaudited condensed consolidated interim financial information is also prepared in accordance with HKAS 34.

The unaudited condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's Audit Committee. It has also been reviewed by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017. The Group's policies on financial risk management, including management of market risk, credit risk and liquidity risk, as well as capital risk management, were set out in the financial statements included in the Company's 2017 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2018.

The financial information relating to the year ended 31 December 2017 that is included in this interim financial report of 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. BASIS OF PREPARATION (Continued)

(a) Going Concern Assumption

As at 30 June 2018, current liabilities of the Group exceeded current assets by approximately RMB139.8 billion (31 December 2017: approximately RMB165.9 billion). Considering the current economic conditions and taking into account of the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Approximately RMB260.9 billion of revolving banking facilities, of which approximately RMB242.1 billion was unutilised as at 30 June 2018; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital commitments and debt obligations. As a result, the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2018 have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Overview

The IASB and HKICPA have issued a number of new standards and amendments to International Financial Reporting Standards ("IFRSs")/Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS/HKFRS 9 (2014), "Financial instruments"
- IFRS/HKFRS 15, "Revenue from contracts with customers"
- IFRIC/HK(IFRIC) 22, "Foreign currency transactions and advance consideration"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has early adopted IFRS/HKFRS 9 (2010) in 2011 and the Group has been impacted by IFRS/HKFRS 9 (2014) in relation to measurement of credit losses, and impacted by IFRS/HKFRS 15 in relation to capitalisation of contract costs and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in Note 3(b) for IFRS/HKFRS 9 (2014) and Note 3(c) for IFRS/HKFRS 15.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Overview (Continued)

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

	At 31 December 2017	Impact on initial application of IFRS/HKFRS 9 (2014) (Note 3(b))	Impact on initial application of IFRS/HKFRS 15 (Note 3(c))	At 1 January 2018
ASSETS				
Deferred income tax assets	5,973	265	(584)	5,654
Contract assets	—	—	753	753
Other assets	20,721	—	(5,275)	15,446
Contract costs	—	—	6,856	6,856
Total non-current assets	495,261	265	1,750	497,276
Accounts receivable	13,964	(1,118)	—	12,846
Prepayments and other current assets	13,801	—	(2,221)	11,580
Contract assets	—	—	2,221	2,221
Total current assets	76,722	(1,118)	—	75,604
Total assets	571,983	(853)	1,750	572,880
EQUITY				
Reserves	(20,912)	(85)	175	(20,822)
Retained profits				
— Proposed final dividend	1,591	—	—	1,591
— Others	69,315	(768)	1,575	70,122
Total equity	304,347	(853)	1,750	305,244

(All amounts in RMB millions unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Overview (Continued)

	At 31 December 2017	Impact on initial application of IFRS/HKFRS 9 (2014) (Note 3(b))	Impact on initial application of IFRS/HKFRS 15 (Note 3(c))	At 1 January 2018
CURRENT LIABILITIES				
Current portion of deferred revenue	350	—	(311)	39
Advances from customers	49,283	—	(49,283)	—
Contract liabilities	—	—	49,594	49,594
NON-CURRENT LIABILITIES				
Deferred revenue	3,020	—	(782)	2,238
Contract liabilities	—	—	782	782
Total equity and liabilities	571,983	(853)	1,750	572,880
Net current liabilities	(165,900)	(1,118)	—	(167,018)
Total assets less current liabilities	329,361	(853)	1,750	330,258

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

i. Credit losses

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

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

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

— contract assets as defined in IFRS/HKFRS 15 (see Note 3(c)).

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

Measurement of ECLs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

i. Credit losses (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 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 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

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

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

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

i. Credit losses (Continued)

Significant increases in credit risk (Continued)

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.

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.

Opening balance adjustment

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

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

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

ii. Transition

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

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

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

(All amounts in RMB millions unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

With the exception of the accounting for contract costs and presentation of contract assets and contract liabilities, which is further explained below, the adoption of IFRS/HKFRS 15 did not result in material adjustments to the opening balances at 1 January 2018 as the Group's previous revenue recognition accounting policies in other areas, including identification of the number and the nature of performance obligations for bundled sales transactions, determination of standalone price, allocation of price in bundled sales transactions and contract modifications, were generally consistent with the new requirements in material respects.

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

i. Sales commission

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

ii. Presentation of contract assets and liabilities

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

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

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

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

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

c. (1) "Advances received from customers for prepaid cards, other calling cards and prepaid service fees" amounting to RMB49,283 million, which were previously included in "Advances from customers"; (2) "allocated portion of fair value for the subscriber points reward" which were previously included in "Deferred revenue" and "Current portion of deferred revenue", amounting to RMB525 million and RMB207 million, respectively; (3) "installation fees of fixed-line service" which were previously included in "Deferred revenue" and "Current portion of deferred revenue", amounting to RMB207 million and RMB104 million, respectively; and (4) "Advances received from customers for transmission lines usage and associated services" amounting to RMB50 million, which were previously included in "Deferred revenue", are now included under contract liabilities.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to IFRS/HKFRS 9, "Prepayment features with negative compensation", which have been adopted at the same time as IFRS/HKFRS 9 (2014), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group is assessing the impact of such new standards and amendments to standards and will adopt the relevant standards and amendments to standards in the subsequent period as required. In particular, the Group provides the following information in respect of IFRS/HKFRS 16, "Leases" which may has a significant impact on the Group's consolidated financial statements.

IFRS/HKFRS 16, "Leases"

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

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

4. SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the Chief Operating Decision Maker (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.

5. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") and VAT rates applicable to various telecommunications services. The Ministry of Finance and the State Administration of Taxation ("SAT") of the PRC jointly issued a notice dated 4 April 2018 which stipulates downward adjustments of VAT rate for basic telecommunications services from 11% to 10% and VAT rate for sales of telecommunications products from 17% to 16% from 1 May 2018. The VAT rate for value-added telecommunications services remains at 6%. Basic telecommunications services include business activities for the provision of voice services, and transmission lines usage and associated services etc. Value-added telecommunications services include business activities for the provision of Short Message Service and Multimedia Message Service, broadband and mobile data services, and data and internet application services etc. VAT is excluded from the revenue.

The major components of revenue are as follows:

	Six months ended 30 June	
	2018	2017
Voice usage and monthly fees	**16,958**	20,696
Broadband and mobile data services	**75,528**	65,505
Data and internet application services	**14,046**	10,600
Other value-added services	**12,247**	12,350
Interconnection fees	**6,912**	7,072
Transmission lines usage and associated services	**6,885**	6,231
Other services	**1,847**	1,652
Total service revenue	**134,423**	124,106
Sales of telecommunications products	**14,682**	14,054
	149,105	138,160

6. NETWORK, OPERATION AND SUPPORT EXPENSES

		Six months ended 30 June	
	Note	**2018**	2017
Repairs and maintenance		**5,710**	4,836
Power and water charges		**7,375**	7,168
Operating lease and other service charges for network, premises, equipment and facilities		**5,680**	5,139
Operating lease and other service charges to China Tower Corporation Limited ("Tower Company")	32.2	**7,923**	8,418
Others		**1,056**	804
		27,744	26,365

(All amounts in RMB millions unless otherwise stated)

7. EMPLOYEE BENEFIT EXPENSES

		Six months ended 30 June	
	Note	**2018**	2017
Salaries and wages		**18,860**	15,123
Contributions to defined contribution pension schemes		**2,848**	2,685
Contributions to medical insurance		**994**	929
Contributions to housing fund		**1,392**	1,327
Other housing benefits		**9**	10
Share-based compensation	30	**307**	—
		24,410	20,074

8. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	Six months ended 30 June	
	2018	2017
Handsets and other telecommunication products	**14,581**	14,515
Others	**115**	123
	14,696	14,638

9. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
Impairment losses for doubtful debts and write-down of inventories	**2,299**	2,470
Commission and other service expenses	**11,137**	11,150
Advertising and promotion expenses	**1,894**	1,357
Internet access terminal maintenance expenses	**1,671**	1,742
Customer retention costs	**1,782**	1,848
Property management fee	**1,085**	1,059
Office and administrative expenses	**730**	759
Transportation expense	**727**	763
Miscellaneous taxes and fees	**736**	643
Service technical support expenses	**3,967**	2,398
Repairs and maintenance expenses	**304**	349
Loss on disposal of property, plant and equipment	**1,782**	1,087
Others	**1,783**	1,568
	29,897	27,193

10. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
Finance costs:		
— Interest on bank loans repayable within 5 years	**603**	1,685
— Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	**701**	1,429
— Interest on related party loans repayable within 5 years	**15**	18
— Interest on bank loans repayable over 5 years	**23**	30
— Less: Amounts capitalised in Construction-in-progress ("CIP")	**(285)**	(366)
Total interest expense	**1,057**	2,796
— Net exchange (gain)/loss	**(44)**	162
— Others	**109**	172
	1,122	3,130

11. OTHER INCOME — NET

	Six months ended 30 June	
	2018	2017
Dividend income from financial assets at fair value through other comprehensive income	**95**	99
Others	**66**	312
	161	411

(All amounts in RMB millions unless otherwise stated)

12. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2017: 16.5%) on the estimated assessable profits for the six months ended 30 June 2018. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2018 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% (for the six months ended 30 June 2017: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2017: 15%).

	Six months ended 30 June	
	2018	2017
Provision for income tax on estimated taxable profits for the period		
— Hong Kong	**19**	22
— Mainland China and other countries	**340**	520
Under-provision in respect of prior years	**15**	8
	374	550
Deferred taxation	**1,496**	444
Income tax expenses	**1,870**	994

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

		Six months ended 30 June	
	Note	**2018**	2017
Profit before taxation		**7,819**	3,417
Expected income tax expense at PRC statutory tax rate of 25%		**1,955**	854
Impact of different tax rate outside mainland China		**(22)**	(11)
Tax effect of preferential tax rate	(i)	**(49)**	(49)
Tax effect of non-deductible expenses		**254**	210
Investment in joint ventures		**(73)**	(65)
Investment in associates	(ii)	**(93)**	(77)
Under-provision in respect of prior years		**15**	8
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	**(51)**	4
Others		**(66)**	120
Actual tax expense		**1,870**	994

12. TAXATION (Continued)

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

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

(iii) As at 30 June 2018, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB1,757 million (31 December 2017: approximately RMB1,923 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired by 2022.

As at 30 June 2018, the Group did not recognise deferred tax assets of RMB1,972 million (31 December 2017: RMB1,849 million) in respect of changes in fair value on certain financial assets through other comprehensive income, since it is not probable that the related tax benefit will be realised.

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

	Six months ended 30 June	
	2018	2017
Net deferred tax assets after offsetting:		
Balance at 31 December 2017/31 December 2016	**5,973**	5,986
— Impact on initial application of IFRS/HKFRS 15	**(584)**	—
— Impact on initial application of IFRS/HKFRS 9 (2014)	**265**	—
Balance at 1 January 2018/1 January 2017	**5,654**	5,986
— Deferred tax charged to the statement of income	**(1,497)**	(447)
— Deferred tax credited/(charged) to other comprehensive income	**3**	(1)
Balance at 30 June 2018/30 June 2017	**4,160**	5,538
Net deferred tax liabilities after offsetting:		
Balance at 31 December 2017/31 December 2016	**(108)**	(113)
— Deferred tax credited to the statement of income	**1**	3
Balance at 30 June 2018/30 June 2017	**(107)**	(110)

(All amounts in RMB millions unless otherwise stated)

13. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2018 and 2017 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2018 and 2017 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. No dilutive potential ordinary shares existed for the six months ended 30 June 2018 and 2017.

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

	Six months ended 30 June	
	2018	2017
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	**5,912**	2,415
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	**30,598**	23,947
Basic/Diluted earnings per share (in RMB)	**0.19**	0.10

14. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2018 and 2017 are as follows:

	Six months ended 30 June 2018					
	Buildings	Telecommunications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of period	71,077	870,692	20,170	4,290	52,218	1,018,447
Additions	45	159	95	84	11,467	11,850
Transfer from CIP	372	22,159	279	75	(22,885)	—
Transfer to other assets	—	—	—	—	(2,078)	(2,078)
Disposals	(87)	(39,427)	(374)	(327)	—	(40,215)
End of period	71,407	853,583	20,170	4,122	38,722	988,004
Accumulated depreciation and impairment:						
Beginning of period	(31,714)	(551,399)	(15,444)	(3,189)	(105)	(601,851)
Charge for the period	(1,336)	(31,970)	(649)	(281)	(6)	(34,242)
Disposals	34	37,028	350	326	—	37,738
End of period	(33,016)	(546,341)	(15,743)	(3,144)	(111)	(598,355)
Net book value:						
End of period	38,391	307,242	4,427	978	38,611	389,649
Beginning of period	39,363	319,293	4,726	1,101	52,113	416,596

(All amounts in RMB millions unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Six months ended 30 June 2017					
	Buildings	Telecommunications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of period	67,140	876,452	20,007	4,035	78,905	1,046,539
Additions	64	141	128	62	6,808	7,203
Transfer from CIP	2,084	21,892	265	118	(24,359)	—
Transfer to other assets	—	—	—	—	(1,370)	(1,370)
Disposals	(85)	(14,842)	(317)	(105)	—	(15,349)
End of period	69,203	883,643	20,083	4,110	59,984	1,037,023
Accumulated depreciation and impairment:						
Beginning of period	(29,174)	(548,472)	(14,986)	(2,687)	(105)	(595,424)
Charge for the period	(1,401)	(31,020)	(713)	(339)	—	(33,473)
Disposals	46	12,880	296	79	—	13,301
End of period	(30,529)	(566,612)	(15,403)	(2,947)	(105)	(615,596)
Net book value:						
End of period	38,674	317,031	4,680	1,163	59,879	421,427
Beginning of period	37,966	327,980	5,021	1,348	78,800	451,115

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 RMB2,477 million for sales proceeds of RMB695 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB2,048 million and RMB961 million, respectively), resulting in a net loss of approximately RMB1,782 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: approximately RMB1,087 million).

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018	31 December 2017
Listed in the PRC	146	158
Listed outside the PRC	3,576	4,070
Unlisted	58	58
	3,780	4,286

For the six months ended 30 June 2018, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB506 million (for the six months ended 30 June 2017: increase of approximately RMB370 million). The decrease, together with tax impact, of approximately RMB504 million (for the six months ended 30 June 2017: increase, together with tax impact, of approximately RMB369 million) were recorded in the unaudited condensed consolidated interim statement of comprehensive income.

16. OTHER ASSETS

	Note	30 June 2018	31 December 2017
Intangible assets		11,088	10,988
Prepaid rental for premises, transmission lines and electricity cables		2,222	2,812
Direct incremental costs for activating broadband and IPTV subscribers	(i)	—	4,522
Receivables for the sales of mobile handsets, net of allowance	(ii)	—	753
VAT recoverable	(iii)	552	596
Others		1,087	1,050
		14,949	20,721

(i) Direct incremental costs for activating broadband subscribers mainly include the costs of installing broadband and IPTV terminals at customer's premise for the provision of broadband and IPTV services. Such costs are amortised over the estimated service period. As stated in Note 3(c)(ii), upon the adoption of IFRS/HKFRS 15 from 1 January 2018, the unamortised balance of such costs is presented as contract costs.

(ii) As stated in Note 3(c)(ii) and Note 19(i), upon the adoption of IFRS/HKFRS 15 from 1 January 2018, the receivable for the sales of mobile handsets in bundle sales of mobile handsets and services were reclassified to contract assets.

(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 19(ii)).

(All amounts in RMB millions unless otherwise stated)

17. INVENTORIES AND CONSUMABLES

	30 June 2018	31 December 2017
Handsets and other telecommunication products	1,707	2,005
Consumables	33	24
Others	199	210
	1,939	2,239

18. ACCOUNTS RECEIVABLE

	30 June 2018	31 December 2017
Accounts receivable	25,157	19,174
Less: Allowance for doubtful debts	(8,146)	(5,210)
	17,011	13,964

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

	30 June 2018	31 December 2017
Within one month	8,598	7,184
More than one month to three months	2,711	2,763
More than three months to one year	3,966	2,737
More than one year	1,736	1,280
	17,011	13,964

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

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

19. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	30 June 2018	31 December 2017
Receivables for the sales of mobile handsets, net of allowance	(i)	—	2,221
Prepaid rental		2,338	2,305
Deposits and prepayments		1,736	1,579
Advances to employees		31	20
VAT recoverable	(ii)	3,377	4,948
Prepaid enterprise income tax		521	438
Others		2,183	2,290
		10,186	13,801

(i) Before 1 January 2018, the Group recognised receivables for sales of mobile handsets in bundle sales of mobile handsets and services when the amount received from customers at the time of title transfer were less than the transaction price allocated to the mobile handsets.

As stated in Note 3(c)(ii), upon the adoption of IFRS/HKFRS 15 from 1 January 2018, the balance of such receivables was reclassified to contract assets as the Group's right to receive this balance is conditional on the provision of services.

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

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

As at 30 June 2018, there was no significant impairment for the prepayments and other current assets.

(All amounts in RMB millions unless otherwise stated)

20. SHARE CAPITAL

Issued and fully paid:	Note	Number of shares millions	Share capital
At 1 January 2017		23,947	179,102
Shares issued	1	6,651	74,954
At 31 December 2017 and at 30 June 2018		**30,598**	**254,056**

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

21. DIVIDENDS

At the annual general meeting held on 11 May 2018, the shareholders of the Company approved the payment of a final dividend of RMB0.052 per ordinary share for the year ended 31 December 2017 totaling approximately RMB1,591 million (the Company resolved not to pay a final dividend for the year ended 31 December 2016) which has been reflected as a reduction of retained profits for the six months ended 30 June 2018.

Among the dividend payable of approximately RMB920 million was due to Unicom BVI as at 30 June 2018.

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from SAT, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2018 and 31 December 2017, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's unaudited condensed consolidated financial information for the undistributed profits of the Company's subsidiaries in the PRC.

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

22. LONG-TERM BANK LOANS

	Interest rates and final maturity	30 June 2018	31 December 2017
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (31 December 2017: 1.08% to 1.20%) per annum with maturity through 2036 (31 December 2017: maturity through 2036)	**3,416**	3,533
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (31 December 2017: Nil to 1.55%) per annum with maturity through 2039 (31 December 2017: maturity through 2039)	**266**	278
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2017: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2017: maturity through 2034)	**61**	72
Sub-total		**3,743**	3,883
Less: Current portion		**(421)**	(410)
		3,322	3,473

As at 30 June 2018, long-term bank loans of approximately RMB97 million (31 December 2017: approximately RMB105 million) were guaranteed by third parties.

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

	30 June 2018	31 December 2017
Balances due:		
— no later than one year	**421**	410
— later than one year and no later than two years	**426**	423
— later than two years and no later than five years	**1,175**	1,175
— later than five years	**1,721**	1,875
	3,743	3,883
Less: Portion classified as current liabilities	**(421)**	(410)
	3,322	3,473

(All amounts in RMB millions unless otherwise stated)

23. PROMISSORY NOTES

On 15 June 2015, China United Network Communications Corporation Limited ("CUCL") issued tranche one of 2015 promissory notes in an amount of RMB4 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.85% per annum, and was fully repaid in June 2018.

On 18 June 2015, CUCL issued tranche two of 2015 promissory notes in an amount of RMB4 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.85% per annum, and was fully repaid in June 2018.

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

24. CORPORATE BONDS

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

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

25. SHORT-TERM BANK LOANS

	Interest rates and final maturity	30 June 2018	31 December 2017
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 4.57% (31 December 2017: 2.35% to 5.80%) per annum with maturity through 2019 (31 December 2017: maturity through 2018)	**18,506**	22,500
		18,506	22,500

26. COMMERCIAL PAPERS

On 6 July 2017, CUCL issued tranche four of 2017 super short term commercial papers in an amount of RMB1 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.38% per annum, and was fully repaid in April 2018.

On 7 August 2017, CUCL issued tranche six of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.26% per annum, and was fully repaid in May 2018.

On 10 August 2017, CUCL issued tranche seven of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.23% per annum, and was fully repaid in May 2018.

27. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2018	31 December 2017
Payables to contractors and equipment suppliers	67,898	82,444
Payables to telecommunications products suppliers	4,424	4,548
Customer/contractor deposits	5,328	5,262
Repair and maintenance expense payables	6,063	5,348
Bills payable	708	49
Salary and welfare payables	8,776	3,711
Interest payables	520	709
Amounts due to service providers/content providers	2,270	2,253
Accrued expenses	16,540	14,845
Others	6,944	6,091
	119,471	125,260

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

	30 June 2018	31 December 2017
Less than six months	98,141	104,691
Six months to one year	10,775	9,009
More than one year	10,555	11,560
	119,471	125,260

28. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA S.A. (“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.

28. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA S.A. ("TELEFÓNICA") IN EACH OTHER (Continued)

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 30 June 2018, the related financial assets at fair value through other comprehensive income amounted to approximately RMB3,576 million (31 December 2017: approximately RMB4,070 million). For the six months ended 30 June 2018, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB494 million (for the six months ended 30 June 2017: increase of approximately RMB360 million), has been recorded in the unaudited condensed consolidated interim statement of comprehensive income.

29. EQUITY-SETTLED SHARE OPTION SCHEMES

On 16 April 2014, the Company adopted a 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. No share options had been granted since adoption of the 2014 Share Option Scheme.

No options outstanding as at 30 June 2018 and 2017.

30. RESTRICTED A-SHARE INCENTIVE SCHEME

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

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

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

During the period ended 30 June 2018, no Restricted Shares are considered forfeited or repurchased. For the period ended 30 June 2018, the share-based payment expenses of RMB307 million arising from the above mentioned group share-based payment arrangement were recognised in the unaudited condensed consolidated interim statement of income and the unaudited condensed consolidated interim statement of comprehensive income, with a corresponding credit to "other reserves" in the unaudited condensed consolidated interim statement of changes in equity, as the incentive shares shall be settled by the A Share Company.

31. FAIR VALUE ESTIMATION

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

(a) Financial assets and liabilities measured at fair value

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

- Level 1 valuations: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: 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 valuations: fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value at 30 June 2018:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement				
Financial assets at fair value through other comprehensive income				
— Equity securities				
— Listed	3,722	—	—	3,722
— Unlisted	—	—	58	58
	3,722	—	58	3,780
Financial assets at fair value through profit and loss				
— Equity securities				
— Unlisted	—	—	190	190
— Financial products	—	—	505	505
Total	3,722	—	753	4,475

(All amounts in RMB millions unless otherwise stated)

31. FAIR VALUE ESTIMATION (Continued)

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

The following table presents the Group's assets that are measured at fair value at 31 December 2017:

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

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

During the six months ended 30 June 2018 and 2017, there was 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.

31. FAIR VALUE ESTIMATION (Continued)

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017. Their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts as at 30 June 2018	Fair value as at 30 June 2018	Fair value measurements as at 30 June 2018 categorised into			Carrying amounts as at 31 December 2017	Fair value as at 31 December 2017
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	3,322	3,127	—	3,127	—	3,473	3,187
Non-current portion of corporate bonds	10,992	11,116	11,116	—	—	17,981	17,712

The fair value of the non-current portion of long-term bank loans is based on cash flows discounted using rates based on the market rates ranging from 1.06% to 5.15 % (31 December 2017: 1.18% to 5.51%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 30 June 2018 and 31 December 2017 due to the nature or short maturity of those instruments.

(All amounts in RMB millions unless otherwise stated)

32. RELATED PARTY TRANSACTIONS

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

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

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

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

32.1 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.

		Six months ended 30 June	
	Note	**2018**	2017
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i)	**13**	11
Rental charges for property leasing	(i)	**507**	505
Charges for lease of telecommunications resources	(i)	**128**	139
Charges for engineering design and construction services	(i)	**860**	957
Charges for shared services	(i)	**39**	42
Charges for materials procurement services	(i)	**13**	16
Charges for ancillary telecommunications services	(i)	**1,416**	1,271
Charges for comprehensive support services	(i)	**538**	619
Income from comprehensive support services	(i)	**39**	12
Lending by Unicom Group Finance Company Limited ("Finance Company") to Unicom Group	(i)	**5,454**	200
Repayment of loans by Unicom Group to Finance Company	(i)	**2,654**	—
Interest income from lending services	(i)	**48**	1

32. RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(i) On 25 November 2016, CUCL entered into the agreement, "2017-2019 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2017-2019 Comprehensive Services Agreement has a term of three years commencing on 1 January 2017 and expiring on 31 December 2019, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for certain transactions have changed under the agreement.

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

Amount due from Unicom Group as at 30 June 2018 included loans from Finance Company to Unicom Group of RMB3,000 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 (31 December 2017: RMB200 million with floating interest rate at 90% of the benchmark interest rate published by the PBOC).

Apart from the above and as disclosed in Note 32.3 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.

32.2 Related party transactions with Tower Company

(a) Related party transactions

		Six months ended 30 June	
	Note	**2018**	2017
Transactions with Tower Company			
Interest income from Cash Consideration	(i)	**—**	394
Operating lease and other service charges	(ii)	**7,923**	8,418
Income from engineering design and construction services	(iii)	**77**	100

(i) On 14 October 2015, CUCL and Unicom Horizon Mobile Communications Company Limited ("Unicom Horizon", a wholly-owned subsidiary of CUCL and an indirectly wholly-owned subsidiary of the Company) entered into a transfer agreement (the "Transfer Agreement"), amongst China Mobile Communications Company Limited and its related subsidiaries ("China Mobile"), China Telecom Corporation Limited ("China Telecom"), China Reform Holdings Corporation Limited ("CRHC"), and Tower Company. Pursuant to the Transfer Agreement, the Group, China Mobile and China Telecom 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.

32. RELATED PARTY TRANSACTIONS (Continued)

32.2 Related party transactions with Tower Company (Continued)

(a) Related party transactions (Continued)

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 till 31 December 2017. The first tranche and remaining Cash Consideration of RMB3,000 million and RMB18,322 million payable by Tower Company were settled in February 2016 and December 2017, respectively. For the six months ended 30 June 2018 and 2017, the interest income arisen from outstanding Cash Consideration and related VAT were RMB Nil, and approximately RMB394 million, respectively.

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

In connection with its use of telecommunication towers and related assets, the Group recognised operating lease and other service charges for the six months ended 30 June 2018 of totalled RMB7,923 million (for the six months ended 30 June 2017: RMB8,418 million).

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

(b) Amounts due from and to Tower Company

Amount due from Tower Company as at 30 June 2018 included VAT recoverable related to Cash Consideration from Tower Company of RMB2,704 million (31 December 2017: RMB2,704 million).

Amount due to Tower Company balance mainly included operating lease and other service charges payable, and payable balance in relation to power charges paid by Tower Company on behalf of the Group, of RMB3,290 million in total as at 30 June 2018 (31 December 2017: RMB2,480 million in total).

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

32. RELATED PARTY TRANSACTIONS (Continued)

32.3 Related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

	Note	Six months ended 30 June 2018	2017
Transactions with Unicom Group and its subsidiaries:			
Unsecured entrusted loan from Unicom Group	(i)	—	1,344
Repayment of unsecured entrusted loan to Unicom Group	(i)	1,344	—
Interest expenses on unsecured entrusted loan	(i)	8	18
Interest expenses on loan from Unicom Group BVI		6	—
Net deposits/(withdrawal) by Unicom Group and its subsidiaries with/from Finance Company	(ii)	5,971	(363)
Interest expenses on the deposits in Finance Company	(ii)	26	17

(i) On 27 February 2017, the Group borrowed an unsecured entrusted loan from Unicom Group of RMB1,344 million with a maturity period of 1 year and interest rate at 3.92% per annum, and was fully repaid in February 2018.

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

(b) Amounts due to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as of 30 June 2018 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB8,256 million with interest rates ranging from 0.42% to 2.75% per annum for saving and fixed deposits of different terms (31 December 2017: RMB2,285 million with interest rates ranging from 0.35% to 2.75% per annum).

Amount due to Unicom Group and its subsidiaries as of 30 June 2018 also included a balance of loan from Unicom Group BVI of approximately RMB438 million with a maturity period of 1 year and floating interest rate at 1 year HIBOR plus 1.2% (31 December 2017: approximately RMB435 million with a maturity period of 1 year and floating interest rate at 1 year HIBOR plus 1.2%).

(All amounts in RMB millions unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (Continued)

32.4 Related party transactions with a joint venture

(a) Related party transactions

	Note	Six months ended 30 June 2018	2017
Transactions with a joint venture			
Unsecured entrusted loans from joint venture	(i)	—	50
Repayment of unsecured entrusted loans to joint venture	(i)	10	—
Interest expenses on unsecured entrusted loan	(i)	1	—
Net deposits from a joint venture with Finance Company		1	—

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

On 24 October 2017, the Group borrowed an unsecured loan from Smart Steps Digital Technology Co., Ltd., of RMB50 million with a maturity period of 1 year and interest rate at 3.92% per annum, and repaid RMB10 million each in December 2017 and March 2018.

(b) Amounts due to a joint venture

Amounts due to a joint venture as of 30 June 2018 also included a balance of deposits received by Finance Company from Smart Steps Digital Technology Co., Ltd. of RMB13 million with interest rates ranging from 0.42% to 1.48% per annum for saving and fixed deposits of different terms (31 December 2017: RMB12 million with interest rates ranging from 0.42% to 1.48% per annum).

32.5 Operating lease and other commitments to related parties

As at 30 June 2018 and 31 December 2017, the Group had commitments to related parties in respect of total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments totalled RMB60,609 million and RMB35,857 million respectively.

33. CONTINGENCIES AND COMMITMENTS

33.1 Capital commitments

As at 30 June 2018 and 31 December 2017, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	30 June 2018			31 December 2017
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	3,033	9,446	12,479	13,084
Authorised but not contracted for	7,192	15,464	22,656	37,793
	10,225	24,910	35,135	50,877

33.2 Operating lease and other commitments

As at 30 June 2018 and 31 December 2017, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments as follows:

	30 June 2018				31 December 2017
	Land and buildings	Equipment	Ancillary facilities*	Total	Total
Arrangements expiring:					
— not later than one year	1,761	13,701	3,923	19,385	19,131
— later than one year and not later than five years	2,832	38,632	13,587	55,051	29,580
— later than five years	217	569	—	786	977
	4,810	52,902	17,510	75,222	49,688

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

33.3 Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities and no material financial guarantees issued.

(All amounts in RMB millions unless otherwise stated)

34. COMPARATIVE FIGURES

The Group has initially applied IFRS/HKFRS 15 and IFRS/HKFRS 9 (2014) at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

35. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 8 August 2018, Tower Company's shares are listed on the SEHK. Tower Company issued 43,114,800,000 new ordinary shares (including both Hong Kong and International offerings, assuming no exercise of the over-allotment option) at a price of HK$1.26 per share. Upon the listing, the shareholding percentage held by the Group in Tower Company was diluted, but the amount of interest in associate, accounted for under equity method, increased correspondingly.

36. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 15 August 2018.