INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE MEMBERS OF CHINA UNICOM (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries ("the Group") set out on pages 86 to 161, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to note 6 to the consolidated financial statements on page 121 and the accounting policies on page 106.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue is primarily generated from the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services and sales of telecommunication products. The accuracy of revenue recorded in the consolidated financial statements is an inherent industry risk because the billing systems of telecommunications companies are complex and process large volumes of data with a combination of different products sold during the year, through a number of different systems. Significant management judgement can be required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled sales packages, which may include services and telecommunication products such as handsets, and complex settings are required in the Group's information technology ("IT") systems to achieve the appropriate allocation of transaction prices. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and management judgement both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of management's key internal controls over the general IT environment in which the business systems operate, including access to program controls, program change controls, program development controls and computer operation controls; • assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of management's key internal IT controls over the completeness and accuracy of rating and bill generation and the end-to-end reconciliation controls from the rating and billing systems to the accounting system; • selecting bills issued to customers, on a sample basis, and comparing the details with the corresponding trade receivable details and cash receipts; • recalculating the balances of trade receivables and advances from customers with the use of electronic audit tools using data extracted from the business support systems and reconciling the results to the Group's financial records; • assessing, on a sample basis, the standalone selling prices determined by the Group for each distinct service and product offered in bundled sales packages, by comparison with the observable prices of the service or product when the Group sells that service or product separately in similar circumstances and to similar customers; • assessing, on a sample basis, the settings in the IT system for revenue allocation between the distinct services and products offered in bundled sales packages by comparing the settings with the Group's allocation basis and recalculating and comparing the allocation results with the system generated results; • evaluating journals entries posted to revenue accounts, on a specific risk-based sample basis, and comparing details of these journals entries with relevant underlying documentation, which included service contracts and progress reports.

INDEPENDENT AUDITOR'S REPORT

Carrying value of property, plant and equipment ("PP&E")

Refer to note 15 to the consolidated financial statements on page 132 to 133 and the accounting policies on page 99 to 100.

The Key Audit Matter	How the matter was addressed in our audit
The Group continues to incur a significant level of capital expenditure in connection with the expansion of its network coverage and improvements to network quality. The carrying value of PP&E as at 31 December 2016 was approximately RMB451,115 million. There are a number of areas where management judgement impacts the carrying value of PP&E, and the related depreciation profiles. These include: • determining which costs meet the criteria for capitalisation; • determining the date on which construction-in-progress is transferred to property, plant and equipment and depreciation commences; • the estimation of economic useful lives and residual values assigned to property, plant and equipment. We identified the carrying value of property, plant and equipment as a key audit matter because of the high level of management judgement involved and because of its significance to the consolidated financial statements.	Our audit procedures to assess the carrying value of PP&E included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the completeness, existence and accuracy of property, plant and equipment, including the key internal controls over the estimation of useful economic lives and residual values; • assessing, on a sample basis, costs capitalised during the year by comparing the costs capitalised with the relevant underlying documentation, which included purchase agreements and invoices, and assessing whether the costs capitalised met the relevant criteria for capitalisation; which included comparing interest rates to loan agreements, recalculating the interest capitalisation rate and assessing, on a sample basis, the calculation of interest capitalised in construction-in-progress; • challenging the date of transferring construction-in-progress to PP&E by examining the inspection reports and/or project progress reports, on a sample basis; • evaluating management's estimation of useful economic lives and residual values by considering our knowledge of the business and practices adopted in the wider telecommunications industry.

Accounting for the leasing of the Tower Assets

Refer to note 1, note 7 and note 39.2 to the consolidated financial statements on page 93 to 94, 122 and 157 to 158 and the accounting policies on page 107.

The Key Audit Matter	How the matter was addressed in our audit
The Group sold certain of its telecommunications towers and related assets (the "Tower Assets") to China Tower Corporation Limited ("Tower Company") in October 2015 in exchange for shares issued by Tower Company and cash consideration. The Group signed lease agreements with Tower Company in 2016 to use the telecommunications towers and related assets and recognised operating lease and other service charges for the year ended 31 December 2016 totalling RMB14,887 million. These arrangements have required significant management judgement in determining whether the arrangements should be classified as operating leases or finance leases in accordance with the requirements of the prevailing accounting standards. The classification of these arrangements has a significant impact on the consolidated financial statements. There are significant number of leased Tower Assets. Given the volume of the leased assets and the fact that the lease agreements were entered into in the current year there is an increased risk of error in determining the classification of the leases and in reconciling the amount payable to the lessor. We identified accounting for the leasing of the Tower Assets as a key audit matter because of the significant management judgement required in respect of the classification of the leases and because the massive volume of lease reconciliation work increases the risk of possible error.	Our audit procedures to assess the accounting for the leasing of the Tower Assets included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the accounting for the lease transactions, including key internal controls over the management's review on the classification of the lease arrangements, the accruals for lease expenses and reconciliations with Tower Company in respect of rentals payable; • evaluating management's judgement relating to the classification of the leases by inspecting the lease agreements entered into with Tower Company, to assess whether they met the criteria, as prescribed in the prevailing accounting standards, for classification as operating leases or finance leases; • obtaining direct confirmation from Tower Company of the annual rentals and payable by the Group under the lease arrangements for the current year and reconciling the details to the Group's accounting records.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kim Tak.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15 March 2017

CONSOLIDATED STATEMENT OF INCOME

(All amounts in Renminbi ("RMB") millions, except per share data)

		Year ended 31 December	
	Note	**2016**	2015
Revenue	6	**274,197**	277,049
Interconnection charges		**(12,739)**	(13,093)
Depreciation and amortisation		**(76,805)**	(76,738)
Network, operation and support expenses	7	**(51,167)**	(42,308)
Employee benefit expenses	8	**(36,907)**	(35,140)
Costs of telecommunications products sold	9	**(36,529)**	(44,046)
Other operating expenses	10	**(57,357)**	(54,960)
Finance costs	11	**(5,017)**	(6,934)
Interest income		**1,160**	438
Share of net profit/(loss) of associates		**204**	(759)
Share of net profit/(loss) of joint ventures		**153**	(42)
Other income – net	12	**1,591**	10,568
Profit before income tax		**784**	14,035
Income tax expenses	13	**(154)**	(3,473)
Profit for the year		**630**	10,562
Profit attributable to:			
Equity shareholders of the Company		**625**	10,562
Non-controlling interests		**5**	–
Earnings per share for profit attributable to equity shareholders of the Company during the year:			
Basic earnings per share (RMB)	14	**0.03**	0.44
Diluted earnings per share (RMB)	14	**0.03**	0.44

Details of dividends attributable to equity shareholders of the Company for the years ended 31 December 2016 and 2015 are set out in Note 29.

The notes on pages 93 to 161 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB millions)

	Year ended 31 December	
	2016	2015
Profit for the year	**630**	10,562
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Changes in fair value of financial assets through other comprehensive income	**(544)**	(1,050)
Tax effect on changes in fair value of financial assets through other comprehensive income	**14**	(1,129)
Changes in fair value of financial assets through other comprehensive income, net of tax	**(530)**	(2,179)
Remeasurement of net defined benefit liability, net of tax	**14**	20
	(516)	(2,159)
Item that may be reclassified subsequently to statement of income:		
Currency translation differences	**153**	60
Other comprehensive income for the year, net of tax	**(363)**	(2,099)
Total comprehensive income for the year	**267**	8,463
Total comprehensive income attributable to:		
Equity shareholders of the Company	**262**	8,463
Non-controlling interests	**5**	–

The notes on pages 93 to 161 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in RMB millions)

		As at 31 December	
	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	15	451,115	454,631
Lease prepayments	16	9,436	9,148
Goodwill	17	2,771	2,771
Interest in associates	19	32,248	31,997
Interest in joint ventures		1,175	978
Amounts due from related parties	39	–	18,322
Deferred income tax assets	13	5,986	5,642
Financial assets at fair value through other comprehensive income	20	4,326	4,852
Other assets	21	24,879	25,335
		531,936	553,676
Current assets			
Inventories and consumables	22	2,431	3,946
Accounts receivable	23	13,622	14,957
Prepayments and other current assets	24	14,023	10,864
Amounts due from related parties	39	22,724	2,846
Amounts due from domestic carriers		3,908	1,994
Financial assets at fair value through profit and loss		123	106
Short-term bank deposits and restricted deposits	25	1,754	202
Cash and cash equivalents	26	23,633	21,755
		82,218	56,670
Total assets		614,154	610,346
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	27	179,102	179,102
Reserves	28	(21,017)	(20,734)
Retained profits			
– Proposed final dividend	29	–	4,071
– Others		69,322	68,777
		227,407	231,216
Non-controlling interests		275	–
Total equity		227,682	231,216

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in RMB millions)

		As at 31 December	
	Note	**2016**	2015
LIABILITIES			
Non-current liabilities			
Long-term bank loans	30	**4,495**	1,748
Promissory notes	31	**17,906**	36,928
Corporate bonds	32	**17,970**	2,000
Deferred income tax liabilities	13	**113**	18
Deferred revenue		**2,998**	2,005
Other obligations	33	**335**	357
		43,817	43,056
Current liabilities			
Short-term bank loans	34	**76,994**	83,852
Commercial papers	35	**35,958**	19,945
Current portion of long-term bank loans	30	**161**	84
Current portion of promissory notes	31	**18,976**	2,499
Accounts payable and accrued liabilities	36	**143,224**	167,396
Taxes payable		**732**	3,163
Amounts due to ultimate holding company	39	**2,463**	1,437
Amounts due to related parties	39	**8,700**	3,930
Amounts due to domestic carriers		**1,989**	1,300
Dividend payable		**920**	920
Current portion of corporate bonds	32	**2,000**	–
Current portion of deferred revenue		**369**	394
Current portion of other obligations	33	**3,141**	2,797
Advances from customers		**47,028**	48,357
		342,655	336,074
Total liabilities		**386,472**	379,130
Total equity and liabilities		**614,154**	610,346
Net current liabilities		**(260,437)**	(279,404)
Total assets less current liabilities		**271,499**	274,272

The notes on pages 93 to 161 are an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 15 March 2017 and signed on behalf of the Board by:

Wang Xiaochu
Director

Li Fushen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB millions)

	Attributable to equity shareholders of the Company										
	Share capital	Employee share-based compensation reserve	General risk reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	179,101	29	–	(4,227)	27,906	572	(43,762)	67,922	227,541	–	227,541
Total comprehensive income for the year	–	–	–	(2,179)	–	–	80	10,562	8,463	–	8,463
Appropriation to statutory reserves	–	–	–	–	874	–	–	(874)	–	–	–
Appropriation to other reserves	–	–	–	–	–	–	2	(2)	–	–	–
Equity-settled share option schemes:											
–Issuance of shares upon exercise of options	1	–	–	–	–	–	–	–	1	–	1
–Transfer between reserves upon lapsing of options	–	(29)	–	–	–	–	–	29	–	–	–
Redemption of convertible bonds	–	–	–	–	–	(572)	572	–	–	–	–
Dividends relating to 2014 (Note 29)	–	–	–	–	–	–	–	(4,789)	(4,789)	–	(4,789)
Balance at 31 December 2015	179,102	–	–	(6,406)	28,780	–	(43,108)	72,848	231,216	–	231,216
Balance at 1 January 2016	179,102	–	–	(6,406)	28,780	–	(43,108)	72,848	231,216	–	231,216
Total comprehensive income for the year	–	–	–	(530)	–	–	167	625	262	5	267
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	270	270
Appropriation to statutory reserves	–	–	–	–	47	–	–	(47)	–	–	–
Appropriation to other reserves	–	–	33	–	–	–	–	(33)	–	–	–
Dividends relating to 2015 (Note 29)	–	–	–	–	–	–	–	(4,071)	(4,071)	–	(4,071)
Balance at 31 December 2016	179,102	–	33	(6,936)	28,827	–	(42,941)	69,322	227,407	275	227,682

The notes on pages 93 to 161 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB millions)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities			
Cash generated from operations	(a)	81,168	91,169
Interest received		335	319
Interest paid		(4,938)	(4,943)
Income tax paid		(1,972)	(2,244)
Net cash inflow from operating activities		74,593	84,301
Cash flows from investing activities			
Purchase of property, plant and equipment		(98,293)	(88,465)
Proceeds from disposal of property, plant and equipment and other assets		6,390	2,336
Dividends received from financial assets at fair value through other comprehensive income		357	365
Proceeds from disposal of financial assets at fair value through profit and loss		68	19
Dividends received from associates		–	10
Decrease/(Increase) in short-term bank deposits and restricted deposits		2	(3)
Purchase of other assets		(4,092)	(4,542)
Acquisition of financial assets at fair value through profit and loss		(51)	(66)
Acquisition of financial asset at fair value through other comprehensive income		(18)	–
Acquisition of interest in associates		(48)	(8)
Acquisition of interest in joint ventures		(64)	(1,000)
Net cash outflow from investing activities		(95,749)	(91,354)
Cash flows from financing activities			
Proceeds from exercise of share options		–	1
Capital contributions from non-controlling interests		270	–
Proceeds from commercial papers		59,880	30,000
Proceeds from short-term bank loans		142,567	139,663
Proceeds from long-term bank loans		3,307	1,920
Proceeds from ultimate holding company loan		–	1,344
Proceeds from promissory notes		–	17,957
Proceeds from corporate bonds		17,965	–
Repayment of commercial papers		(44,000)	(20,000)
Repayment of short-term bank loans		(149,425)	(149,072)
Repayment of long-term bank loans		(84)	(45)
Repayment of related party loan		–	(473)
Repayment of ultimate holding company loan		(1,344)	(1,344)
Repayment of convertible bond		–	(11,664)
Repayment of finance lease		(406)	(217)
Repayment of promissory notes		(2,500)	–
Payment of issuing expense for promissory notes		(102)	–
Dividends paid to equity shareholders of the Company	29	(4,071)	(4,643)
Net deposits received by Finance Company		2,397	–
Statutory reserve deposits placed by Finance Company	25(i)	(1,577)	–
Net cash inflow from financing activities		22,877	3,427
Net increase/(decrease) in cash and cash equivalents		1,721	(3,626)
Cash and cash equivalents, beginning of year		21,755	25,308
Effect of changes in foreign exchange rate		157	73
Cash and cash equivalents, end of year	26	23,633	21,755
Analysis of the balances of cash and cash equivalents:			
Cash balances		1	1
Bank balances		23,632	21,754
		23,633	21,755

The notes on pages 93 to 161 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB millions)

(a) The reconciliation of profit before income tax to cash generated from operations is as follows:

	Year ended 31 December	
	2016	2015
Profit before income tax	**784**	14,035
Adjustments for:		
Depreciation and amortisation	**76,805**	76,738
Interest income	**(1,160)**	(120)
Finance costs	**4,832**	6,641
Loss/(Gain) on disposal of property, plant and equipment and other assets	**355**	(7,280)
Impairment losses for doubtful debts and write-down of inventories	**4,173**	4,054
Impairment losses for property, plant and equipment	**–**	29
Dividends from financial assets at fair value through other comprehensive income	**(357)**	(397)
Share of net (profit)/loss of associates	**(204)**	759
Share of net (profit)/loss of joint ventures	**(153)**	42
Other investment (gain)/loss	**(9)**	8
Changes in working capital:		
Increase in accounts receivable	**(2,664)**	(3,666)
Decrease/(Increase) in inventories and consumables	**1,354**	(73)
Decrease/(Increase) in short-term bank deposits and restricted deposits	**23**	(146)
Increase in other assets	**(4,763)**	(6,142)
Decrease/(Increase) in prepayments and other current assets	**4,171**	(1,630)
(Increase)/Decrease in amounts due from related parties	**(3,302)**	2,905
(Increase)/Decrease in amounts due from domestic carriers	**(1,914)**	126
Decrease in accounts payable and accrued liabilities	**(835)**	(1,781)
(Decrease)/Increase in taxes payable	**(1,176)**	5,126
(Decrease)/Increase in advances from customers	**(1,329)**	1,465
Increase/(Decrease) in deferred revenue	**395**	(81)
Increase/(Decrease) in other obligations	**69**	(17)
Increase/(Decrease) in amounts due to ultimate holding company	**73**	(185)
Increase in amounts due to related parties	**5,311**	861
Increase/(Decrease) in amounts due to domestic carriers	**689**	(102)
Cash generated from operations	**81,168**	91,169

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 cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice, LTE FDD cellular voice, TD-LTE cellular voice and related value-added services are referred to as the "mobile service". The services aforementioned other than the mobile service are hereinafter collectively referred to as the "fixed-line service". The Company and its subsidiaries are hereinafter referred to as the "Group". The address of the Company's registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

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

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

Disposal of Telecommunications Towers and Related Assets and Leaseback

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

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

On 8 July 2016, CUCL and Tower Company entered into a framework agreement in relation to the usage of certain telecommunications towers and related assets (the "Agreement"). The Agreement stipulated specific 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. According to these agreements, the Group recognised operating lease and other service charges for the year ended 31 December 2016 of totalled RMB14,887 million (2015: approximately RMB2,926 million) (see Note 7 and Note 39.2) in connection with its use of telecommunication towers and related assets, inclusive of charges for the service elements and the service charges during the transition period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, except that the following assets are stated at their fair value set out below:

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

The consolidated financial statements prepared by the PRC subsidiaries for PRC statutory reporting purposes are based on the Chinese Accounting Standards for Business Enterprises ("CAS") issued by the Ministry of Finance ("MOF") of the PRC, which became effective from 1 January 2007 with certain transitional provisions. There are certain differences between the Group's IFRSs/HKFRSs financial statements and PRC financial statements. The principal adjustments made to the PRC financial statements to conform to IFRSs/HKFRSs include the following:

- reversal of the revaluation surplus or deficit and related amortisation charges arising from the revaluation of prepayments for the leasehold land performed by independent valuers for the purpose of reporting to relevant PRC government authorities;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

- additional capitalisation of borrowing costs and corresponding impact on depreciation prior to the adoption of CAS on 1 January 2007; and

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

(a) Going Concern Assumption

As at 31 December 2016, current liabilities of the Group exceeded current assets by approximately RMB260.4 billion (2015: approximately RMB279.4 billion). Given the current global economic conditions and the Group's expected capital expenditure in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflows from operating activities;

- Approximately RMB310.9 billion of revolving banking facilities and registered quota of corporate bonds, of which approximately RMB208.3 billion was unutilised as at 31 December 2016; and

- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2016 have been prepared on a going concern basis.

(b) Critical Accounting Estimates and Judgment

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

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

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

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

(i) The IASB and HKICPA has issued a number of amendments to IFRSs/HKFRSs that are first effective for the current accounting period of the Group. None of these 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.

(ii) Up to the date of issue of these financial statements, the IASB and HKICPA issued certain amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements except for IFRS/HKFRS 9, "Financial instruments" was early adopted by the Group on 1 January 2011. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS/HKAS 12, Income taxes "Recognition of deferred tax assets for unrealised losses"	1 January 2017
Amendments to IAS/HKAS 7, Statement of cash flows "Disclosure initiative"	1 January 2017
IFRS/HKFRS 15, "Revenue from contracts with customers"	1 January 2018
Amendments to IFRS/HKFRS 2, Share- based payment "Classification and measurement of share-based payment transactions"	1 January 2018
IFRS/HKFRS 16, "Leases"	1 January 2019
Amendments to IFRS/HKFRS 10, Consolidated financial statements and IAS/HKAS 28, Investments in associates and joint ventures "Sale or contribution of assets between an investor and its associate or joint venture"	To be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements.

IFRS/HKFRS 15, Revenue from contracts with customers

IFRS/HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS/HKAS 18, Revenue, IAS/HKAS 11, Construction contracts and HK(IFRIC) 13, Customer Loyalty Programs. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

IFRS/HKFRS 16, Leases

IFRS/HKFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular IFRS/HKFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS/HKAS 17, Leases and the related interpretations including HK(IFRIC) 4, Determining whether an arrangement contains a lease.

The Group does not plan to early adopt the above new standards or amendments. With respect to IFRS/HKFRS 15 and IFRS/HKFRS 16, given the Group has not completed its assessment of their full impact on the Group's financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

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 2.19 depending on the nature of the liability.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and Non-Controlling Interests (Continued)

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

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

2.4 Associates and Joint Ventures

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment Reporting

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

2.6 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the statement of financial position date;

- Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

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

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

2.7 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, Plant and Equipment (Continued)

(b) Property, plant and equipment

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

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

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

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

(c) Depreciation

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Goodwill

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

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

2.9 Lease Prepayments

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

2.10 Other Assets

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial Assets

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

Financial assets measured at amortised cost

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

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

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

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

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

Financial assets measured at fair value

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

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

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

2.12 Impairment of Non-Financial Assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of Financial Assets Carried at Amortised Costs

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

2.14 Inventories and Consumables

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

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

2.15 Accounts Receivable and Other Receivables

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

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

2.16 Short-term Bank Deposits

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

2.17 Cash and Cash Equivalents

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

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

(a) Deferred revenue

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

(b) Advances from customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Deferred Revenue, Advances from Customers and Subscriber Points Reward Program (Continued)

(c) Subscriber points reward program

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

2.19 Borrowings

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

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

2.20 Share Capital

Ordinary shares are classified as equity.

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

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

2.21 Employee Benefits

(a) Retirement benefits

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

(b) Medical insurance

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

(c) Housing benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee Benefits (Continued)

(d) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. The present value of the defined benefit obligation is included in non-current other obligations and salary and welfare payables (current portion). The liability is remeasured with sufficient regularity and the movement of the remeasurement is recognised in other comprehensive income, which is not allowed to reverse to profit and loss in subsequent period. As at 31 December 2016, the amount of the liability was RMB75 million (2015: RMB91 million).

(e) Share-based compensation costs

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

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

2.22 Accounts Payable

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

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

2.23 Provisions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue Recognition

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

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

Sales of services and goods

- Usage fees and monthly fees are recognised when the service is rendered;

- Revenue from the provision of broadband, data and other Internet-related services is recognised when the services are provided to customers;

- Lease income from leasing of lines and customer-end equipment is treated as operating leases with rental income recognised on a straight-line basis over the lease term;

- Interconnection fees represent revenue received or receivable from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, is recognised when service is rendered;

- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalised ring, caller number display and secretarial services to subscribers, is recognised when service is rendered;

- Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognised when title has been passed to the buyers;

- The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of the telecommunications service. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition;

- Revenue from information communications technology services is recognised when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognised only to the extent of recoverable costs incurred, and costs should be recognised as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognised as current expenses immediately and services revenue should not be recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Interest income

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

2.26 Dividend income

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

2.27 Leases (as the lessee)

(a) Operating lease

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

(b) Finance lease

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

(c) Sale and leaseback

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

2.28 Borrowing Costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

2.30 Dividend Distribution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Contingent Liabilities and Contingent Assets

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

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

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

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

2.32 Earnings per Share

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

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

2.33 Related parties

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

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

(ii) has significant influence over the Group; or

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.33 Related parties (Continued)

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

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

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Group's fund management center at its headquarter is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years of 2016 and 2015, the Group had not entered into any forward exchange contracts or currency swap contracts.

(All amounts in RMB millions unless otherwise stated)

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2016 and 2015.

	2016			2015		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	410	0.89	367	278	0.84	233
– denominated in US dollars	271	6.94	1,879	146	6.49	948
– denominated in Euro	13	7.31	96	8	7.10	60
– denominated in Japanese Yen	218	0.06	13	119	0.05	6
– denominated in SGD	1	4.80	7	–	4.59	–
– denominated in GBP	1	8.51	6	0.6	9.62	6
Sub-total			2,368			1,253
Accounts receivable:						
– denominated in HK dollars	–	0.89	–	1.2	0.84	1
– denominated in US dollars	195	6.94	1,355	182	6.49	1,182
– denominated in Euro	1	7.31	6	3	7.10	18
Sub-total			1,361			1,201
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	566	7.31	4,138	657	7.10	4,665
Total			7,867			7,119
Borrowings:						
– denominated in US dollars	46	6.94	321	50	6.49	325
– denominated in Euro	12	7.31	89	15	7.10	108
Sub-total			410			433
Accounts payable:						
– denominated in US dollars	60	6.94	416	49	6.49	315
– denominated in Euro	3	7.31	20	2	7.10	12
Sub-total			436			327
Obligations under finance lease:						
– denominated in US dollars	–	6.94	–	14	6.49	90
Total			846			850

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)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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

As at 31 December 2016, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen, SGD and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB216 million (2015: approximately RMB120 million) for cash and cash equivalents, borrowings and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income would be approximately RMB414 million (2015: approximately RMB467 million) for financial assets denominated in foreign currency, which were recorded in fair value through other comprehensive income.

(ii) Price risk

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

The financial assets at fair value through other comprehensive income comprise primarily equity securities of Telefónica S.A. ("Telefónica"). As at 31 December 2016, 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 RMB414 million (2015: approximately RMB467 million).

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, corporate bonds and related parties loans. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2016 and 2015, 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 2016 and 2015.

As at 31 December 2016, the Group had approximately RMB112,997 million (2015: approximately RMB105,343 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB62,257 million (2015: approximately RMB43,599 million) of long-term fixed rate borrowings.

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

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

For the year ended 31 December 2016, 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 RMB424 million (2015: approximately RMB395 million).

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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 2016					
Long-term bank loans	207	472	1,299	4,119	4,656
Corporate bonds	2,583	544	18,331	–	19,970
Promissory notes	20,078	18,440	–	–	36,882
Other obligations	3,179	258	44	55	3,476
Accounts payable and accrued liabilities	143,224	–	–	–	143,224
Amounts due to related parties	8,700	–	–	–	8,700
Amounts due to ultimate holding company	2,463	–	–	–	2,463
Amounts due to domestic carriers	1,989	–	–	–	1,989
Commercial papers	36,395	–	–	–	35,958
Short-term bank loans	78,210	–	–	–	76,994
	297,028	19,714	19,674	4,174	334,312
At 31 December 2015					
Long-term bank loans	109	114	387	1,964	1,832
Corporate bonds	90	2,039	–	–	2,000
Promissory notes	4,071	20,082	18,443	–	39,427
Other obligations	2,816	285	17	66	3,154
Accounts payable and accrued liabilities	167,396	–	–	–	167,396
Amounts due to related parties	3,930	–	–	–	3,930
Amounts due to ultimate holding company	1,470	–	–	–	1,437
Amounts due to domestic carriers	1,300	–	–	–	1,300
Commercial papers	20,482	–	–	–	19,945
Short-term bank loans	85,095	–	–	–	83,852
	286,759	22,520	18,847	2,030	324,273

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.

(All amounts in RMB millions unless otherwise stated)

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

3.2 Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

- To support the Group's stability and growth.

- To provide capital for the purpose of strengthening the Group's risk management capability.

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

The Group monitors capital on the basis of the debt-to-capitalisation ratio. This ratio is calculated as interest-bearing debts plus non-controlling interests over interest-bearing debts plus total equity. Interest-bearing debts represent commercial papers, short-term bank loans, long-term bank loans, promissory notes, corporate bonds, obligations under finance lease, and certain amounts due to ultimate holding company and related parties, as shown in the consolidated statement of financial position. The interest bearing debts do not include net deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,397 million.

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

	2016	2015
Interest-bearing debts:		
– Commercial papers	35,958	19,945
– Short-term bank loans	76,994	83,852
– Long-term bank loans	4,495	1,748
– Promissory notes	17,906	36,928
– Corporate bonds	17,970	2,000
– Obligations under finance lease included in other obligations	208	268
– Amounts due to ultimate holding company	–	1,344
– Current portion of long-term bank loans	161	84
– Current portion of promissory notes	18,976	2,499
– Current portion of corporate bonds	2,000	–
– Current portion of obligations under finance lease	586	274
	175,254	148,942
Non-controlling interests	275	–
Interest-bearing debts plus non-controlling interests	175,529	148,942
Total equity:		
– Equity attributable to equity shareholders of the Company	227,407	231,216
– Non-controlling interests	275	–
Sub-total	227,682	231,216
Interest-bearing debts plus total equity	402,936	380,158
Debt-to-capitalisation ratio	43.6%	39.2%

The increase in debt-to-capitalisation ratio during 2016 resulted primarily from the increase in interest-bearing debts.

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

(a) Financial assets and liabilities measured at fair value

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

- Level 1 valuation: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuation: observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs for which market data are not available

- Level 3 valuation: fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value at 31 December 2016:

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

(All amounts in RMB millions unless otherwise stated)

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

3.3 Fair value estimation (Continued)

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

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

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

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 2016 and 2015, 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.

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 (Continued)

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2016 and 2015. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amount as at 31 December 2016	Fair value as at 31 December 2016	Fair value measurement as at 31 December 2016 categorised into			Carrying amount as at 31 December 2015	Fair value as at 31 December 2015
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	4,495	4,339	–	4,339	–	1,748	1,752
Non-current portion of promissory notes	17,906	18,031	18,031	–	–	36,928	38,141
Non-current portion of corporate bonds	17,970	17,989	17,989	–	–	2,000	2,111

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 1.28 % to 4.48 % (2015: 1.81% to 4.08%) 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 2016 and 2015 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.

4.2 Impairment of non-financial assets

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

No significant impairment loss on property, plant and equipment was recognised for the years ended 31 December 2016 and 2015.

4.3 Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, additional allowance may be required.

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(All amounts in RMB millions unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.4 Income tax and deferred taxation

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

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to deductible tax losses, unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, and allowance for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded net deferred tax assets amounting to approximately RMB5,986 million as at 31 December 2016 (2015: approximately RMB5,642 million) (see Note 13). Deferred tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

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

4.5 Determining the type of lease

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

(All amounts in RMB millions unless otherwise stated)

5. SEGMENT INFORMATION

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

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

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

6. REVENUE

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

The major components of revenue are as follows:

	2016	2015
Mobile service		
– Usage and monthly fees	37,727	45,901
– Value-added services revenue	94,133	83,529
– Interconnection fees	11,415	11,847
– Other mobile service revenue	1,743	1,343
Total service revenue from mobile service	145,018	142,620
Fixed-line service		
– Usage and monthly fees	9,773	11,130
– Broadband, data and other Internet-related services revenue	60,031	56,629
– Interconnection fees	3,332	3,667
– Value-added services revenue	4,523	5,132
– Leased line income	10,011	9,404
– Information communications technology services revenue	5,938	4,334
– Other fixed-line service revenue	1,051	965
Total service revenue from fixed-line service	94,659	91,261
Other service revenue	1,305	1,397
Total service revenue	240,982	235,278
Sales of telecommunications products	33,215	41,771
	274,197	277,049

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(All amounts in RMB millions unless otherwise stated)

7. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	2016	2015
Repairs and maintenance		11,150	13,178
Power and water charges	(i)	13,898	13,103
Operating lease charges for network, premises, equipment and facilities		9,779	11,642
Operating lease and other service charges to Tower Company	39.2	14,887	2,926
Others		1,453	1,459
		51,167	42,308

(i) The amounts included power charges incurred in relation to tower assets for the year ended 31 December 2016 of approximately RMB4,624 million (2015: approximately RMB225 million subsequent to the Tower Assets Disposal).

8. EMPLOYEE BENEFIT EXPENSES

	2016	2015
Salaries and welfare	27,178	26,057
Contributions to defined contribution pension schemes	5,236	5,057
Contributions to medical insurance	1,889	1,678
Contributions to housing fund	2,569	2,307
Other housing benefits	35	41
	36,907	35,140

8.1 Directors' emoluments

The remuneration of each Director for the year of 2016 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Sub-total (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Wang Xiaochu	(a)	–	185	275	460	113	573
Lu Yimin		–	185	476	661	113	774
Li Fushen		–	158	435	593	113	706
Zhang Junan	(c)	–	131	131	262	94	356
Cesareo Alierta Izuel		257	–	–	257	–	257
Cheung Wing Lam Linus		351	–	–	351	–	351
Wong Wai Ming		360	–	–	360	–	360
Chung Shui Ming Timpson		366	–	–	366	–	366
Law Fan Chiu Fun, Fanny		332	–	–	332	–	332
Total		1,666	659	1,317	3,642	433	4,075

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

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

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

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Sub-total (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Wang Xiaochu	(a)	–	64	134	198	34	232
Chang Xiaobing	(b)	–	127	267	394	63	457
Lu Yimin		–	190	388	578	98	676
Li Fushen		–	180	333	513	98	611
Zhang Junan	(c)	–	180	333	513	98	611
Cesareo Alierta Izuel		242	–	–	242	–	242
Cheung Wing Lam Linus		330	–	–	330	–	330
Wong Wai Ming		338	–	–	338	–	338
John Lawson Thornton	(d)	56	–	–	56	–	56
Chung Shui Ming Timpson		330	–	–	330	–	330
Cai Hongbin	(e)	311	–	–	311	–	311
Law Fan Chiu Fun, Fanny		298	–	–	298	–	298
Total		1,905	741	1,455	4,101	391	4,492

Notes:

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

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

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

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

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

During 2016 and 2015, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2016 and 2015.

During 2016 and 2015, the Company did not incur any payment to any director for loss of office or as an inducement to any director to join the Company.

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.2 Senior management's emoluments

Of the seven senior management of the Company for the year ended 31 December 2016, four of them are directors of the Company and their remuneration has been disclosed in Note 8.1. For the remuneration of the seven senior management, all fall within the band from RMB Nil to RMB1,000,000.

8.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2016, five of them are staffs and four fall within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB2,000,001 to RMB2,500,000. (2015: five of them are staffs and four fall within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB1,500,001 to RMB2,000,000.)

The aggregate of the emoluments in respect of the five (2015: five) individuals are as follows:

	2016 (RMB'000)	2015 (RMB'000)
Salaries and allowances	3,089	3,308
Bonuses paid and payable	3,480	3,242
Contributions to pension schemes	323	345
	6,892	6,895

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2016	2015
Handsets and other customer end products	36,116	43,554
Telephone cards	321	364
Others	92	128
	36,529	44,046

(All amounts in RMB millions unless otherwise stated)

10. OTHER OPERATING EXPENSES

	2016	2015
Impairment losses for doubtful debts and write-down of inventories	4,173	4,054
Cost in relation to information communications technology services	4,924	3,920
Commission expenses	23,826	21,327
Customer acquisition cost and advertising and promotion expenses	3,465	3,524
Customer installation cost	3,857	3,792
Customer retention cost	3,498	3,321
Auditors' remuneration	69	64
Property management fee	2,150	2,238
Office and administrative expenses	1,972	2,102
Transportation expense	1,676	1,790
Miscellaneous taxes and fees	1,375	1,715
Technical support expenses	2,489	1,741
Repairs and maintenance expenses	852	852
Loss on disposal of property, plant and equipment	355	1,966
Others	2,676	2,554
	57,357	54,960

11. FINANCE COSTS

	Note	2016	2015
Finance costs:			
– Interest on bank loans repayable within 5 years		2,730	3,301
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		2,885	1,928
– Interest on convertible bonds repayable within 5 years		–	172
– Interest on related parties loans repayable within 5 years		–	60
– Interest on bank loans repayable over 5 years		62	8
– Less: Amounts capitalised in CIP	15	(769)	(936)
Total interest expense		4,908	4,533
– Net exchange (gain)/loss		(260)	2,104
– Others		369	297
		5,017	6,934

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12. OTHER INCOME – NET

	Note	2016	2015
Dividend income from financial assets at fair value through other comprehensive income		**357**	397
Gain on Tower Assets Disposal	(i)	**–**	9,246
Others		**1,234**	925
		1,591	10,568

(i) Disposal of Telecommunications Towers and Related Assets

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

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

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

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

(All amounts in RMB millions unless otherwise stated)

13. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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% (2015: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2015: 15%).

	2016	2015
Provision for income tax on the estimated taxable profits for the year		
– Hong Kong	13	23
– Mainland China and other countries	1,722	3,990
(Over)/Under-provision in respect of prior years	(41)	16
	1,694	4,029
Deferred taxation	(1,540)	(556)
Income tax expenses	154	3,473

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

	Note	2016	2015
Profit before taxation		784	14,035
Expected income tax expense at PRC statutory tax rate of 25%		196	3,509
Impact of different tax rates outside mainland China		(14)	(31)
Tax effect of preferential tax rate	(i)	(68)	(75)
Tax effect of non-deductible expenses		191	168
Investment in joint ventures		(38)	11
Investment in associates	(ii)	39	217
(Over)/Under-provision in respect of prior years		(41)	16
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	(45)	(291)
Others		(66)	(51)
Actual tax expense		154	3,473

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

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

(iii) As at 31 December 2016, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB2,622 million (2015: approximately RMB2,802 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired by 2020. The Group did not recognise deferred tax assets of RMB1,832 million (2015: RMB 1,700 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.

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13. TAXATION (Continued)

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

	2016	2015
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	8,168	3,682
– Deferred tax asset to be recovered within 12 months	1,198	2,985
	9,366	6,667
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(2,897)	(851)
– Deferred tax liabilities to be settled within 12 months	(483)	(174)
	(3,380)	(1,025)
Net deferred tax assets after offsetting	5,986	5,642
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(113)	(18)
– Deferred tax liabilities to be settled within 12 months	–	–
	(113)	(18)
Net deferred tax liabilities after offsetting	(113)	(18)

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

	Note	2016	2015
Net deferred tax assets after offsetting:			
– Beginning of year		5,642	6,215
– Deferred tax credited to the statement of income		1,635	557
– Deferred tax credited/(charged) to other comprehensive income		13	(1,130)
– Reclassified from current taxes payable	(i)	(1,304)	–
– End of year		5,986	5,642
Net deferred tax liabilities after offsetting:			
– Beginning of year		(18)	(17)
– Deferred tax charged to the statement of income		(95)	(1)
– End of year		(113)	(18)

(All amounts in RMB millions unless otherwise stated)

13. TAXATION (Continued)

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

(i) On 14 October 2015, Tower Assets Disposal to Tower Company in exchange for cash and shares issued by Tower Company (see Note 1). According to the applicable tax laws issued by the MOF and the State Administration of Taxation ("SAT") of the PRC, the gain from Tower Assets Disposal in exchange for investment in Tower Company ("Qualified Income") is, upon fulfilling the filing requirement with in-charge tax bureau, eligible to be deferred and treated as taxable income on a straight-line basis over a period not exceeding five years. Before completing the filing, the Group accrued current taxes payable based on the total gain from Tower Asset Disposal. During the year ended 31 December 2016, the Group successfully completed the filing requirement with in-charge tax bureau with respect to the Qualified Income and since then has become eligible for deferring part of tax liability with respect to the Qualified Income, which will be reversed in the four years from 2016 to 2019. Accordingly, a balance of RMB1,304 million was reclassified from current taxes payable to net deferred tax assets, and RMB186 million was subsequently reversed during the year ended 31 December 2016.

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

Deferred tax arising from:	Allowance for doubtful debts	Payroll and contributions to defined contribution pension schemes accrued but not paid	Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations (Note (i))	Deductible tax losses	Accruals of expenses not yet deductible for tax purpose	Changes in fair value on financial assets through other comprehensive income	Unrealised profit from the transactions with Tower Company	Accelerated depreciation of property, plant and equipment (Note (ii))	Gain from Tower Assets Disposal	Others	Total
At 1 January 2015	1,295	880	1,556	–	833	1,410	–	(696)	–	920	6,198
Credited/(charged) to the statement of income	136	(678)	(52)	–	388	–	877	(296)	–	181	556
(Charged)/credited to other comprehensive income	–	–	–	–	–	(1,439)	–	–	–	309	(1,130)
At 31 December 2015	1,431	202	1,504	–	1,221	(29)	877	(992)	–	1,410	5,624
Credited/(charged) to the statement of income	122	(174)	(53)	2,433	472	–	(90)	(1,251)	186	(105)	1,540
Credited to other comprehensive income	–	–	–	–	–	13	–	–	–	–	13
Reclassification of current tax payable	–	–	–	–	–	–	–	–	(1,304)	–	(1,304)
At 31 December 2016	1,553	28	1,451	2,433	1,693	(16)	787	(2,243)	(1,118)	1,305	5,873

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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	2016	2015
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Allowance for doubtful debts		1,553	1,431
Impairment loss on property, plant and equipment		17	17
Write-down of inventories		23	41
Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(i)	1,451	1,504
Accruals of expenses not yet deductible for tax purpose		1,693	1,221
Deferred revenue on subscriber points reward program		156	146
Unrealised profit for the inter-company transactions		189	260
Payroll and contributions to defined contribution pension schemes accrued but not paid		28	202
Unrealised profit from the transactions with Tower Company		787	877
Government grants related to assets		271	138
Intangible assets amortisation difference		345	321
Deductible tax losses		2,433	–
Others		420	509
		9,366	6,667
Deferred tax liabilities:			
Gain from Tower Assets Disposal		(1,118)	–
Changes in fair value on financial assets through other comprehensive income		(16)	(29)
Accelerated depreciation of property, plant and equipment	(ii)	(2,243)	(992)
Others		(3)	(4)
		(3,380)	(1,025)
		5,986	5,642
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(113)	(18)
		(113)	(18)

13. TAXATION (Continued)

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

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

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

14. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2016 and 2015 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 2016 and 2015 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. No dilutive potential ordinary shares for the year ended 31 December 2016 and 2015.

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

	2016	2015
Numerator (in RMB millions): Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	625	10,562
Denominator (in millions): Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	23,947	23,947
Basic/Diluted earnings per share (in RMB)	0.03	0.44

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15. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2016 and 2015 are as follows:

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

(All amounts in RMB millions unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

As at 31 December 2016, the net book value of assets held under finance leases was approximately RMB582 million (2015: approximately RMB532 million).

For the year ended 31 December 2016, interest expense of approximately RMB769 million (2015: approximately RMB936 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.33% to 3.79% for the year ended 31 December 2016 (2015: 3.40% to 4.33%).

For the year ended 31 December 2016, the Group recognised a net loss on disposal of property, plant and equipment of approximately RMB355 million (2015: a net gain of approximately RMB7,280 million, including the gain on the Group's Tower Assets Disposal of approximately RMB9,246 million).

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(All amounts in RMB millions unless otherwise stated)

16. LEASE PREPAYMENTS

The Group's long-term prepayment for land use rights represents prepaid operating lease payments for land use rights. The movement of lease prepayments for the year ended 31 December 2016 and 2015 are as follow:

	2016	2015
Beginning of the year	9,148	9,211
Addition	603	296
Amortisation	(315)	(359)
End of the year	9,436	9,148

17. GOODWILL

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Group in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group's shares of the fair values of the separately identifiable net assets acquired prior to the adoption of HKFRSs and AG 5 in 2005.

Goodwill is allocated to the Group's cash-generating units ("CGU"). The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, including service revenue annual growth rate of 1% (2015: 1.5%) and the applicable discount rate of 10% (2015: 10%). Management determined expected growth rates and operating results based on past performance and its expectations in relation to market developments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2016 and 2015, any adverse change in the assumptions used in the calculation of recoverable amount would result in impairment losses.

(All amounts in RMB millions unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2016, the details of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
CUCL	The PRC, 21 April 2000, limited liability company	100%	–	RMB138,091,677,828	Telecommunications operation in the PRC
China Unicom Global Limited	Hong Kong, 29 May 2015, limited company	100%	–	10,000 shares	Investment holding
China Unicom (Europe) Operations Limited	The United Kingdom, 8 November 2006, limited company	100%	–	4,861,000 shares, GBP1 each	Telecommunications operation in the United Kingdom
China Unicom (Japan) Operations Corporation	Japan, 25 January 2007, limited company	–	100%	1,000 shares, JPY366,000 each	Telecommunications operation in Japan
China Unicom (Singapore) Operations Pte Limited	Singapore, 5 August 2009, limited company	100%	–	30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
Billion Express Investments Limited	British Virgin Islands, 15 August 2007, limited company	100%	–	2 shares, USD1 each	Dormant
China Unicom (South Africa) Operations (Pty) Limited	South Africa, 19 November 2012, limited liability company	100%	–	Not applicable	Dormant
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar ("Myanmar"), 7 June 2013, limited liability company	99%	1%	650,000 shares, USD1 each	Communications technology training in Myanmar
China Unicom (Australia) Operations Pty Limited	Australia, 27 May 2014, limited liability company	100%	–	4,350,000 shares, AUD 1 each	Telecommunications operation in Australia
China Unicom (Hong Kong) Operations Limited	Hong Kong, 24 May 2000, limited company	–	100%	60,100,000 shares	Telecommunications service in Hong Kong

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(All amounts in RMB millions unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom (Americas) Operations Limited	USA, 24 May 2002, limited company	–	100%	5,000 shares, USD100 each	Telecommunications service in the USA
China Unicom (Russia) Operations Limited Liability Company	Russia, 28 December 2016, limited liability company	–	100%	–	Telecommunications service in Russia
China Unicom (Brazil) Telecommunications Limited	Brazil, 23 June 2016, limited liability company	–	100%	–	Telecommunications service in Brazil
Unicom Vsens Telecommunications Company Limited	The PRC, 19 August 2008, limited liability company	–	100%	RMB500,000,000	Sales of handsets, telecommunication equipment and provision of technical services in the PRC
China Unicom System Integration Limited Corporation	The PRC, 30 April 2006, limited liability company	–	100%	RMB550,000,000	Provision of information communications technology services in the PRC
China Unicom Broadband Online Limited Corporation	The PRC, 29 March 2006, limited liability company	–	100%	RMB100,000,000	Provision of internet information services and value-added telecommunications services in the PRC
Beijing Telecommunications Planning and Designing Institute Corporation Limited	The PRC, 25 April 1996, limited liability company	–	100%	RMB264,227,115	Provision of telecommunications network construction, planning and technical consulting services in the PRC

(All amounts in RMB millions unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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(All amounts in RMB millions unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
Designing Techniques of Posts and Telecommunications Magazine Office Company Limited	The PRC, 15 December 2011, limited liability company	–	100%	RMB300,000	Provision of magazine publishing services in the PRC
Unicom New Horizon Telecommunications Company Limited	The PRC, 14 February 2001, limited liability company	–	100%	RMB40,233,739,557	Provision of lease service of telecommunications networks in the PRC
Unicom Cloud Data Company Limited	The PRC, 4 June 2013, limited liability company	–	100%	RMB2,854,851,100	Provision of technology development, transfer and consulting service in the PRC
Unicom Innovation Investment Company Limited	The PRC, 29 April 2014, limited liability company	–	100%	RMB240,000,000	Venture capital investment business in the PRC
Wostore Technology Company Limited	The PRC, 24 October 2014, limited liability company	–	100%	RMB200,000,000	Communications technology development and promotion in the PRC
China Unicom Smart Connection Technology Company Limited	The PRC, 7 August 2015, limited liability company	–	100%	RMB100,000,000	Auto informatisation in the PRC
China Unicom Finance Company Limited ("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%	–	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 (limited partnership)	The PRC, 1 February 2016, limited partnership	–	100%	RMB28,500,000	Venture capital investment business in the PRC

(All amounts in RMB millions unless otherwise stated)

19. INTEREST IN ASSOCIATES

	2016	2015
Share of net assets	32,248	31,997

The following list contains the particulars of material associate, which is unlisted corporate entity whose quoted market price is not available:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
Tower Company	Incorporated	The PRC	28.1%	RMB129,344,615,024	Construction, maintenance and operation of communications towers in the PRC (Note 39.2)

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

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

	Tower Company	
	2016	2015
Current assets	39,565	38,586
Non-current assets	272,103	231,793
Current liabilities	(171,568)	(47,717)
Non-current liabilities	(14,548)	(96,535)
Equity	(125,552)	(126,127)
Revenue	54,474	10,325
Loss for the year	(575)	(2,944)
Total comprehensive income for the year	(575)	(2,944)
Reconciled to the Group's interests in the associate:		
Net assets of the associate	125,552	126,127
Group's effective interest	28.1%	28.1%
	35,280	35,442
Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal	(3,145)	(3,506)
Carrying amount in the consolidated financial statements	32,135	31,936

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(All amounts in RMB millions unless otherwise stated)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016	2015
Listed in the PRC	147	164
Listed outside the PRC	4,138	4,665
Unlisted	41	23
	4,326	4,852

For the year ended 31 December 2016, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB544 million (2015: decrease of approximately RMB1,050 million). The decrease, net of tax impact, of approximately RMB530 million (2015: decrease, together with tax impact, of approximately RMB2,179 million) has been recorded in the consolidated statement of comprehensive income.

21. OTHER ASSETS

	Note	2016	2015
Intangible assets	(i)	11,120	11,823
Prepaid rental for premises, leased lines and electricity cables		2,854	3,390
Installation costs		388	478
Direct incremental costs for activating broadband subscribers	(ii)	7,690	7,340
Receivables for sales of mobile handsets, net of allowance	(iii)	1,432	1,273
VAT recoverable	(iv)	307	–
Others		1,088	1,031
		24,879	25,335

(All amounts in RMB millions unless otherwise stated)

21. OTHER ASSETS (Continued)

(i) Intangible assets

	Computer software	Others	Total
Cost:			
At 1 January 2015	19,013	1,792	20,805
Additions	103	7	110
Transfer from CIP	4,703	126	4,829
Disposals	(370)	(42)	(412)
At 31 December 2015	23,449	1,883	25,332
Additions	**159**	**18**	**177**
Transfer from CIP	**2,761**	**242**	**3,003**
Disposals	**(1,148)**	**(67)**	**(1,215)**
At 31 December 2016	**25,221**	**2,076**	**27,297**
Accumulated amortisation and impairment:			
At 1 January 2015	(9,913)	(593)	(10,506)
Amortisation charge for the year	(3,193)	(199)	(3,392)
Disposals	370	19	389
At 31 December 2015	(12,736)	(773)	(13,509)
Amortisation charge for the year	**(3,618)**	**(228)**	**(3,846)**
Disposals	**1,129**	**49**	**1,178**
At 31 December 2016	**(15,225)**	**(952)**	**(16,177)**
Net book value:			
At 31 December 2016	**9,996**	**1,124**	**11,120**
At 31 December 2015	10,713	1,110	11,823

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

(iii) The amount includes the receivables from the sales of mobile handsets that are gradually recovered over one year during the contract period. Receivables to be gradually recovered within one year is included in prepayments and other current assets (see Note 24(i)).

(iv) VAT recoverable includes input VAT and prepaid VAT which will likely be deducted beyond one year. VAT recoverable which will be deducted within one year are included in prepayments and other current assets(see Note 24(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

22. INVENTORIES AND CONSUMABLES

	2016	2015
Handsets and other customer end products	2,048	3,453
Telephone cards	91	185
Consumables	174	188
Others	118	120
	2,431	3,946

23. ACCOUNTS RECEIVABLE

	2016	2015
Accounts receivable	19,088	19,867
Less: Allowance for doubtful debts	(5,466)	(4,910)
	13,622	14,957

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

	2016	2015
Within one month	6,557	9,155
More than one month to three months	3,181	2,291
More than three months to one year	2,869	2,501
More than one year	1,015	1,010
	13,622	14,957

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

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

As at 31 December 2016, accounts receivable of approximately RMB5,466 million (2015: approximately RMB4,910 million) were impaired. The Group makes such allowance based on its past experience, historical collection patterns, subscribers' creditworthiness and collection trends. The Group makes a full allowance for receivables aged over 3 months after the credit period for individual subscribers unless they meet certain specified credit assessment criteria. The individually impaired receivables mainly relate to subscriber service fees.

(All amounts in RMB millions unless otherwise stated)

23. ACCOUNTS RECEIVABLE (Continued)

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

	2016	2015
Balance, beginning of year	4,910	4,464
Allowance for the year	3,999	3,365
Written-off during the year	(3,443)	(2,919)
Balance, end of year	5,466	4,910

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

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

As at 31 December 2016, accounts receivable of approximately RMB9,626 million (2015: approximately RMB12,014 million) were neither past due nor impaired. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Accounts receivable of approximately RMB1,890 million (2015: approximately RMB1,619 million) were past due but not impaired. Such overdue amounts can be recovered based on past experience. The aging analysis of these receivables is as follows:

	2016	2015
More than one month to three months	1,369	1,291
More than three months to one year	213	135
More than one year	308	193
	1,890	1,619

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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24. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	2016	2015
Receivable for the sales of mobile handsets, net of allowance	(i)	**3,266**	2,328
Prepaid rental		**2,334**	2,098
Deposits and prepayments		**1,876**	1,824
Advances to employees		**15**	50
VAT recoverable	(ii)	**4,952**	3,125
Prepaid enterprise income tax		**208**	33
Others		**1,372**	1,406
		14,023	10,864

(i) The Group offers preferential packages to the customers which include the bundle sales of mobile handsets and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. For those contractual preferential packages which the prepaid amounts from customers less than the fair value of the mobile handsets, the revenue relating to the sale of the handsets is recognised when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handsets. The receivable for the sales of mobile handsets is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered beyond one year amounted to RMB1,432 million (2015: RMB1,273 million), and are included in long-term other assets (see Note 21(iii)).

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

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

As at 31 December 2016, there was no significant impairment for the prepayments and other current assets.

25. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	Note	2016	2015
Bank deposits with maturity exceeding three months		**33**	32
Statutory reserve deposits	(i)	**1,577**	–
Restricted deposits		**144**	170
		1,754	202

(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.

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26. CASH AND CASH EQUIVALENTS

	2016	2015
Cash at bank and in hand	23,373	21,460
Bank deposits with original maturities of three months or less	260	295
	23,633	21,755

27. SHARE CAPITAL

Issued and fully paid:	Number of shares millions	Share capital	Total
At 1 January 2015	23,947	179,101	179,101
Issuance of shares upon exercise of options	–	1	1
At 31 December 2015 and 2016	23,947	179,102	179,102

28. RESERVES

(a) Movements in components of equity

The Company

	Share capital	Employee share-based compensation reserve	Investment revaluation reserve	Convertible bonds reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2015	179,101	29	(4,317)	572	–	9,218	184,603
Total comprehensive income for the year	–	–	(2,172)	–	–	5,612	3,440
Equity-settled share option schemes:							
– Issuance of shares upon exercise of options	1	–	–	–	–	–	1
– Transfer between reserves upon lapsing of options	–	(29)	–	–	–	29	–
Redemption of convertible bonds	–	–	–	(572)	572	–	–
Dividends relating to 2014 (Note 29)	–	–	–	–	–	(4,789)	(4,789)
Balance at 31 December 2015	179,102	–	(6,489)	–	572	10,070	183,255
Total comprehensive income for the year	–	–	(531)	–	–	1,870	1,339
Dividends relating to 2015 (Note 29)	–	–	–	–	–	(4,071)	(4,071)
Balance at 31 December 2016	179,102	–	(7,020)	–	572	7,869	180,523

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(All amounts in RMB millions unless otherwise stated)

28. RESERVES (Continued)

(b) Nature and purpose

(i) Statutory reserves

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

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

Accordingly, CUCL appropriated approximately RMB47 million (2015: approximately RMB874 million) to the general reserve fund for the year ended 31 December 2016.

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRSs/HKFRSs, the appropriations to the staff bonus and welfare fund are charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2016 and 2015, 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) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of share options granted to employees of the Group that are recognised in accordance with the accounting policy in Note 2.21 (e).

(iii) General risk reserve

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

(iv) 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.

(v) Convertible bonds reserve

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

(vi) Other reserve

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

(All amounts in RMB millions unless otherwise stated)

29. DIVIDENDS

At the annual general meeting held on 12 May 2016, the shareholders of the Company approved the payment of a final dividend of RMB0.17 per ordinary share for the year ended 31 December 2015, totaling approximately RMB4,071 million which has been reflected as a reduction of retained profits for the year ended 31 December 2015. Among the dividend payable of approximately RMB920 million was due to Unicom BVI as at 31 December 2016.

The Board has resolved not to pay a final dividend for the year ended 31 December 2016.

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 2016, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

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

30. LONG-TERM BANK LOANS

	Interest rates and final maturity	2016	2015
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (2015: 1.08%) per annum with maturity through 2036 (2015: maturity through 2030)	4,246	1,399
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (2015: Nil to 1.55%) per annum with maturity through 2039 (2015: maturity through 2039)	321	325
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2015: 1.10% to 2.50%) per annum with maturity through 2034 (2015: maturity through 2034)	89	108
Sub-total		4,656	1,832
Less: Current portion		(161)	(84)
		4,495	1,748

(All amounts in RMB millions unless otherwise stated)

30. LONG-TERM BANK LOANS (Continued)

As at 31 December 2016, long-term bank loans of approximately RMB70 million (31 December 2015: approximately RMB88 million) were guaranteed by third parties.

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

	2016	2015
Balances due:		
– not later than one year	161	84
– later than one year and not later than two years	385	88
– later than two years and not later than five years	1,047	302
– later than five years	3,063	1,358
	4,656	1,832
Less: Portion classified as current liabilities	(161)	(84)
	4,495	1,748

31. PROMISSORY NOTES

On 3 April 2014, the Company established a Medium Term Note Programme (the "MTN Programme"), under which the Company could offer and issue notes of aggregate principal amount of up to RMB10 billion. Notes under the MTN Programme (the "Notes") will be denominated in RMB and are to be issued to professional investors outside the United States. On 16 April 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB4 billion pursuant to the MTN Programme, with a maturity of 3 years and at an interest rate of 4.00% per annum. On 24 July 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB2.5 billion with a maturity period of 2 years and at an interest rate of 3.80% per annum, and was fully repaid in July 2016.

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

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

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

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

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

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

(All amounts in RMB millions unless otherwise stated)

32. CORPORATE BONDS

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

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.

33. OTHER OBLIGATIONS

	Note	2016	2015
One-off cash housing subsidies	(a)	2,496	2,496
Obligations under finance lease	(b)	794	542
Others		186	116
Sub-total		3,476	3,154
Less: Current portion		(3,141)	(2,797)
		335	357

(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 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

33. OTHER OBLIGATIONS (Continued)

(b) Obligations under finance lease

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

	2016	2015
Total minimum lease payments under finance lease:		
– not later than one year	624	292
– later than one year and not later than two years	230	280
	854	572
Less: Future finance charges	(60)	(30)
Present value of minimum obligations	794	542
Representing obligations under finance lease:		
– current liabilities	586	274
– non-current liabilities	208	268

34. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2016	2015
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 4.35% (2015:2.35% to 3.92%) per annum with maturity through 2017 (2015: maturity through 2016)	76,994	83,852
Total		76,994	83,852

35. COMMERCIAL PAPERS

On 20 November 2015, CUCL issued tranche two of 2015 super short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 3.15% per annum. The super short term commercial papers were fully repaid in August 2016.

On 27 November 2015, CUCL issued tranche one of 2015 short term commercial papers in an amount of RMB10 billion, with a maturity period of 366 days from the date of issue and which carries interest at 3.15% per annum. The short term commercial papers were fully repaid in November 2016.

On 8 April 2016, CUCL issued tranche one of 2016 super short term commercial papers in an amount of RMB12 billion, with a maturity period of 90 days from the date of issue and which carries interest at 2.47% per annum. The super short term commercial papers were fully repaid in July 2016.

On 26 April 2016, CUCL issued tranche two of 2016 super short term commercial papers in an amount of RMB12 billion, with a maturity period of 90 days from the date of issue and which carries interest at 2.70% per annum. The super short term commercial papers were fully repaid in July 2016.

(All amounts in RMB millions unless otherwise stated)

35. COMMERCIAL PAPERS (Continued)

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

On 12 July 2016, CUCL issued tranche four of 2016 super short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.55% per annum.

On 17 November 2016, CUCL issued tranche five of 2016 super short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 3.00% per annum.

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

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

36. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Payables to contractors and equipment suppliers	105,742	131,202
Payables to telecommunications products suppliers	5,005	5,045
Customer/contractor deposits	4,869	4,564
Repair and maintenance expense payables	4,795	5,003
Salary and welfare payables	2,798	3,283
Interest payable	1,303	926
Amounts due to services providers/content providers	1,412	1,175
Accrued expenses	12,583	12,006
Others	4,717	4,192
	143,224	167,396

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

	2016	2015
Less than six months	120,191	146,336
Six months to one year	11,689	9,772
More than one year	11,344	11,288
	143,224	167,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

37. 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 2016, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,138 million (2015: approximately RMB4,665 million). For the year ended 31 December 2016, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB531 million (2015: decrease of approximately RMB1,041 million; together with tax impact, decrease of approximately RMB2,172 million), has been recorded in the consolidated statement of comprehensive income.

38. EQUITY-SETTLED SHARE OPTION SCHEMES

38.1 2014 share option scheme

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Under the 2014 Share Option Scheme, the share options may be granted to employees including all directors; any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders. As at 31 December 2016, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme. Pursuant to the 2014 Share Option Scheme, the consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

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

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

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

(All amounts in RMB millions unless otherwise stated)

38. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

38.2 Share option information

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

	2016		2015	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year	–	–	6.35	3,540,000
Lapsed	–	–	6.35	(3,432,000)
Exercised	–	–	6.35	(108,000)
Balance, end of year	–	–	–	–
Exercisable at end of year	–	–	–	–

Exercise of share options during the year ended 31 December 2015 resulted in 108,000 shares being issued with exercise proceeds of approximately RMB1 million.

No options outstanding as at 31 December 2016 and 2015.

Details of share options exercised during 2015 was as follows:

For the year ended 31 December 2015:

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

For the years ended 31 December 2016 and 2015, there were no employee share-based compensation expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

39. 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 below.

39.1 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	2016	2015
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	42	62
Rental charges for property leasing	(i), (iii)	1,050	929
Charges for lease of telecommunications resources	(i), (iv)	281	283
Charges for engineering design and construction services	(i), (v)	4,487	5,018
Charges for shared services	(i), (vi)	104	107
Charges for materials procurement services	(i), (vii)	88	125
Charges for ancillary telecommunications services	(i), (viii)	2,541	2,504
Charges for comprehensive support services	(i), (ix)	1,690	1,455
Income from comprehensive support services	(i), (ix)	51	12

39. RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(i) The agreement governing the recurring related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries expired on 31 December 2016. Accordingly, on 25 November 2016, CUCL entered into the new agreement, "2017-2019 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2017-2019 Comprehensive Services Agreement has a term of three years commencing on 1 January 2017 and expiring on 31 December 2019, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for certain transactions have changed under the new agreement.

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

(iii) CUCL and Unicom Group agreed to mutually lease properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes. For the year ended 31 December 2016, the rental charge paid by Unicom Group was approximately RMB0.48 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 2016, the services charges paid by Unicom Group to CUCL was negligible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(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.

(All amounts in RMB millions unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (Continued)

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

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

Amount due to Unicom Group as at 31 December 2015 included the unsecured entrusted loan from Unicom Group of RMB1,344 million with interest rate at 4.37% per annum. The loan was fully repaid in July 2016.

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

39.2 Related party transactions with Tower Company

(a) Related party transactions

	Note	2016	2015
Transactions with Tower Company:			
The Group's Tower Assets Disposal	(i)	–	54,658
Interest income from Cash Consideration	(i)	809	120
Operating lease and other service charges	(ii)	14,887	2,926
Income from engineering design and construction services	(iii)	151	50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (Continued)

39.2 Related party transactions with Tower Company (Continued)

(a) Related party transactions (Continued)

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

As at 31 December 2016, the first tranche of the Cash Consideration of RMB3,000 million was settled in February 2016. The remaining balance of the Cash Consideration of RMB18,322 million, together with related VAT of RMB2,704 million recoverable from Tower Company, will be settled before 31 December 2017. The outstanding Cash Consideration and related VAT carries interest at 3.92% per annum. For the year ended 31 December 2016, the interest income arisen from outstanding Cash Consideration and related VAT was approximately RMB809 million (2015: approximately RMB120 million).

(ii) As stated in Note 1, CUCL leased tower assets and related assets from the Tower Company. According to the signed agreements, the Group recognised operating lease and other service charges for the year ended 31 December 2016 totalled RMB14,887 million (2015: approximately RMB2,926 million) in connection with its use of telecommunications towers and related assets, inclusive of charges for the service elements and the service charges during the transition period.

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

(b) Amounts due from and to Tower Company

Amount due from Tower Company as at 31 December 2016 included outstanding Cash Consideration of RMB18,322 million and related VAT recoverable from Tower Company of RMB2,704 million (2015: RMB21,322 million and RMB2,704 million, respectively), both of which carries interest at 3.92% per annum, with the principal to be settled before 31 December 2017.

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 RMB4,377 million in total as at 31 December 2016 (2015: RMB3,029 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.

39.3 Related party transactions with Unicom Group and its subsidiaries

	Note	2016	2015
Net deposit placed with Finance Company by Unicom Group and its subsidiaries	(i)	2,397	–
Interest expense on the deposits	(i)	11	–

(All amounts in RMB millions unless otherwise stated)

39. RELATED PARTY TRANSACTIONS (Continued)

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

(i) 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 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.

Amount due to Unicom Group and its subsidiaries as at 31 December 2016 included a balance of the deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,397 million with an interest rate at 1.50% per annum.

39.4 Operating lease and other commitments to related parties

As at 31 December 2016 and 2015, 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 RMB49,038 million and RMB926 million respectively.

40. CONTINGENCIES AND COMMITMENTS

40.1 Capital commitments

As at 31 December 2016 and 2015, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2016			2015
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	1,875	11,598	13,473	18,129
Authorised but not contracted for	9,583	25,703	35,286	21,851
	11,458	37,301	48,759	39,980

40.2 Operating lease and other commitments

As at 31 December 2016 and 2015, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments as follows:

	2016				2015
	Land and buildings	Equipment	Ancillary facilities*	Total	Total
Arrangements expiring:					
– not later than one year	1,003	12,351	3,837	17,191	4,838
– later than one year and not later than five years	2,574	29,300	9,616	41,490	7,572
– later than five years	69	1,434	–	1,503	1,731
	3,646	43,085	13,453	60,184	14,141

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

40.3 Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities and no material financial guarantees issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

41. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2016	2015
ASSETS		
Non-current assets		
Property, plant and equipment	**10**	13
Investments in subsidiaries	**159,815**	160,308
Loan to a subsidiary	**32,602**	34,461
Financial assets at fair value through other comprehensive Income	**4,138**	4,665
	196,565	199,447
Current assets		
Loan to subsidiaries	**2,467**	113
Amounts due from subsidiaries	**5,729**	3,418
Dividend receivable	**16,158**	19,947
Prepayments and other current assets	**6**	9
Cash and cash equivalents	**1,443**	657
	25,803	24,144
Total assets	**222,368**	223,591
EQUITY		
Equity attributable to equity shareholders of the Company		
Share capital	**179,102**	179,102
Reserves	**(6,448)**	(5,917)
Retained profits		
– Proposed final dividend	**–**	4,071
– Others	**7,869**	5,999
Total equity	**180,523**	183,255

(All amounts in RMB millions unless otherwise stated)

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

	As at 31 December	
	2016	2015
LIABILITIES		
Non-current liabilities		
Promissory notes	–	3,995
	–	3,995
Current liabilities		
Short-term bank loans	**29,331**	25,828
Accounts payable and accrued liabilities	**211**	316
Loans from subsidiaries	**970**	171
Amounts due to subsidiaries	**6,385**	6,385
Taxes payable	**29**	222
Dividend payable	**920**	920
Current portion of promissory notes	**3,999**	2,499
	41,845	36,341
Total liabilities	**41,845**	40,336
Total equity and liabilities	**222,368**	223,591
Net current liabilities	**(16,042)**	(12,197)
Total assets less current liabilities	**180,523**	187,250

Approved and authorised for issue by the Board of Directors on 15 March 2017 and signed on behalf of the Board by:

Wang Xiaochu
Director

Li Fushen
Director

42. COMPARATIVE FIGURES

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

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15 March 2017.

FINANCIAL SUMMARY

For the five-year ended 31 December 2016
(All amounts in RMB millions, except per share data)

Selected financial summary for 2012 to 2016, including selected consolidated statement of income data and consolidated statement of financial position data for 2012, 2013, 2014, 2015 and 2016 were prepared in accordance with IFRSs/HKFRSs.

RESULTS

Selected Statement of Income Data

	2016	2015	2014	2013	2012
Revenue	274,197	277,049	284,681	295,038	248,926
Interconnection charges	(12,739)	(13,093)	(14,599)	(20,208)	(18,681)
Depreciation and amortisation	(76,805)	(76,738)	(73,868)	(68,196)	(61,057)
Network, operation and support expenses	(51,167)	(42,308)	(37,851)	(33,704)	(32,516)
Employee benefit expenses	(36,907)	(35,140)	(34,652)	(31,783)	(28,778)
Costs of telecommunications products sold	(36,529)	(44,046)	(43,397)	(63,416)	(45,040)
Other operating expenses	(57,357)	(54,960)	(61,411)	(61,964)	(51,252)
Finance costs	(5,017)	(6,934)	(4,617)	(3,113)	(3,664)
Interest income	1,160	438	283	173	240
Share of net profit/(loss) of associates	204	(759)	–	–	–
Share of net profit/(loss) of joint ventures	153	(42)	–	–	–
Other income – net	1,591	10,568	1,362	887	1,343
Profit before income tax	784	14,035	15,931	13,714	9,521
Income tax expenses	(154)	(3,473)	(3,876)	(3,306)	(2,425)
Profit for the year	630	10,562	12,055	10,408	7,096
Attributable to:					
Equity shareholders of the Company	625	10,562	12,055	10,408	7,096
Non-controlling interests	5	–	–	–	–
Earnings per share for profit attributable to equity shareholders of the Company					
– basic (RMB)	0.03	0.44	0.51	0.44	0.30
– diluted (RMB)	0.03	0.44	0.49	0.43	0.30

FINANCIAL SUMMARY

For the five-year ended 31 December 2016
(All amounts in RMB millions, except per share data)

RESULTS (Continued)

Selected Statement of Financial Position Data

	2016	2015	2014	2013	2012
Property, plant and equipment	**451,115**	454,631	438,321	431,625	430,997
Financial assets at fair value through other comprehensive income	**4,326**	4,852	5,902	6,497	5,567
Current assets	**82,218**	56,670	56,574	52,210	48,174
Accounts receivable	**13,622**	14,957	14,671	14,842	13,753
Cash and cash equivalents	**23,633**	21,755	25,308	21,506	18,250
Total assets	**614,154**	610,346	545,072	529,171	516,124
Current liabilities	**342,655**	336,074	291,920	295,239	302,320
Accounts payable and accrued liabilities	**143,224**	167,396	120,371	102,212	108,486
Short-term bank loans	**76,994**	83,852	91,503	94,470	70,025
Commercial papers	**35,958**	19,945	9,979	35,000	38,000
Current portion of promissory notes	**18,976**	2,499	–	–	15,000
Current portion of corporate bonds	**2,000**	–	–	–	5,000
Convertible bonds	**–**	–	11,167	11,002	11,215
Long-term bank loans	**4,495**	1,748	420	481	536
Promissory notes	**17,906**	36,928	21,460	–	–
Corporate bonds	**17,970**	2,000	2,000	2,000	2,000
Total liabilities	**386,472**	379,130	317,531	310,272	306,619
Total equity	**227,682**	231,216	227,541	218,899	209,505