

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of voice usage, broadband and mobile data services, data and internet application services, other value-added services, transmission lines usage and associated services and sales of telecommunications products. 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 New York Stock Exchange LLC filed Form 25 with the United States Securities and Exchange Commission on 7 May 2021 and the delisting of the Company's ADS has taken effective on 18 May 2021.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period.

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

- reversal of the revaluation surplus or deficit and related amortisation charges arising from the revaluation of prepayments for the leasehold land performed by independent valuers for the purpose of reporting to relevant PRC government authorities, and adjustment for corresponding deferred taxation;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005; and
- recognition of the dilution gain or loss of interest in equity-method investees.

(a) Going Concern Assumption

As at 31 December 2021, current liabilities of the Group exceeded current assets by approximately RMB110.0 billion (2020: approximately RMB113.4 billion). Considering the current economic conditions and taking into account of the Group's expected capital expenditure in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflows from operating activities;
- Approximately RMB237.5 billion of revolving banking facilities of which approximately RMB223.3 billion was unutilised as at 31 December 2021; and
- Other available sources of financing from domestic banks and other financial institutions in view of the Group's good credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2021 have been prepared on a going concern basis.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation (Continued)

(b) Critical Accounting Estimates and Judgment

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

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

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

(c) New Accounting Standards and Amendments

The HKICPA has issued an amendment to HKFRSs that is first effective for the current accounting period of the Group:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, "Interest Rate Benchmark Reform— Phase 2"

The Group has early applied the amendment to HKFRS 16, "Covid-19-Related Rent Concessions Beyond 30 June 2021" which extends the availability of the practical expedient in paragraph 46A of HKFRS 16, "Leases" ("HKFRS 16") by one year. The Group does not take advantage of the practical expedient.

In addition, the Group applied the agenda decision of the International Financial Reporting Standard Interpretations Committee of the International Accounting Standard Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

The application of the above amendments and agenda decision have had no material effect on the Group's financial positions and performance for the current or prior periods and/or on the disclosures set out in these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation (Continued)

(d) New standard and amendments to HKFRSs issued but not yet effective for the current year

The HKICPA has issued a number of new standard and amendments to HKFRSs which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these consolidated financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, "Reference to the Conceptual Framework"	1 January 2022
Amendments to HKAS 16, "Property, Plant and Equipment — Proceeds before Intended Use"	1 January 2022
Amendments to HKAS 37, "Onerous Contracts — Cost of Fulfilling a Contract"	1 January 2022
Amendments to HKFRSs, "Annual Improvements to HKFRSs 2018–2020"	1 January 2022
Amendments to HKAS 1, "Classification of Liabilities as Current or Non-current" and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, "Disclosure of Accounting Policies"	1 January 2023
Amendments to HKAS 8, "Definition of Accounting Estimates"	1 January 2023
HKFRS 17, "Insurance Contracts" and the related Amendments	1 January 2023
Amendments to HKAS 12, "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	1 January 2023
Amendments to HKFRS 10 and HKAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	to be determined

Except for the early application of the amendment to HKFRS 16, "Covid-19-Related Rent Concessions Beyond 30 June 2021", the Group has not applied any new standard or amendment to HKFRSs that is not yet effective for the current accounting period. The Group is assessing the impact of such new standard and amendments to standards, and will adopt the relevant new standard and amendments in the subsequent periods as required. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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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. 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 consolidated 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.

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 elects to measure non-controlling interests 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and non-controlling interests (Continued)

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2.20 depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2.12) or, when appropriate, the cost on initial recognition of an investment in an associate or a 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, unless the investment is classified as held for sale.

2.4 Associates, joint ventures and joint arrangement

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 arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income in the consolidated statement of comprehensive income.

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(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates, joint ventures and joint arrangement (Continued)

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

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. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

To better share the risks and rewards associated with the construction, operation and maintenance of the 5G network infrastructure, the Group entered into a framework agreement with China Telecom Corporation Limited ("China Telecom") to build, maintain and share one nationwide 5G access network infrastructure (the "Cooperation Agreement"). In accordance with the Cooperation Agreement, each of the Group and China Telecom is responsible for the construction and maintenance of 5G network infrastructure in their respective designated regions, and bears the associated construction, maintenance and operating costs. Both parties have established a joint operation mechanism and key decisions including overall network planning, construction project commencement and completion acceptance and a unified standard on construction and maintenance services across all regions are subject to mutual agreement by both parties.

The Group has accounted for the arrangement as a joint operation that is not structured through a separate vehicle, and has recognised its share of assets, liabilities, revenues and expenses in accordance with the terms of the arrangement.

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 (the "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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(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 presenting profit or loss and other comprehensive income are translated at average exchange rates (unless the use of the average rate for a period 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 reserves.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is sold, such exchange differences attributable to the equity shareholders of the Company are reclassified to the consolidated statement of income as part of the gain or loss on disposal.

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(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

(a) Construction-in-progress

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

(b) Property, plant and equipment

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

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

If an item of property, plant and equipment is acquired in exchange for another item of non-monetary assets, 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 consolidated 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%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

(c) Depreciation (Continued)

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

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

(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 consolidated statement of income.

2.8 Goodwill

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

Goodwill is allocated to a cash-generating unit (or group of cash-generating units) for the purpose of impairment testing, which are expected to benefit from the synergies of business combination in which the goodwill arose and represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the cash-generating unit (or group of cash-generating units).

2.9 Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2.15), property, plant and equipment (see Note 2.7) or intangible assets.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Contract costs (Continued)

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

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

Amortisation of capitalised contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

2.10 Contract assets and contract liabilities

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2.25).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Other assets

Other assets mainly represent (i) computer software; (ii) long-term prepaid usage fees for transmission lines and electricity cables.

- (i) Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives on a straight-line basis.
- (ii) Long-term prepaid usage fees for transmission lines and electricity cables are amortised using a straight-line method over service period.

2.12 Financial assets and financial liabilities

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

Financial assets 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 on the financial assets, but not for the purpose of realising fair value gains; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

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

Financial assets under this category are carried at amortised cost using effective interest method less provision for impairment. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. Interest income is recognised in the consolidated statement of income using the effective interest method and disclosed as interest income.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Gains and losses arising from derecognition of financial assets, being the differences between the net sales proceeds and the carrying values, are recognised in the consolidated statement of income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets and financial liabilities (Continued)

Financial assets measured at fair value

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost. Financial assets under this category are debt and equity investments carried at fair value.

Debt investments are classified as FVOCI (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECLs, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such irrevocable elections are made on an instrument-by-instrument basis at the time of initial recognition, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the investment revaluation reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the investment revaluation reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Fair value gains or losses of financial assets measured at FVPL and dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2.27.

Financial liabilities

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVPL.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of non-financial assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and other intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets that are not yet available for use are not subject to amortisation and are tested for impairment at each statement of financial position date and whenever there is an indication that they may be impaired. For the purpose of assessing impairment, assets are estimated individually, or when it is not possible, grouped at the smallest levels for which there are largely independent identifiable cash inflows of those from other assets or groups of assets. 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 of disposal and (ii) value in use.

2.14 Credit losses from financial instruments and contract assets

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

- financial assets measured at amortised cost (including cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, certain financial assets included in prepayments and other current assets, amounts due from ultimate holding company, amounts due from related parties, amounts due from domestic carriers and certain other assets);
- contract assets as defined in HKFRS 15, "Revenue from contracts with customers" ("HKFRS 15") (see Note 2.10); and
- debt securities measured at FVOCI (recycling).

Financial assets measured at fair values, including financial assets measured at FVPL and financial assets measured at FVOCI (non- recycling), are not subject to the ECL assessment.

Measurement of ECLs

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

- twelve-month ECLs: these are losses that are expected to result from possible default events within the twelve months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

Significant increases in credit risk

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. Except for debt securities measured at FVOCI (recycling), the Group recognises an impairment gain or loss for all other financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, while corresponding adjustment of debt securities measured at FVOCI (recycling) is made to other comprehensive income without reducing its carrying amount.

Credit-impaired financial assets

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in the consolidated statement of income.

2.15 Inventories

Inventories, which primarily comprise handsets 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 costs necessary to make the sale. Cost necessary to make the sale include incremental costs directly attributable to the sale and other cost necessary to sell inventories.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Accounts receivable

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2.10).

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

2.17 Short-term bank deposits and restricted deposits

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

Restricted deposits mainly included statutory reserve deposits with the People's Bank of China (the "PBOC") placed by Finance Company and customers deposit placed by Unicompay Company Limited for e-payment services.

2.18 Cash and cash equivalents

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

2.19 Government grants

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

2.20 Borrowings

Borrowings including bank loans, commercial papers, promissory notes and corporate bonds 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 consolidated statement of income over the period of the instruments using the effective interest method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's ordinary shares (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 consolidated statement of income.

2.22 Employee benefits

(a) Retirement benefits

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group is required to make contributions to the retirement plans at certain percentage of the employees' payroll. 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. For the years ended 31 December 2021 and 2020, no forfeited contributions may be used by the Group to reduce the existing level of contributions.

(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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 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. For defined benefit plan, the Group's obligation for this benefit plan is determined using the projected unit credit method and recognised as liability, with actuarial valuation carried out at the end of each annual reporting period.

The actuarial valuation was carried out by Towers Watson Consulting (Shenzhen) Co., Ltd. (member of China Association of Actuaries), a qualified independent actuary. Actuarial assumptions mainly include discount rate and future mortality etc. This defined benefit plan does not have any plan assets. The present value of the defined benefit obligation is included in non-current other obligations and salary and welfare payables (current portion). As at 31 December 2021, the amount of the unfunded liability was RMB100 million (2020: RMB75 million). The remeasurement of liability is recognised in other comprehensive income, which is not allowed to reverse to profit and loss in subsequent period.

(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 consolidated statement of income of the period in which the revision occurs, with a corresponding adjustment to equity.

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

(f) Restricted A-Share Incentive Scheme

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Accounts payable

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

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

2.24 Provisions

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

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

2.25 Revenue recognition

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

Revenue is recognised when a performance obligation is satisfied (i.e. when control over a product or service is transferred to the customer) at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

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

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

- Voice usage and monthly fees are recognised when the services are rendered;
- Revenues from the provision of broadband and mobile data services are recognised when the services are provided to customers;
- Data and internet application service revenues, which mainly represent revenue from the provision of data storage and application, information communications technology and other internet related services, are recognised during the period of fulfillment of services obligation;
- Other value-added services revenues, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalised ring, caller number display and secretarial services to subscribers etc., are recognised when services are rendered;
- Interconnection fees, which represent revenue from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, are recognised when services are rendered;
- Revenue from transmission lines usage and associated services, which mainly represent income from offering transmission lines and customer-end equipment to customers for usage and related services, are recognised upon fulfillment of services obligation over the respective usage and service period;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

- Standalone sales of telecommunications products, which mainly represent handsets and accessories, and telecommunications equipment, are recognised when control has been transferred to the buyers;
- The Group offers preferential packages to customers which include bundle sale of mobile handsets and provision of services. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their standalone selling prices. Revenue relating to the sale of handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of telecommunications services.

In general, revenue from rendering of telecommunication services are recognised over-time during the period of fulfillment of services obligation using output method, whereas revenue from sales of handsets and other telecommunications equipment are treated as separate performance obligations, are recognised at a point in time.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

2.26 Interest income

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

2.27 Dividend income

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Lease

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

(a) As a lessee

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Lease (Continued)

(a) As a lessee (Continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period. The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

(b) As a lessor

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Borrowing costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised up to the date when substantially all the activities necessary to prepare 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 does not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognised as expenses when incurred.

2.30 Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Taxation (Continued)

(b) Deferred income tax (Continued)

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred income tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred income tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.31 Dividend distribution

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

2.32 Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.32 Research and development expenditure (Continued)

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

For the year ended 31 December 2021, research and development expenditure recognised as an expense in the consolidated statement of income was RMB4,792 million (2020: RMB2,964 million).

2.33 Contingent liabilities and contingent assets

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

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

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

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

2.34 Earnings per Share

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.35 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

- (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.

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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 headquarter, following the overall direction determined by the Executive Directors of the Company. The Group's 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 United States dollars ("US dollars" or "USD"), Hong Kong dollars ("HK dollars" or "HKD") and European dollars ("Euro"). Exchange risk mainly exists with respect to the financial assets and financial liabilities denominated in foreign currencies including balances with international carriers, cash and cash equivalents.

The Group's 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 2021 and 2020, the Group had not entered into any forward exchange contracts or currency swap contracts.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the PBOC as at 31 December 2021 and 2020.

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)

	2021			2020		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
— denominated in HK dollars	97	0.82	79	48	0.84	40
— denominated in US dollars	587	6.38	3,743	353	6.52	2,305
— denominated in Euro	18	7.22	128	30	8.03	241
— denominated in Japanese Yen ("JPY")	108	0.06	6	—	0.06	—
— denominated in Great Britain Pound ("GBP")	—	8.61	2	—	8.89	—
— denominated in Singapore dollars ("SGD")	8	4.72	40	1	4.93	7
— denominated in Australian dollars ("AUD")	1	4.62	3	—	5.02	1
Sub-total			4,001			2,594
Accounts receivable:						
— denominated in HK dollars	1	0.82	1	1	0.84	1
— denominated in US dollars	166	6.38	1,058	219	6.52	1,429
— denominated in Euro	2	7.22	14	2	8.03	16
— denominated in GBP	9	8.61	77	—	8.89	—
— denominated in SGD	31	4.72	146	—	4.93	—
— denominated in JPY	70	0.06	4	—	0.06	—
— denominated in AUD	2	4.62	9	—	5.02	—
Sub-total			1,309			1,446
Financial assets measured at FVOCI:						
— denominated in Euro	247	7.22	1,786	208	8.03	1,672
Total			7,096			5,712
Borrowings:						
— denominated in US dollars	28	6.38	178	31	6.52	204
— denominated in Euro	2	7.22	14	2	8.03	18
Sub-total			192			222
Accounts payable:						
— denominated in JPY	155	0.06	9	—	0.84	—
— denominated in US dollars	46	6.38	293	36	6.52	235
— denominated in Euro	1	7.22	7	1	8.03	8
Sub-total			309			243
Total			501			465

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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 PBOC.

As at 31 December 2021, if RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, JPY, GBP, SGD and AUD, while all other variables are held constant, the effect on profit after tax would be approximately RMB361 million (2020: approximately RMB268 million) for cash and cash equivalents, borrowings, accounts receivable and accounts payable denominated in foreign currencies, and the effect on other comprehensive income would be approximately RMB179 million (2020: approximately RMB167 million) for financial assets denominated in foreign currency, which were recorded in FVOCI.

(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 measured at FVOCI (non-recycling) or FVPL.

The financial assets measured at FVOCI (non-recycling) comprise primarily equity securities of Telefónica S.A. ("Telefónica"). As at 31 December 2021, 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 RMB179 million (2020: approximately RMB167 million). The financial assets measured at FVPL comprise primarily equity securities of certain PRC listed companies. As at 31 December 2021, if the price of the respective listed equity securities had increased/decreased by 10%, the effect on profit after tax, would be approximately RMB9 million (2020: approximately RMB17 million).

(iii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by bank deposits and debt securities measured at FVOCI (recycling). 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.

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)

The Group's interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, corporate bonds, related party loans and lease liabilities. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During the years of 2021 and 2020, 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 borrowings and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in the years of 2021 and 2020.

As at 31 December 2021, the Group had approximately RMB13,410 million (2020: approximately RMB12,910 million) of long-term floating rate borrowings and short-term borrowings and approximately RMB28,551 million (2020: approximately RMB37,900 million) of long-term fixed rate borrowings and lease liabilities.

For the year ended 31 December 2021, if interest rates on the long-term floating rate borrowings and short-term borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on profit after tax is approximately RMB50 million (2020: approximately RMB48 million).

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and short-term bank deposits with banks, as well as credit exposures to major corporate customers, individual subscribers and general corporate customers, related parties and other telecommunications operators.

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

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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

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

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

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

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

The following tables show the undiscounted cash flows of the financial liabilities and lease 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 2021					
Long-term bank loans	406	392	867	906	2,207
Promissory notes	1,033	—	—	—	1,004
Corporate bonds	2,073	—	—	—	2,039
Lease liabilities	12,395	4,458	5,882	1,317	22,559
Other obligations	2,519	134	17	962	3,617
Short-term bank loans	392	—	—	—	385
Commercial papers	6,894	—	—	—	6,875
Accounts payable and accrued liabilities	140,124	—	—	—	140,124
Bills payable	4,246	—	—	—	4,246
Amounts due to ultimate holding company	4,028	—	—	—	4,028
Amounts due to related parties	12,959	773	—	—	13,668
Amounts due to domestic carriers	2,262	—	—	—	2,262
	189,331	5,757	6,766	3,185	203,014
At 31 December 2020					
Long-term bank loans	428	469	1,215	1,372	2,900
Promissory notes	34	1,030	—	—	998
Corporate bonds	1,088	2,073	—	—	2,999
Lease liabilities	11,757	10,352	6,203	1,498	27,961
Other obligations	2,529	15	27	58	2,627
Short-term bank loans	751	—	—	—	740
Commercial papers	7,007	—	—	—	7,000
Accounts payable and accrued liabilities	134,437	—	—	—	134,437
Bills payable	5,482	—	—	—	5,482
Amounts due to ultimate holding company	1,640	—	—	—	1,640
Amounts due to related parties	9,315	132	3,172	—	12,225
Amounts due to domestic carriers	2,291	—	—	—	2,291
	176,759	14,071	10,617	2,928	201,300

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.

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

3.2 Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.
- To support the Group's stability and growth.
- To provide capital for the purpose of strengthening the Group's risk management capability.

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

The Group monitors capital on the basis of the debt-to-capitalisation ratio. This ratio is calculated as interest-bearing debts over interest-bearing debts plus total equity. Interest-bearing debts represent commercial papers, short-term bank loans, long-term bank loans, promissory notes, corporate bonds, lease liabilities, and amounts due to related parties, as shown in the consolidated statement of financial position. The interest-bearing debts do not include balance of deposits received by Finance Company from Unicom Group and its subsidiaries (as defined in Note 45.1) and an associate of RMB6,090 million and of RMB60 million, respectively, as at 31 December 2021 (2020: RMB5,112 million and RMB58 million, respectively).

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

3.2 Capital risk management (Continued)

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

	31 December 2021	31 December 2020
Interest-bearing debts:		
– Short-term bank loans	385	740
– Long-term bank loans	1,835	2,482
– Promissory notes	—	998
– Corporate bonds	—	1,999
– Commercial papers	6,875	7,000
– Lease liabilities (non-current portion)	10,415	16,458
– Amounts due to related parties	742	3,042
– Current portion of long-term bank loans	372	418
– Current portion of corporate bonds	2,039	1,000
– Current portion of promissory notes	1,004	—
– Lease liabilities (current portion)	12,144	11,503
	35,811	45,640
Total equity	333,433	327,520
Interest-bearing debts plus total equity	369,244	373,160
Debt-to-capitalisation ratio	9.7%	12.2%

3.3 Fair value estimation

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, the financial assets included in prepayments and other current assets, amounts due from ultimate holding company, related parties and domestic carriers, financial assets measured at fair value and certain other assets. Financial liabilities of the Group mainly include the financial liabilities included in accounts payable and accrued liabilities, bills payable, 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.

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

3.3 Fair value estimation (Continued)

(a) Financial assets measured at fair value

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

- Level 1 valuation: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuation: observable inputs which fail to meet Level 1, and not using significant unobservable inputs 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 as at 31 December 2021:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Equity securities measured at FVOCI (non-recycling)	1,903	—	103	2,006
Financial assets measured at FVPL	3,143	42	905	4,090
Debt securities measured at FVOCI (recycling)	26,630	—	—	26,630
Total	31,676	42	1,008	32,726

The following table presents the Group's assets that are measured at fair value at 31 December 2020:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Equity securities measured at FVOCI (non-recycling)	1,786	—	52	1,838
Financial assets measured at FVPL	1,465	100	929	2,494
Debt securities measured at FVOCI (recycling)	23,350	—	—	23,350
Total	26,601	100	981	27,682

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

3.3 Fair value estimation (Continued)

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

The 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, debt securities issued by banks which are classified as financial assets measured at FVOCI and certain equity investments, investments in monetary funds that are classified as financial assets measured at FVPL.

During the years ended 31 December 2021 and 2020, 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.

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

As at 31 December 2021 and 2020, the carrying amounts, fair values and the level of fair values of the Group's long-term financial liabilities carried at amortised cost are disclosed below:

	Carrying	Fair value	Fair value measurements			Carrying	Fair value
	amounts	as at 31	as at 31 December 2021 categorised into			amounts	as at 31
	as at 31	as at 31	Level 1	Level 2	Level 3	as at 31	as at 31
	December	December	as at 31 December 2021 categorised into			December	December
	2021	2021	Level 1	Level 2	Level 3	2020	2020
Non-current portion of long-term bank loans	1,835	1,900	—	1,900	—	2,482	2,552
Non-current portion of promissory notes	—	—	—	—	—	998	1,005
Non-current portion of corporate bonds	—	—	—	—	—	1,999	2,050

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 0.57% to 4.35% (2020: 0.57% to 4.35%) 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 2021 and 2020 due to the nature or short maturity of those instruments.

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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 and residual values 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 and residual values, the amount of depreciation expenses may change.

4.2 Impairment of goodwill and long-lived assets

The Group tests whether long-lived assets, including property, plant and equipment and right-of-use assets, have suffered from any impairment, in accordance with the accounting policy stated in Note 2.13. For goodwill, the impairment testing is performed annually at the end of each reporting period, in accordance with the accounting policy stated in Note 2.8. The recoverable amount of the cash-generating unit at the lowest level to which those assets belong has been determined based on a value in use calculation. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit. If there is any significant change in management's assumptions, including discount rate, the revenue growth rate or amount of operating costs in the future cash flow projection, the estimated recoverable amount of the cash-generating unit and the Group's results would be significantly affected. Such impairment losses are recognised in the consolidated statement of income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amount of the cash-generating unit. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount.

No significant impairment loss on goodwill or long-lived assets was recognised for the years ended 31 December 2021 and 2020.

4.3 Allowance for ECLs

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

5. SEGMENT INFORMATION

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

The CODM makes resources allocation decisions based on internal management functions and assesses 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 revenue from a single customer accounted for 10 percent or more of the Group's revenue in all periods presented.

6. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") and VAT rates applicable to various telecommunications services. The VAT rates for basic telecommunications services and value-added telecommunications services are 9% and 6%, respectively, while VAT rate for sales of telecommunications products is 13%. Basic telecommunications services include business activities for the provision of voice services, and transmission lines usage and associated services etc. Value-added telecommunications services include business activities for the provision of short message service and multimedia message service, broadband and mobile data services, and data and internet application services etc. VAT is excluded from the revenue.

Disaggregation of revenue by major services and products:

	2021	2020
Voice usage and monthly fees	22,039	23,183
Broadband and mobile data services	155,918	150,730
Data and internet application services	60,833	47,923
Other value-added services	22,444	21,287
Interconnection fees	12,542	12,307
Transmission lines usage and associated services	17,894	16,519
Other services	4,483	3,865
Total service revenue	296,153	275,814
Sales of telecommunications products	31,701	28,024
Total	327,854	303,838
Include: Revenue from contracts with customers within the scope of HKFRS 15	326,615	302,732
Revenue from other sources	1,239	1,106

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6. REVENUE (Continued)

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

7. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	2021	2020
Repairs and maintenance		13,130	10,750
Power and water charges		13,806	12,901
Charges for use of network, premises, equipment and facilities	(i), (iii)	13,129	9,180
Charges for use of tower assets	(ii), (iii)	10,900	11,246
Others		2,122	2,209
		53,087	46,286

(i) During the years ended 31 December 2021 and 2020, charges for use of network, premises, equipment and facilities mainly included the non-lease components charges and charges relating to short-term leases, leases of low-value assets and variable lease payments which are recorded in profit or loss as incurred.

(ii) During the years ended 31 December 2021 and 2020, charges for use of tower assets included the non-lease components charges (maintenance service, certain ancillary facilities usage and other related support services charges) and variable lease payments which are recorded in profit or loss as incurred. For related party transactions with China Tower Corporation Limited ("Tower Company"), see Note 45.2.

(iii) Expense relating to short-term leases, leases of low-value assets and variable lease payments not included in the measurement of lease liabilities:

	2021	2020
Expense relating to short-term leases and leases of low value assets	1,521	1,322
Variable lease payments not included in the measurement of lease liabilities*	5,660	5,415

* During the years ended 31 December 2021 and 2020, variable lease payments not included in the measurement of lease liabilities mainly included charges for use of tower assets and network, premises, equipment and facilities, which are measured based on revenue or usage and recorded in profit or loss when the event or condition that triggers those payments occurred.

8. EMPLOYEE BENEFIT EXPENSES

	Note	2021	2020
Salaries and wages		44,092	42,534
Contributions to defined contribution pension schemes		7,685	5,534
Contributions to medical insurance		3,257	3,794
Contributions to housing fund		3,750	3,486
Other housing benefits		24	17
Share-based compensation	44	136	375
		58,944	55,740

8.1 Directors' emoluments

The remuneration of each director for the year of 2021 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Liu Liehong	(a)	—	78	78	41	197
Wang Xiaochu	(b)	—	156	413	97	666
Chen Zhongyue	(c)	—	215	215	183	613
Wang Junzhi	(d)	—	18	18	22	58
Li Fushen	(e)	—	106	336	64	506
Zhu Kebing	(f)	—	106	300	65	471
Fan Yunjun	(g)	—	70	265	54	389
Cheung Wing Lam Linus		398	—	—	—	398
Wong Wai Ming		406	—	—	—	406
Chung Shui Ming Timpson		415	—	—	—	415
Law Fan Chiu Fun Fanny		381	—	—	—	381
		1,600	749	1,625	526	4,500

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8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

The remuneration of each director for the year of 2020 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Wang Xiaochu		—	221	700	129	1,050
Li Guohua	(h)	—	55	423	31	509
Li Fushen		—	199	630	129	958
Shao Guanglu	(i)	—	17	17	10	44
Zhu Kebing		—	199	619	124	942
Fan Yunjun	(g)	—	199	566	129	894
Cesareo Alierta Izuel	(j)	107	—	—	—	107
Cheung Wing Lam Linus		427	—	—	—	427
Wong Wai Ming		435	—	—	—	435
Chung Shui Ming Timpson		444	—	—	—	444
Law Fan Chiu Fun Fanny		409	—	—	—	409
		1,822	890	2,955	552	6,219

Notes:

- (a) Mr. Liu Liehong was appointed as executive director, chairman and chief executive officer on 3 September 2021.
- (b) Mr. Wang Xiaochu resigned as executive director, chairman and chief executive officer on 27 August 2021.
- (c) Mr. Chen Zhongyue was appointed as executive director and president on 19 February 2021.
- (d) Mr. Wang Junzhi was appointed as executive director on 3 December 2021.
- (e) Mr. Li Fushen resigned as executive director on 11 June 2021.
- (f) Mr. Zhu Kebing resigned as executive director on 18 June 2021.
- (g) Mr. Fan Yunjun was appointed as executive director on 17 February 2020 and resigned on 28 April 2021.
- (h) Mr. Li Guohua resigned as executive director on 11 March 2020.
- (i) Mr. Shao Guanglu resigned as executive director on 16 January 2020.
- (j) Mr. Cesareo Alierta Izuel retired as non-executive director on 25 May 2020.

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

During the years of 2021 and 2020, no share options were granted to the directors.

No directors waived the right to receive emoluments during the years ended 31 December 2021 and 2020.

During the years of 2021 and 2020, the Company did not incur any payment to any director for loss of office or as an inducement to any director to join or upon joining the Company.

8.2 Senior management's emoluments

Of the seven senior management of the Company for the year ended 31 December 2021, three of them are directors of the Company and their remuneration has been disclosed in Note 8.1. For the remuneration of the remaining four senior management, all fall within the band from RMB0 to RMB1,000,000.

8.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2021, five of them are staffs and three fall within the band from RMB3,000,001 to RMB3,500,000, one falls within the band from RMB3,500,001 to RMB4,000,000, and one falls within the band from RMB4,000,001 to RMB4,500,000 (2020: five of them are staffs and three fall within the band from RMB2,000,001 to RMB2,500,000, one falls within the band from RMB2,500,001 to RMB3,000,000 and one falls within the band from RMB3,500,001 to RMB4,000,000).

The aggregate of the emoluments in respect of the five (2020: five) highest paid individuals are as follows:

	2021 (RMB'000)	2020 (RMB'000)
Salaries and allowances	4,307	5,624
Bonuses paid and payable	11,893	6,696
Contributions to pension schemes	893	827
	17,093	13,147

During the years of 2021 and 2020, the Group did not incur any payment to the above five highest paid individuals for loss of office or as an inducement to these individuals to join or upon joining the Group.

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2021	2020
Handsets and other telecommunication products	30,256	26,619
Others	427	243
	30,683	26,862

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10. OTHER OPERATING EXPENSES

	Note	2021	2020
Impairment losses under ECL, net of reversal		2,809	5,300
Write-down of inventories		492	284
Commission and other service expenses		23,178	21,041
Advertising and promotion expenses		2,682	2,723
Internet access terminal maintenance expenses		2,053	2,744
Customer retention costs		3,203	3,007
Auditors' remuneration:			
— Audit and other assurance services		41	77
— Non-audit services		8	—
Property management fee		2,528	2,490
Office and administrative expenses		1,491	1,332
Transportation expense		1,460	1,372
Miscellaneous taxes and fees		1,426	1,353
Service technical support expenses		27,206	21,243
Repairs and maintenance expenses		783	911
Loss on disposal of property, plant and equipment	15	3,749	2,365
Others		4,154	3,995
		77,263	70,237

11. FINANCE COSTS

	Note	2021	2020
Finance costs:			
— Interest on bank loans repayable within 5 years		42	112
— Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		204	312
— Interest on lease liabilities		977	1,234
— Interest on related party loans repayable within 5 years		141	122
— Interest on bank loans repayable over 5 years		21	38
— Less: Amounts capitalised in CIP	15	(82)	(206)
Total interest expense		1,303	1,612
Net exchange loss		8	46
Others		74	89
Total		1,385	1,747

12. OTHER INCOME — NET

	2021	2020
Dividend from financial assets measured at FVOCI (non-recycling)	179	210
Government grants	613	506
Additional deduction for VAT	2,384	1,456
Investment income from debt securities measured at FVOCI (recycling)	850	174
Fair value (losses)/gains on financial assets measured at FVPL	(39)	154
Gains on disposal of financial assets measured at FVPL	15	87
Others	117	324
	4,119	2,911

13. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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 jurisdictions in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (2020: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2020: 15%).

	2021	2020
Provision for income tax on the estimated taxable profits for the year		
— Hong Kong	83	99
— Mainland China and other jurisdictions	2,625	2,858
(Over)/under provision in respect of prior years	(115)	40
	2,593	2,997
Deferred taxation	827	453
	3,420	3,450

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13. TAXATION (Continued)

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

	Note	2021	2020
Profit before income tax		17,927	16,027
Expected income tax expense at PRC statutory tax rate of 25%		4,482	4,007
Impact of different tax rates outside Mainland China		(29)	(39)
Tax effect of preferential tax rate	(i)	(259)	(140)
Additional deduction for qualified research and development costs	(i)	(333)	(268)
Tax effect of non-deductible expenses		503	447
Tax effect of non-taxable income from share of net profit of joint ventures		(362)	(197)
Tax effect of non-taxable income from share of net profit of associates		(400)	(332)
(Over)/under provision in respect of prior years		(115)	40
Tax effect of unused tax losses not recognised, net of utilization	(ii)	(67)	(68)
Actual tax expense		3,420	3,450

(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% (2020: 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% (2020: 15%), and certain research and development costs of the Group's PRC subsidiaries are qualified for 75% (2020: 75%) additional deduction for tax purpose.

(ii) As at 31 December 2021, the Group did not recognise deferred tax assets of approximately RMB51 million (2020: approximately RMB181 million) in respect of tax losses amounting to approximately RMB203 million (2020: approximately RMB726 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 or ten years from the year incurred and hence will be expired by the year of 2026 or 2031.

As at 31 December 2021, the Group did not recognise deferred tax assets of RMB2,419million (2020: RMB2,448 million) in respect of changes in fair value of financial assets measured at FVOCI (non-recycling), since it is not probable that the related tax benefit will be realised.

13. TAXATION (Continued)

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

	2021	2020
Net deferred tax assets after offsetting:		
— Beginning of year	745	1,226
— Deferred tax charged to the consolidated statement of income	(474)	(471)
— Deferred tax charged to other comprehensive income	—	(10)
	<u>271</u>	<u>745</u>
Net deferred tax liabilities after offsetting:		
— Beginning of year	(64)	(87)
— Deferred tax (charged)/credited to the consolidated statement of income	(353)	18
— Deferred tax credited to other comprehensive income	—	5
	<u>(417)</u>	<u>(64)</u>

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

Deferred tax arising from	Credit loss allowance	Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulation (Note (i))	Unused tax losses	Accruals of expenses not yet deductible for tax purpose	Unrealised profit from transactions with Tower Company	Accelerated depreciation of property, plant and equipment (Note (ii))	Contract costs	Right-of-use assets/lease liabilities	Others	Total
At 1 January 2020	1,918	1,306	370	3,341	381	(8,572)	(39)	370	2,064	1,139
Credited/(charged) to the consolidated statement of income	575	(48)	(370)	842	(64)	(2,527)	39	20	1,080	(453)
Charged to other comprehensive income	—	—	—	—	—	—	—	—	(5)	(5)
At 31 December 2020	<u>2,493</u>	<u>1,258</u>	<u>—</u>	<u>4,183</u>	<u>317</u>	<u>(11,099)</u>	<u>—</u>	<u>390</u>	<u>3,139</u>	<u>681</u>
Credited/(charged) to the consolidated statement of income	130	(49)	34	560	(67)	(1,769)	—	13	321	(827)
At 31 December 2021	<u>2,623</u>	<u>1,209</u>	<u>34</u>	<u>4,743</u>	<u>250</u>	<u>(12,868)</u>	<u>—</u>	<u>403</u>	<u>3,460</u>	<u>(146)</u>

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13. TAXATION (Continued)

- (i) The prepayments for the leasehold land were revalued for PRC tax purposes as at 31 December 2004 and 2003. However, the resulting revaluations of the prepayments for the leasehold land were not recognised under HKFRSs. Accordingly, deferred tax assets were recorded by the Group under 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 State Administration Taxation ("SAT") of the PRC, starting from 2014, the Group's property, plant and equipment that comply with this tax policy are allowed to be depreciated under the accelerated depreciation method, or fully deducted for tax purpose in the year of purchase. Temporary differences arise from the different useful lives 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 2021 and 2020 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 2021 and 2020 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. There were no dilutive potential ordinary shares for the years ended 31 December 2021 and 2020.

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

	2021	2020
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	14,368	12,493
Denominator (in millions):		
Number of ordinary shares outstanding used in computing basic/diluted earnings per share	30,598	30,598
Basic/Diluted earnings per share (in RMB)	0.47	0.41

15. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2021 and 2020 are as follows:

	2021					CIP	Total
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements			
Cost:							
Beginning of year	76,658	841,394	20,255	3,701	48,251	990,259	
Additions	30	903	468	299	67,870	69,570	
Transfer from CIP	2,001	62,370	1,165	208	(65,744)	—	
Transfer to other assets	—	—	—	—	(6,966)	(6,966)	
Disposals	(510)	(73,622)	(2,063)	(872)	—	(77,067)	
End of year	78,179	831,045	19,825	3,336	43,411	975,796	
Accumulated depreciation and impairment:							
Beginning of year	(39,243)	(568,173)	(15,641)	(2,908)	(107)	(626,072)	
Charge for the year	(2,822)	(61,346)	(1,279)	(340)	(32)	(65,819)	
Disposals	391	67,993	1,912	830	—	71,126	
End of year	(41,674)	(561,526)	(15,008)	(2,418)	(139)	(620,765)	
Net book value:							
End of year	36,505	269,519	4,817	918	43,272	355,031	
Beginning of year	37,415	273,221	4,614	793	48,144	364,187	

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15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2020					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	75,160	833,423	20,092	3,728	54,261	986,664
Additions	34	767	306	173	67,647	68,927
Transfer from CIP	1,801	64,847	1,142	214	(68,004)	—
Transfer to other assets	—	—	—	—	(5,649)	(5,649)
Disposals	(337)	(57,643)	(1,285)	(414)	(4)	(59,683)
End of year	76,658	841,394	20,255	3,701	48,251	990,259
Accumulated depreciation and impairment:						
Beginning of year	(36,840)	(563,735)	(15,658)	(2,919)	(111)	(619,263)
Charge for the year	(2,680)	(58,319)	(1,222)	(403)	—	(62,624)
Disposals	277	53,881	1,239	414	4	55,815
End of year	(39,243)	(568,173)	(15,641)	(2,908)	(107)	(626,072)
Net book value:						
End of year	37,415	273,221	4,614	793	48,144	364,187
Beginning of year	38,320	269,688	4,434	809	54,150	367,401

For the year ended 31 December 2021, interest expense of approximately RMB82 million (2020: approximately RMB206 million) was capitalised as CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings and varied from 2.01% to 3.48% for the year ended 31 December 2021 (2020: 2.35% to 3.12%).

Mainly as a result of the Group's ongoing modification of its telecommunications network and following subscribers' voluntarily cross network migration progress, the Group disposed certain property, plant and equipment with carrying amounts of RMB5,899 million (2020: RMB3,868 million) for consideration of RMB2,150 million (2020: RMB1,503 million) for the year ended 31 December 2021, resulting in a net loss of approximately RMB3,749 million for the year ended 31 December 2021 (2020: approximately RMB2,365 million).

16. RIGHT-OF-USE ASSETS

	2021				Total
	Buildings	Tele-communications equipment	Land use rights	Others	
Cost:					
Beginning of year	15,867	42,456	13,709	1,133	73,165
Additions	4,062	3,511	330	338	8,241
Disposals	(4,089)	(1,037)	(68)	(134)	(5,328)
End of year	15,840	44,930	13,971	1,337	76,078
Accumulated depreciation and impairment:					
Beginning of year	(8,197)	(21,898)	(4,802)	(308)	(35,205)
Charge for the year	(3,677)	(8,563)	(280)	(206)	(12,726)
Disposals	3,770	770	45	134	4,719
End of year	(8,104)	(29,691)	(5,037)	(380)	(43,212)
Net book value:					
End of year	7,736	15,239	8,934	957	32,866
Beginning of year	7,670	20,558	8,907	825	37,960

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16. RIGHT-OF-USE ASSETS (Continued)

	2020				Total
	Buildings	Tele-communications equipment	Land use rights	Others	
Cost:					
Beginning of year	17,730	37,984	13,682	937	70,333
Additions	2,721	5,023	41	426	8,211
Disposals	(4,584)	(551)	(14)	(230)	(5,379)
End of year	15,867	42,456	13,709	1,133	73,165
Accumulated depreciation and impairment:					
Beginning of year	(8,405)	(14,062)	(4,509)	(284)	(27,260)
Charge for the year	(3,885)	(8,140)	(298)	(254)	(12,577)
Disposals	4,093	304	5	230	4,632
End of year	(8,197)	(21,898)	(4,802)	(308)	(35,205)
Net book value:					
End of year	7,670	20,558	8,907	825	37,960
Beginning of year	9,325	23,922	9,173	653	43,073

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 36.

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 share of the fair values of the separately identifiable net assets acquired prior to the adoption of AG 5 in 2005.

Goodwill is allocated to the Group's cash-generating unit (the "CGU"). The recoverable amount of the CGU with 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, and extrapolated using a steady 1% growth rate (2020: 1%), the applicable discount rate of 11% (2020: 11%). Management determined expected growth rate 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 2021 and 2020, any reasonably possible change in the assumptions used in the calculation of recoverable amount would not result in impairment losses.

18. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2021, the details of the Company's major subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China United Network Communications Corporation Limited ("CUCL")	The PRC, 21 April 2000, limited liability company	100%	—	RMB213,044,797,828	Telecommunications operation in the PRC
China Unicom Global Limited	Hong Kong, 29 May 2015, limited company	100%	—	HKD2,625,097,491	Investment holding
China Unicom (Hong Kong) Operations Limited	Hong Kong, 24 May 2000, limited company	—	100%	HKD1,510,100,000	Telecommunications service in Hong Kong
China Unicom (Americas) Operations Limited	USA, 24 May 2002, limited company	—	100%	5,000 shares, USD100 each	Telecommunications service in the USA
China Unicom (Europe) Operations Limited	The United Kingdom, 8 November 2006, limited company	—	100%	4,861,000 shares, GBP1 each	Telecommunications operation in the United Kingdom
China Unicom (Japan) Operations Corporation	Japan, 25 January 2007, limited company	—	100%	1,000 shares, JPY366,000 each	Telecommunications operation in Japan
China Unicom (Singapore) Operations Pte Limited	Singapore, 5 August 2009, limited company	—	100%	30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
China Unicom (South Africa) Operations (Pty) Limited	South Africa, 19 November 2012, limited liability company	—	100%	200 shares in total: 100 shares, ZAR 1 each 100 shares, ZAR 512,063.34 each	Telecommunications operation in South Africa
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar ("Myanmar"), 7 June 2013, limited liability company	—	100%	2,150,000 shares, USD1 each	Communications technology training in Myanmar
China Unicom (Australia) Operations Pty Limited	Australia, 27 May 2014, limited liability company	—	100%	12,190,411 shares, AUD 1 each	Telecommunications operation in Australia

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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 (Russia) Operations Limited Liability Company	Russia, 28 December 2016, limited liability company	—	100%	RUB10,000	Telecommunications service in Russia
China Unicom (Brazil) Telecommunications Limited	Brazil, 23 June 2016, limited liability company	—	100%	R\$21,165,840	Telecommunications service in Brazil
China Unicom (Brazil) Holdings Ltda.	Brazil, 27 October 2017, limited liability company	—	100%	R\$21,277,298	Investment holding
China Unicom Operations (Thailand) Limited	Thailand, 20 November 2017, limited liability company	—	100%	1,040,000 shares, Baht100 each	Telecommunications service in Thailand
China Unicom Operations (Malaysia) Sdn. Bhd.	Malaysia, 10 November 2017, limited liability company	—	100%	3,200,000 shares, MYR1 each	Telecommunications service in Malaysia
China Unicom Operations Korea Co., Ltd	Korea, 24 November 2017, limited liability company	—	100%	60,000 shares, KRW5,000 each	Telecommunications service in Korea
China Unicom (Vietnam) Operations Company Limited	Vietnam, 19 April 2018, limited liability company	—	100%	VND2,276,000,000	Telecommunications service in Vietnam
China Unicom (Cambodia) Operations Co., Ltd	Cambodia, 11 May 2018, limited liability company	—	100%	10,000 shares, Riels4,000 each	Telecommunications service in Cambodia
PT China Unicom Indonesia Operations	Indonesia, 25 October 2019, limited liability company	—	100%	20,000,000,001 shares, Rp1 each	Telecommunications service in Indonesia
China Unicom (Philippines) Operations Inc	Philippines, 6 November 2019, limited liability company	—	100%	103,012 shares, Php100 each	Telecommunications service in Philippines
China Unicom (Mexico) Operations Limited	Mexico, 29 October 2021, limited liability company	—	100%	Not applicable	Telecommunications service in Mexico
Unicom Vsens Telecommunications Company Limited	The PRC, 19 August 2008, limited liability company	—	100%	RMB610,526,500	Sales of handsets, telecommunications equipment and provision of technical services in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom Digital Technology Co., Ltd	The PRC, 30 April 2006, limited liability company	—	100%	RMB7,063,177,615.78	Provision of information communications technology services in the PRC
China Unicom Online Information Technology Company Limited	The PRC, 29 March 2006, limited liability company	—	100%	RMB400,000,000	Provision of internet information services and value-added telecommunications services in the PRC
Beijing Telecom Planning and Designing Institute Company Limited	The PRC, 25 April 1996, limited liability company	—	100%	RMB264,227,115	Provision of consultancy, survey, design and contract services relating to information and construction projects in the telecommunications industry in the PRC
China Information Technology Designing & Consulting Institute Company Limited	The PRC, 11 November 1991, limited liability company	—	100%	RMB430,000,000	Provision of consultancy, survey, design and contract services relating to information projects and construction projects in the telecommunications industry in the PRC
China Unicom Information Navigation Company Limited	The PRC, 17 September 1998, limited liability company	—	100%	RMB6,825,087,800	Provision of customer services in the PRC
Huaxia P&T Project Consultation and Management Company Limited	The PRC, 5 March 1998, limited liability company	—	100%	RMB50,100,000	Provision of project consultation and monitoring in the PRC

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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		
Zhengzhou Kaicheng Industrial Company Limited	The PRC, 21 December 2005, limited liability company	—	100%	RMB2,200,000	Provision of property services in the PRC
Unicompany Company Limited	The PRC, 11 April 2011, limited liability company	—	100%	RMB250,000,000	Provision of e-payment services in the PRC
Beijing Wo Digital Media Advertising Co., Ltd	The PRC, 21 July 2006, limited liability company	—	100%	RMB20,000,000	Provision of advertising design, production, agency and publication in the PRC
Guangdong Unicom Communication Construction Co., Ltd	The PRC, 28 May 2013, limited liability company	—	100%	RMB30,000,000	Provision of telecommunications network construction, maintenance and technical services in the PRC
China Unicom Intelligence Security Technology Corporation Limited	The PRC, 15 August 2007, limited liability company	—	100%	RMB150,000,000	Provision of technical development and consultation in the PRC
Unicom Cloud Data Company Limited	The PRC, 4 June 2013, limited liability company	—	100%	RMB4,000,000,000	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%	RMB3,040,000,000	Venture capital investment business in the PRC
Xiaowo Technology Co., Ltd	The PRC, 24 October 2014, limited liability company	—	100%	RMB200,000,000	Provision of internet information services and value-added telecommunications services in the PRC
China Unicom Smart Connection Technology Company Limited	The PRC, 7 August 2015, limited liability company	—	68.88%	RMB246,796,148	Auto informatisation in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom Intelligent Network Ruixing Technology (Beijing) Co., Ltd.	The PRC, 26 September 2018, limited liability company	—	55.10%	RMB10,000,000	Provision of technology promotion service of intelligent transportation system's products in the PRC
Unicom Intelligent Vehicle Technology (Shanghai) Co., Ltd	The PRC, 28 September 2018, limited liability company	—	68.88%	RMB10,000,000	Provision of technology development, technology consultation and other services in the PRC
Finance Company	The PRC, 17 June 2016, limited liability company	—	91%	RMB3,000,000,000	Provision of financial services in the PRC
China Unicom Innovation Investment Company (Shenzhen) Limited	The PRC, 28 January 2016, limited liability company	—	100%	RMB200,000	Venture capital investment business in the PRC
China Unicom Innovation Investment Company (Guizhou) Limited	The PRC, 8 October 2016, limited liability company	—	60%	RMB1,000,000	Venture capital investment business in the PRC
China Unicom Innovation Investment (Shenzhen) Investment Centre	The PRC, 1 February 2016, limited partnership	—	100%	RMB79,300,000	Venture capital investment business in the PRC
Unicom Big Data Co., Ltd.	The PRC, 24 August 2017, limited liability company	—	100%	RMB500,000,000	Provision of data processing service in the PRC
Liantong Travel Service (Beijing) Company Limited	The PRC, 30 September 2017, limited liability company	—	100%	RMB100,000,000	Provision of tourism and information services in the PRC
China Unicom (Guangdong Branch) Internet Industry Limited	The PRC, 5 January 2017, limited liability company	—	100%	RMB100,000,000	Provision of information communications technology business in the PRC

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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 (Zhejiang) Industry Internet Company Limited	The PRC, 20 June 2017, limited liability company	—	100%	RMB11,000,000	Provision of information communications technology business in the PRC
China Unicom (ShanDong) Industrial Internet Company Limited	The PRC, 3 March 2017, limited liability company	—	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom (Fujian) Industrial Internet Company Limited	The PRC, 23 February 2018, limited liability company	—	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom (Shanxi) Industrial Internet Company Limited	The PRC, 21 March 2018, limited liability company	—	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom Xiongan Industrial Internet Company Limited	The PRC, 25 April 2018, limited liability company	—	100%	RMB274,342,600	Provision of information communications technology business in the PRC
China Unicom (Sichuan) Industrial Internet Company Limited	The PRC, 29 March 2018, limited liability company	—	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom (Liaoning) Industrial Internet Company Limited	The PRC, 28 March 2018, limited liability company	—	100%	RMB20,000,000	Provision of information communications technology business in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom (Jiangsu) Industrial Internet Company Limited	The PRC, 9 May 2018, limited liability company	—	100%	RMB26,200,000	Provision of information communications technology business in the PRC
China Unicom (Shanghai) Industrial Internet Company Limited	The PRC, 13 March 2018, limited liability company	—	100%	RMB20,000,000	Provision of information communications technology business in the PRC
China Unicom (Heilongjiang) Industrial Internet Company Limited	The PRC, 14 March 2018, limited liability company	—	100%	RMB50,000,000	Provision of information communications technology business in the PRC
Henan Industrial Interconnection & Technology Co., Ltd	The PRC, 30 May 2019, limited liability company	—	40%	RMB90,000,000	Provision of information communications technology business in the PRC
China Unicom Video Technology Co., Ltd.	The PRC, 17 January 2018, limited liability company	—	100%	RMB100,000,000	Provision of technology research and development and consultation services of TV video and mobile video in the PRC
China Unicom Internet of Things Corporation Limited	The PRC, 16 March 2018, limited liability company	—	100%	RMB207,000,000	Provision of internet of things technology, system development, technical consultation, sales and maintenance of system and equipment and online data processing transaction business in the PRC

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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 High-tech Big Data Artificial Intelligence Technology (Chengdu) Co., Ltd.	The PRC, 29 March 2018, limited liability company	—	51%	RMB10,000,000	Provision of Big Data Service, cloud computation and infrastructure service in the PRC
China Unicom iRead Science and Culture Co., Ltd.	The PRC, 28 April 2018, limited liability company	—	100%	RMB51,000,000	Provision of internet information technology, online video, online reading material services in the PRC
China Unicom W0 Music & Culture Co., Ltd.	The PRC, 8 May 2018, limited liability company	—	100%	RMB100,000,000	Provision of internet information technology services in the PRC
China Unicom Leasing Co., Ltd.	The PRC, 11 April 2018, limited liability company	25%	75%	RMB2,500,000,000	Provision of finance leasing business in the PRC
Yunjing Culture And Tourism Technology Co., Ltd	The PRC, 27 February 2019, limited liability company	—	60%	RMB20,000,000	Provision of data analysis, processing and application services in the PRC
Yundun Intelligent Security Technology Co., Ltd	The PRC, 11 November 2019, limited liability company	—	51%	RMB51,000,000	Provision of software development, technology promotion and development in the PRC
Wobaifu Information Technology (Tianjin) Co., Ltd	The PRC, 17 April 2020, limited liability company	—	100%	RMB10,000,000	Provision of software and information technology service in the PRC
Changchun FAW Communications Technology Co., Ltd.	The PRC, 27 September 2002, limited liability company	—	51%	RMB86,458,600	Telecommunications operation in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Yichun Digital Economy Industry Operation Co., Ltd	The PRC, 14 December 2020, limited liability company	—	51%	RMB22,650,000	Provision of telecommunication, television broadcasting and satellite transmission services in the PRC
Lianchuang Weilai (Wuhan) Intelligent Manufacturing Industry Investment Partnership (Limited Partnership)	The PRC, 29 July 2020, limited liability company	—	50.98%	RMB1,760,000,000	Provision of investment business in the PRC
Hebei Sign Technology Co., Ltd.	The PRC, 22 October 2021, limited liability company	—	70%	RMB10,000,000	Provision of other technology promotion service in the PRC
China Unicom Spirit Realm Video (Jiangxi) Technology Company Limited	The PRC, 9 July 2021, limited liability company	—	100%	RMB10,000,000	Provision of internet and telecommunication value-added business in the PRC
China Unicom Innovation Investment Company (Shanghai), Ltd	The PRC, 6 June 2014, limited liability company	—	70%	RMB40,000,000	Provision of pioneer investment business in the PRC
China Unicom Western Innovation Institute	The PRC, 6 September 2021, limited liability company	—	100%	RMB50,000,000	Provision of information technology consultation services
China Unicom Zhiyu (Shanghai) Information Service and Technology Co., Ltd	The PRC, 5 June 2018, limited liability company	—	70%	RMB1,000,000	Provision of business incubator management in the PRC
China Unicom Zhiyu (Shanghai) Innovation Incubator Management Co., Ltd	The PRC, 2 April 2019, limited liability company	—	70%	RMB400,000	Provision of business incubator management in the PRC
Lian Kuan (Wuhan) Investment Center (Limited Partnership)	The PRC, 24 July 2020, limited liability company	—	72.6%	RMB10,500,000	Provision of investment business in the PRC
Lingang Data Intelligence Technology (Shanghai) Co., Ltd.	The PRC, 29 December 2021, limited liability company	—	100%	Not Applicable	Provision of internet data and security services and cloud computing services in the PRC

None of the subsidiaries issued any debt securities at the end of the year except for CUCL, which issued promissory notes, corporate bonds and commercial papers, in which the Group has no interest. Details of these issued debt securities are disclosed in Note 34, Note 35 and Note 40, respectively.

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19. INTEREST IN ASSOCIATES

	2021	2020
Share of net assets	41,278	38,802

The following list contains the particulars of a material associate as at 31 December 2021:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
Tower Company	Incorporated	The PRC	20.65%	RMB176,008,471,024	Construction, maintenance and operation of communications towers in the PRC (Note 45.2)

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	
	2021	2020
Current assets	48,344	43,204
Non-current assets	274,915	294,176
Current liabilities	(76,182)	(106,635)
Non-current liabilities	(57,723)	(44,499)
Equity	(189,354)	(186,246)
Revenue	86,585	81,099
Profit for the year	7,328	6,427
Total comprehensive income for the year	7,327	6,427
Reconciled to the Group's interest in the associate:		
Net assets of the associate	189,354	186,246
The Group's effective interest	20.65%	20.65%
Adjustment for the remaining balance of the deferred gain from the transactions with Tower Company	39,102	38,460
	(1,001)	(1,262)
Carrying amount in the consolidated financial statements	38,101	37,198

19. INTEREST IN ASSOCIATES (Continued)

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

	As at 31 December 2021		As at 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest in listed associate				
– Tower Company	38,101	25,556	37,198	34,873

Aggregate information of associates that are not individually material:

	2021	2020
The Group's share of net profit	88	—
The Group's share of other comprehensive income	—	—
The Group's share of total comprehensive income	88	—
Aggregate carrying amount of the Group's interest in these associates	3,177	1,604

20. INTEREST IN JOINT VENTURES

	2021	2020
Share of net assets	7,138	5,656

The following list contains the particulars of a material joint venture, which is an unlisted corporate entity and has no available quoted market price as at 31 December 2021:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
Merchants Union Consumer Finance Company Limited ("MUCFC")	Incorporated	The PRC	50%	RMB10,000,000,000	Consumer finance consulting in the PRC

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20. INTEREST IN JOINT VENTURES (Continued)

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

	MUCFC	
	2021	2020
Assets	149,698	108,311
Liabilities	(135,661)	(97,283)
Equity	(14,037)	(11,028)
Revenue	15,933	12,651
Profit for the year	3,063	1,668
Total comprehensive income for the year	3,063	1,668
Included in above income:		
Interest income	20,598	15,710
Interest expense	(4,555)	(3,059)
Income tax expense	(477)	(728)
Reconciled to the Group's interests in the joint venture:		
Net assets of the joint venture	14,037	11,028
The Group's effective interest	50%	50%
Carrying amount in the consolidated financial statements	7,019	5,514
Aggregate information of joint ventures that are not individually material:		
	2021	2020
The Group's share of net profit	(84)	(47)
The Group's share of other comprehensive income	—	—
The Group's share of total comprehensive income	(84)	(47)
Aggregate carrying amount of the Group's interest in these joint ventures	119	142

21. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2021	2020
Contract assets from bundle sales of mobile handsets and provision of service, net of allowance	408	832
Others	69	94
Sub-total	477	926
Less: Current portion	(406)	(823)
	71	103

The Group offers preferential packages to the customers which include the bundle sales of mobile handsets and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their standalone selling prices. The revenue relating to the sale of the handsets is recognised when the customers obtain the control and the consideration allocated to the sales of mobile handsets is gradually received during the contract period when the customers pay the monthly package fee.

(b) Contract liabilities

	Note	2021	2020
Advances received from customers for future services	(i)	44,446	41,537
Others		1,258	1,104
		45,704	42,641

- (i) Contract liabilities primarily relates to the considerations received from customers before the Group satisfying performance obligations. It would be recognised as revenue upon the rendering of services. Almost all of the contract liability balance as at 31 December 2020 was recognised as revenue for the year ended 31 December 2021.

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22. CONTRACT COSTS

	Note	2021	2020
Direct incremental costs of activating broadband and internet protocol television ("IPTV") service	(i)	3,277	2,410
Sales commissions	(ii)	748	1,262
		4,025	3,672

(i) Direct incremental costs for activating broadband and IPTV subscribers mainly include the costs of installing broadband and IPTV terminals at customer's homes for the provision of broadband and IPTV services, and are amortised over the expected service period. The amount of capitalised direct incremental costs for activating broadband and IPTV subscribers recognised in profit or loss during the year was RMB2,688 million (2020: RMB2,524 million). There was no significant impairment in relation to the capitalised costs as at 31 December 2021 (2020: Nil).

(ii) Sales commissions are paid to agents whose selling activities resulted in new customers entering into contracts with the Group. The amount of capitalised sales commissions recognised in profit or loss during the year was RMB939 million (2020: RMB1,152 million). There was no significant impairment in relation to capitalised costs as at 31 December 2021 (2020: Nil).

23. FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Note	2021	2020
Non-current portion:			
Equity securities measured at FVOCI (non-recycling)	(i)	2,006	1,838
Financial assets measured at FVPL	(ii)	803	934
Debt securities measured at FVOCI (recycling)	(iii)	906	721
		3,715	3,493
Current portion:			
Financial assets measured at FVPL	(ii)	3,287	1,560
Debt securities measured at FVOCI (recycling)	(iii)	25,724	22,629
		29,011	24,189
		32,726	27,682

23. FINANCIAL ASSETS MEASURED AT FAIR VALUE (Continued)

(i) Equity securities measured at FVOCI (non-recycling)

	Note	2021	2020
Listed in the PRC		117	114
Listed outside the PRC	42	1,786	1,672
Unlisted		103	52
		2,006	1,838

(ii) Financial assets measured at FVPL represent certain equity investments, investments in monetary funds and wealth management products.

(iii) Debt securities measured at FVOCI (recycling) represent certain debt investments issued by banks and the investments are held within a business model whose objective is achieved by both the collection of contractual cash flows and sale.

24. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	2021	2020
Short-term bank deposits	7,403	6,900
Restricted deposits	4,565	5,089
	11,968	11,989

25. OTHER ASSETS

	Note	2021	2020
Intangible assets	(i)	13,367	10,974
Prepaid services charges for transmission lines and electricity cables and other services		1,361	1,281
VAT recoverable	(ii)	171	442
Others		2,783	1,894
		17,682	14,591

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25. OTHER ASSETS

(i) Intangible assets

	Computer software	Others	Total
Cost:			
At 1 January 2020	31,358	3,578	34,936
Additions	145	13	158
Transfer from CIP	4,097	399	4,496
Disposals	(3,596)	(103)	(3,699)
At 31 December 2020	32,004	3,887	35,891
Additions	692	34	726
Transfer from CIP	6,004	340	6,344
Disposals	(5,735)	(466)	(6,201)
At 31 December 2021	32,965	3,795	36,760
Accumulated amortisation and impairment:			
At 1 January 2020	(21,773)	(1,839)	(23,612)
Amortisation charge for the year	(4,331)	(509)	(4,840)
Disposals	3,447	88	3,535
At 31 December 2020	(22,657)	(2,260)	(24,917)
Amortisation charge for the year	(3,491)	(476)	(3,967)
Disposals	5,171	320	5,491
At 31 December 2021	(20,977)	(2,416)	(23,393)
Net book value:			
At 31 December 2021	11,988	1,379	13,367
At 31 December 2020	9,347	1,627	10,974

- (ii) VAT recoverable includes input VAT and prepaid VAT which is expected to be deducted beyond one year. VAT recoverable which is expected to be deducted within one year are included in "Prepayments and other current assets". See Note 28(i).

26. INVENTORIES

	2021	2020
Handsets and other telecommunication products	1,410	1,682
Others	436	269
	1,846	1,951

27. ACCOUNTS RECEIVABLE

	2021	2020
Accounts receivable	28,127	26,009
Less: Credit loss allowance	(10,170)	(9,722)
	17,957	16,287

The gross carrying amount of accounts receivable from contracts with customers amounted to RMB28,062 million as at 31 December 2021 (2020: RMB25,933 million).

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

	2021	2020
Within one month	10,620	8,963
More than one month to three months	3,061	2,766
More than three months to one year	3,519	3,914
More than one year	757	644
	17,957	16,287

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

There is no significant concentration of credit risk with respect to customers receivables, as the Group has a large number of customers. The Covid-19 pandemic since early 2020 has brought about additional uncertainties in the operations and financial position of the Group's customers. The Group considered the impact of Covid-19 when evaluating the forward-looking information used in the ECL model and reassessed expected loss provisions including assessing the risk factors associated with various customer sectors and applying an upward risk weighting to major corporate customers as there is higher risk that a prolonged pandemic could lead to increased credit default rates.

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27. ACCOUNTS RECEIVABLE (Continued)

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

The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivable as at 31 December 2021:

For individual subscribers and general corporate customers

	Expected loss rate	Gross carrying amount	Loss allowance
Current (not past due)	6%	2,719	(162)
1-90 days past due	49%	1,154	(563)
91-180 days past due	85%	611	(522)
More than 180 days past due	100%	1,985	(1,985)
		6,469	(3,232)

For major corporate customers

	Expected loss rate	Gross carrying amount	Loss allowance
Current (not past due)	4%	8,538	(304)
Within 1 year past due	28%	7,954	(2,206)
1-2 years past due	71%	2,107	(1,500)
2-3 years past due	88%	1,132	(1,001)
More than 3 years past due	100%	1,927	(1,927)
		21,658	(6,938)

27. ACCOUNTS RECEIVABLE (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivable as at 31 December 2020:

For individual subscribers and general corporate customers

	Expected loss rate	Gross carrying amount	Loss allowance
Current (not past due)	6%	2,696	(161)
1-90 days past due	50%	1,195	(599)
91-180 days past due	90%	711	(637)
More than 180 days past due	100%	2,147	(2,147)
		6,749	(3,544)

For major corporate customers

	Expected loss rate	Gross carrying amount	Loss allowance
Current (not past due)	5%	6,641	(332)
Within 1 year past due	24%	7,899	(1,867)
1-2 years past due	68%	2,020	(1,382)
2-3 years past due	89%	942	(839)
More than 3 years past due	100%	1,758	(1,758)
		19,260	(6,178)

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

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27. ACCOUNTS RECEIVABLE (Continued)

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

	2021	2020
Balance, beginning of year	9,722	7,368
Allowance for the year	2,564	5,097
Written-off during the year	(2,116)	(2,743)
Balance, end of year	10,170	9,722

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

The maximum exposure to credit risk as of the statement of financial position date is the carrying value of accounts receivable mentioned above.

28. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	2021	2020
Prepaid services charges for transmission lines and electricity cables and other services		3,935	3,549
Prepaid power and water charges		766	625
Deposits and prepayments		3,581	3,607
VAT recoverable	(i)	6,193	5,726
Prepaid enterprise income tax		25	12
Others		3,425	2,363
		17,925	15,882

(i) VAT recoverable includes the input VAT and prepaid VAT that is expected to 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 2021 and 2020, there was no significant impairment for the prepayments and other current assets.

29. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2021	2020
Cash at bank and in hand	34,280	23,085

Cash and cash equivalents refer to all cash on hand and demand deposits, short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Reconciliation of liabilities arising from financing activities

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

	Short-term bank loans (Note 39)	Long-term bank loans (Note 33)	Commercial papers (Note 40)	Promissory notes (Note 34)	Corporate bonds (Note 35)	Lease liabilities (Note 36)	Other borrowings	Total
At 1 January 2021	740	2,900	7,000	998	2,999	27,961	8,212	50,810
Changes from financing cash flows:								
Proceeds from short-term bank loans and other obligations	385	—	—	—	—	—	300	685
Proceeds from commercial papers	—	—	6,800	—	—	—	—	6,800
Loans from a related party	—	—	—	—	—	—	207	207
Repayment of short-term bank loans	(740)	—	—	—	—	—	—	(740)
Repayment of commercial papers	—	—	(7,000)	—	—	—	—	(7,000)
Repayment of corporate bonds	—	—	—	—	(1,000)	—	—	(1,000)
Repayment of long-term bank loans	—	(763)	—	—	—	—	—	(763)
Repayment of related party loans	—	—	—	—	—	—	(2,507)	(2,507)
Payment of issuing expense for commercial papers	—	—	(5)	—	—	—	—	(5)
Capital element of lease rentals paid	—	—	—	—	—	(12,727)	—	(12,727)
Net deposits with Finance Company by related parties	—	—	—	—	—	—	980	980
Total changes from financing cash flows	(355)	(763)	(205)	—	(1,000)	(12,727)	(1,020)	(16,070)
Exchange adjustments	—	(31)	—	—	—	—	—	(31)
Other changes:								
Increase in lease liabilities from entering into new leases during the year	—	—	—	—	—	7,911	—	7,911
Decrease due to termination of lease contracts	—	—	—	—	—	(586)	—	(586)
Others	—	101	80	6	40	—	563	790
Total other changes	—	101	80	6	40	7,325	563	8,115
At 31 December 2021	385	2,207	6,875	1,004	2,039	22,559	7,755	42,824

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

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

	Short-term bank loans (Note 39)	Long-term bank loans (Note 33)	Commercial papers (Note 40)	Promissory notes (Note 34)	Corporate bonds (Note 35)	Lease liabilities (Note 36)	Other borrowings	Total
At 1 January 2020	5,564	3,306	8,995	998	2,998	32,325	7,979	62,165
Changes from financing cash flows:								
Proceeds from short-term bank loans	2,740	—	—	—	—	—	—	2,740
Proceeds from commercial papers	—	—	8,000	—	—	—	—	8,000
Repayment of short-term bank loans	(7,564)	—	—	—	—	—	—	(7,564)
Repayment of commercial papers	—	—	(10,000)	—	—	—	—	(10,000)
Repayment of long-term bank loans	—	(395)	—	—	—	—	—	(395)
Repayment of related party loans	—	—	—	—	—	—	(50)	(50)
Payment of issuing expense for commercial papers	—	—	(7)	—	—	—	—	(7)
Capital element of lease rentals paid	—	—	—	—	—	(11,696)	—	(11,696)
Net deposits with Finance Company by related parties	—	—	—	—	—	—	283	283
Total changes from financing cash flows	(4,824)	(395)	(2,007)	—	—	(11,696)	233	(18,689)
Exchange adjustments	—	(88)	—	—	—	—	—	(88)
Other changes:								
Increase in lease liabilities from entering into new leases during the year	—	—	—	—	—	8,170	—	8,170
Decrease due to termination of lease contracts	—	—	—	—	—	(838)	—	(838)
Others	—	77	12	—	1	—	—	90
Total other changes	—	77	12	—	1	7,332	—	7,422
At 31 December 2020	740	2,900	7,000	998	2,999	27,961	8,212	50,810

30. SHARE CAPITAL

Issued and fully paid:	Number of shares millions	Share capital
At 1 January 2020, at 31 December 2020 and at 31 December 2021	30,598	254,056

31. RESERVES

(a) Movement in components of equity

The Company

	Share capital	Investment revaluation reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2020	254,056	(8,033)	572	22,021	268,616
Total comprehensive income for the year	—	(1,453)	—	5,101	3,648
Dividends relating to 2019 final	—	—	—	(4,529)	(4,529)
Balance at 31 December 2020	254,056	(9,486)	572	22,593	267,735
Total comprehensive income for the year	—	114	—	265	379
Dividends relating to 2020 final	—	—	—	(5,018)	(5,018)
Dividends relating to 2021 interim	—	—	—	(3,672)	(3,672)
Balance at 31 December 2021	254,056	(9,372)	572	14,168	259,424

(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 statutory reserves, which are appropriated from profit after tax but before dividend distribution.

CUCL is required to allocate at least 10% of its profit after tax determined under the PRC Company Law to the statutory 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 RMB1,384 million (2020: approximately RMB1,246 million) to the statutory reserve fund for the year ended 31 December 2021.

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31. RESERVES (Continued)

(b) Nature and purpose (Continued)

(i) Statutory reserves (Continued)

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 HKFRSs, the appropriations to the staff bonus and welfare fund are charged to the consolidated statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2021 and 2020, no appropriation to staff bonus and welfare fund has been made by CUCL.

According to the PRC tax approval document issued by the MOF and the SAT of the PRC, the upfront connection fees were not subject to the PRC enterprise income tax and an amount equal to the upfront connection fees recognised in the retained profits had been transferred from retained profits to the statutory reserve. As at 31 December 2011, an accumulated appropriation of approximately RMB12,289 million was made to the statutory reserve and no more upfront connection fees are recognised afterwards.

(ii) General risk reserve

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

(iii) Investment revaluation reserve

The investment revaluation reserve represents the changes in fair value of financial assets measured at FVOCI (non-recycling), net of tax, until the financial assets are derecognised.

(iv) Other reserves

Other reserve mainly represents the difference between the consideration and the net assets value for business combination of entities and businesses under common control, the effect of CUCL's capitalisation of retained profits, and capital contribution relating to share-based payment borne by A Share Company.

32. DIVIDENDS

At the annual general meeting held on 13 May 2021, the shareholders of the Company approved the payment of a final dividend of RMB0.164 per ordinary share for the year ended 31 December 2020, totaling approximately RMB5,018 million which has been reflected as a reduction of retained profits for the year ended 31 December 2021.

At a meeting held on 19 August 2021, the Board of Directors of the Company declared the payment of an 2021 interim dividend of RMB0.120 per ordinary share to the shareholders totalling approximately RMB3,672 million. At a meeting held on 11 March 2022, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.096 per ordinary share to the shareholders for the year ended 31 December 2021 totaling approximately RMB2,937 million. The proposed final dividend has not been reflected as a dividend payable in the consolidated financial statements as at 31 December 2021, but will be reflected in the consolidated financial statements for the year ending 31 December 2022.

	2021	2020
Declared and paid interim dividend:		
RMB0.120 (2020: Nil) per ordinary share by the Company	3,672	—
Proposed final dividend:		
RMB0.096 (2020: RMB0.164) per ordinary share by the Company	2,937	5,018
	6,609	5,018

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 2021, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

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

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33. LONG-TERM BANK LOANS

Interest rates and final maturity		2021	2020
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (2020: 1.08% to 1.20%) per annum with maturity through 2036 (2020: maturity through 2036)	2,015	2,678
US dollars denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (2020: Nil to 1.55%) per annum with maturity through 2039 (2020: maturity through 2039)	178	204
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2020: 1.10% to 2.50%) per annum with maturity through 2034 (2020: maturity through 2034)	14	18
Sub-total		2,207	2,900
Less: Current portion		(372)	(418)
		1,835	2,482

As at 31 December 2021, long-term bank loans of approximately RMB42 million (2020: approximately RMB46 million) were guaranteed by third parties.

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

	2021	2020
Balances due:		
– No later than one year	372	418
– More than one year and no later than two years	362	444
– More than two years and no later than five years	830	1,072
– More than five years	643	966
	2,207	2,900
Less: Portion classified as current liabilities	(372)	(418)
	1,835	2,482

34. PROMISSORY NOTES

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

35. CORPORATE BONDS

On 7 June 2016, CUCL issued RMB1 billion 5-year corporate bonds, bearing interest at 3.43% per annum, and was fully repaid in June 2021.

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

36. LEASE LIABILITIES

At 31 December 2021 and 2020, the lease liabilities were repayable as follows:

	2021		2020	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	12,144	12,395	11,503	11,757
After 1 year but within 2 years	4,210	4,458	9,770	10,352
After 2 years but within 5 years	5,228	5,882	5,575	6,203
After 5 years	977	1,317	1,113	1,498
	10,415	11,657	16,458	18,053
Total lease liabilities	22,559	24,052	27,961	29,810
Less: total future interest expenses		(1,493)		(1,849)
Present value of lease liabilities		22,559		27,961

The total cash outflow for leases incurred by the Group for the year ended 31 December 2021 was RMB20,753 million (2020: RMB19,708 million).

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37. DEFERRED REVENUE

Deferred revenue mainly represents the unamortised portion of government grants.

	2021	2020
Balance at beginning of the year	5,927	4,851
Additions for the year		
— government grants	937	915
— others	1,795	1,204
Sub-total	2,732	2,119
Reductions for the year		
— recognition of government grants in profit or loss	(721)	(591)
— others	(987)	(452)
Sub-total	(1,708)	(1,043)
Balance at end of the year	6,951	5,927

38. OTHER OBLIGATIONS

	Note	2021	2020
One-off cash housing subsidies	(i)	2,493	2,496
Others	(ii)	1,124	131
Sub-total		3,617	2,627
Less: Current portion		(2,519)	(2,529)
		1,098	98

(i) 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.

38. OTHER OBLIGATIONS (Continued)

(i) One-off cash housing subsidies (Continued)

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 consolidated 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 2021, the Group's unpaid one-off cash housing subsidies amounted to approximately RMB2,493 million (2020: 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.

- (ii) Others mainly include the contributions from other investors of a subsidiary established by the Group in the form of limited partnership with fixed life. The balance of the contribution was classified as financial liabilities by the Group.

39. SHORT-TERM BANK LOANS

Interest rates and final maturity		2021	2020
RMB denominated bank loans	Fixed interest rates ranging from 1.80% to 1.85% (2020: 1.85%) per annum with maturity through 2022 (2020: maturity through 2021)	385	740

At 31 December 2021 and 2020, all short-term bank loans were unsecured.

40. COMMERCIAL PAPERS

On 15 July 2020, CUCL issued tranche one of 2020 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 180 days from the date of issue and which carries interest at 1.89% per annum, and was fully repaid in January 2021.

On 15 July 2020, CUCL issued tranche two of 2020 super short term commercial papers in an amount of RMB3 billion, with a maturity period of 180 days from the date of issue and which carries interest at 1.89% per annum, and was fully repaid in January 2021.

On 5 November 2020, CUCL issued tranche four of 2020 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 90 days from the date of issue and which carries interest at 2.17% per annum, and was fully repaid in February 2021.

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40. COMMERCIAL PAPERS (Continued)

On 23 June 2021, CUCL issued tranche one of 2021 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.80% per annum.

On 27 July 2021, CUCL issued tranche two of 2021 super short term commercial papers in an amount of RMB3 billion, with a maturity period of 180 days from the date of issue and which carries interest at 2.23% per annum, and was fully repaid in January 2022.

On 27 July 2021, CUCL issued tranche three of 2021 super short term commercial papers in an amount of RMB1.8 billion, with a maturity period of 180 days from the date of issue and which carries interest at 2.23% per annum, and was fully repaid in January 2022.

41. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Payables to contractors and equipment suppliers	75,014	73,046
Payables to telecommunications products suppliers	4,281	3,779
Customer/contractor deposits	5,128	5,723
Repair and maintenance expense payables	6,587	5,261
Salary and welfare payables	13,196	12,248
Amounts due to technical support services and other service providers/content providers	5,822	4,852
VAT received from customer in advance	3,709	2,746
Accrued expenses	19,098	17,186
Others	7,289	9,596
	140,124	134,437

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

	2021	2020
Less than six months	119,332	116,553
Six months to one year	7,199	8,846
More than one year	13,593	9,038
	140,124	134,437

42. 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 US dollars 1 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 US dollars 500 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 US dollars 500 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 2021, the related financial assets measured at FVOCI amounted to approximately RMB1,786 million (2020: approximately RMB1,672 million). For the year ended 31 December 2021, the increase in fair value of the financial assets measured at FVOCI was approximately RMB114 million (2020: decrease of approximately RMB1,453 million), has been recorded in the consolidated statement of comprehensive income.

43. EQUITY-SETTLED SHARE OPTION SCHEMES

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Under the 2014 Share Option Scheme, the share options may be granted to employees including all directors; any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders. As at 31 December 2021, 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 HK dollars 1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

- (i) The closing price of the shares on the SEHK on the offer date in respect of the share options; and
- (ii) The average closing price of the shares on the SEHK for the five trading days immediately preceding the offer date;

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

No options are outstanding as at 31 December 2021 and 2020.

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44. RESTRICTED A-SHARE INCENTIVE SCHEME

Pursuant to the share incentive scheme (Phase I) of A Share Company (the "Phase I Restricted A-Share Incentive Scheme"), not more than 848 million restricted shares of A Share Company (the "Phase I Restricted Shares") were approved for granting to the core employees of the Group, the first batch granted Phase I Restricted Shares of 793,861,000 and second batch granted Phase I Restricted Shares of 13,156,000 were subscribed by them (the "Participants", including certain core employees of the Company's subsidiaries) on 21 March 2018 and 1 February 2019 (the "Grant Dates"), respectively, with a subscription price of RMB3.79 per share. The fair value of the Phase I Restricted Shares granted under the respective Grant Dates is RMB2.34 and RMB1.57 per share, respectively, as determined based on the difference between the market price of A Share Company of RMB6.13 per share and RMB5.36 per share at the respective Grant Dates, and the subscription price of RMB3.79 per share.

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

Subject to fulfilment of all service and performance conditions under the Phase I Restricted A-Share Incentive Scheme which include the achievement of certain revenue and profit targets of A Share Company, the Participants' individual performance appraisal, etc. (collectively referred to as "vesting conditions"), the restriction over the Phase I Restricted Shares will be removed after the expiry of the corresponding Lock-Up Period for each tranche and the Participants will be fully entitled to these incentive shares. If the vesting conditions are not fulfilled and hence the Phase I Restricted Shares cannot be unlocked, A Share Company shall repurchase the Phase I Restricted Shares based on the respective subscription price from the Participants.

Pursuant to the Phase I Restricted A-Share Incentive Scheme, the second Lock-Up Period of approximately 3 years for the first batch as well as the first Lock-Up Period of approximately 2 years for the second batch have expired in April 2021. During the year ended 31 December 2021, with the fulfilment of the vesting conditions, the Phase I Restricted Shares of 218,379,125 in aggregate were approved for unlocking after the expiry of the Lock-Up Period by the Board of Directors of A Share Company.

During the year ended 31 December 2021, the Phase I Restricted Shares of 24,202,275 (2020: 18,110,200) were forfeited and repurchased.

For the year ended 31 December 2021, the Group recognised share-based payment expenses and other reserves of RMB136 million under the Phase I Restricted A-Share Incentive Scheme (2020: RMB375 million).

45. MATERIAL RELATED PARTY TRANSACTIONS

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

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

Management considers certain state-owned enterprises have material transactions with the Group in its ordinary course of business, which include but not limited to 1) rendering and receiving telecommunications services, including interconnection revenue/charges; 2) sharing certain telecommunications network infrastructure; 3) purchasing of goods, including use of public utilities; and 4) placing of bank deposits and borrowing money. The Group's telecommunications network depends, in large part, on interconnection with the network and on transmission lines service provided by other domestic carriers. These transactions are mainly carried out on terms comparable to those conducted with third parties or standards promulgated by relevant government authorities and have been reflected in the financial statements. Amounts due from domestic carriers are all derived from contracts with customers.

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

45.1 Connected transactions with Unicom Group and its subsidiaries other than the Group ("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	2021	2020
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	274	188
Rental charges for short-term property leasing and related services charges	(i), (iii)	1,039	999
Charges for short-term lease of telecommunications resources and related services	(i), (iv)	270	283
Charges for engineering design and construction services	(i), (v)	2,337	2,034
Charges for shared services	(i), (vi)	86	77
Charges for materials procurement services	(i), (vii)	28	47
Charges for ancillary telecommunications services	(i), (viii)	2,587	2,735
Charges for comprehensive support services	(i), (ix)	1,224	979
Income from comprehensive support services	(i), (ix)	193	229
Lending by Finance Company to Unicom Group and its subsidiaries	(i), (xi)	11,400	16,500
Repayment of loans lending by Finance Company to Unicom Group and its subsidiaries	(i), (xi)	11,500	13,704
Interest income from lending services	(i), (xi)	357	387

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45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

45.1 Connected transactions with Unicom Group and its subsidiaries other than the Group (“Unicom Group and its subsidiaries”) (Continued)

(a) Recurring transactions (Continued)

- (i) On 21 October 2019, CUCL and Unicom Group entered into the “2020–2022 Comprehensive Services Agreement” to renew certain continuing connected transactions. The services are existing continuing connected transactions and their respective terms are substantially the same as those set out in the previous agreement: “2017–2019 Comprehensive Services Agreement” signed on 25 November 2016, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for those transactions have not been changed under the new agreement as compared to the year ended 31 December 2020.
- (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.
- (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 years ended 31 December 2021 and 2020, the services charges paid by Unicom Group to CUCL was negligible.

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

45.1 Connected transactions with Unicom Group and its subsidiaries other than the Group (“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, short-term facilities leasing services (excluding those facilities mentioned in (iv) above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services). The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.
- (x) Unicom Group is the registered proprietor of the “Unicom” trademark in English and the trademark bearing the “Unicom” logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark licence agreement between Unicom Group and the Group, the Group has been granted the right to use these trademarks on a royalty free and renewal basis.
- (xi) Finance Company has agreed to provide financial services to Unicom Group and its subsidiaries, including deposit services, lending and other credit services, and other financial services.

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

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45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

45.1 Connected transactions with Unicom Group and its subsidiaries other than the Group (“Unicom Group and its subsidiaries”) (Continued)

(b) Amounts due from Unicom Group and its subsidiaries

Amount due from Unicom Group as at 31 December 2021 included loans from Finance Company to Unicom Group of RMB10,400 million in total with respective floating interest rate of Loan Prime Rate (“LPR”) published by the National Interbank Funding Center (“NIFC”) (2020: RMB10,500 million in total with respective floating interest rate of LPR published by NIFC).

45.2 Related party transactions with Tower Company

(a) Related Party transactions

(i) *Lease of the Tower Assets and other related services*

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

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

Based on HKFRS 16, the minimum amount of lease payments payable by the Group under the terms of the arrangement in connection with its use of telecommunications towers and related assets had resulted in recognition of a lease liability with the balance of RMB12,407 million (2020: RMB17,837 million), and a right-of-use asset with the balance of RMB11,807 million (2020: RMB17,005 million) as of 31 December 2021. In addition, the Group recognised additions of right-of-use assets in 2021 amounting to RMB2,737 million (2020: RMB3,035 million), recorded depreciation of right-of-use asset of RMB7,480 million (2020: RMB7,088 million), interest expense of RMB575 million (2020: RMB757 million), and variable lease payments and other related service charges of RMB10,900 million (2020: RMB11,246 million) in its consolidated statement of income for the year ended 31 December 2021.

The related accounts payable and bills payable balance (exclude lease liabilities) to Tower Company included in the balance of amounts due to related parties as at 31 December 2021 was RMB6,102 million (2020: RMB5,908 million).

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

45.2 Related party transactions with Tower Company (Continued)

(a) Related Party transactions (Continued)

(ii) *Income from data and internet application services and engineering design and construction services*

The Group provide data and internet application services and engineering design and construction services, including system integration and engineering design services to Tower Company. Income for the year ended 31 December 2021 was RMB306 million (2020: RMB295 million).

Except as mentioned in 45.2(a)(i), amounts due from/to Tower Company are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Tower Company as described above.

45.3 Other related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

	Note	2021	2020
Transactions with Unicom Group and its subsidiaries:			
Interest expenses on unsecured entrusted loan	(i)	61	132
Borrowing of loan	(i)	207	—
Repayment of loan	(i)	2,507	—
Net deposits with Finance Company	(ii)	978	233
Interest expenses on the deposits in Finance Company	(ii)	80	74

(i) On 26 December 2018, the Group borrowed an unsecured entrusted loan from A Share Company of RMB3,042 million with a maturity period of 5 years and interest rate at 4.28% per annum. The Group partially repaid this loan amounting to RMB2,300 million for the current year.

On 21 May 2021, the Group borrowed an unsecured entrusted loan from Unicom Group BVI of HK dollars 250 million (equivalent to RMB207 million) with a maturity period of 1 year and floating interest rate at six-month Hong Kong Interbank Offered Rate plus 0.9%. The Group fully repaid this loan for the current year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in RMB millions unless otherwise stated)

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

45.3 Other related party transactions with Unicom Group and its subsidiaries (Continued)

(b) Amounts due to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as at 31 December 2021 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB6,090 million with interest rates ranging from 0.42% to 2.75% per annum for saving and deposits of different terms (2020: RMB5,112 million with interest rates ranging from 0.42% to 2.75% per annum).

Amount due to Unicom Group and its subsidiaries as at 31 December 2021 included a balance of unsecured entrusted loan from A Share Company of RMB742 million with a maturity period of 5 years and interest rate at 4.28% per annum (2020: RMB3,042 million with a maturity period of 5 years and interest rate at 4.28% per annum).

46. CONTINGENCIES AND COMMITMENTS

46.1 Capital commitments

As at 31 December 2021 and 2020, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2021			2020		
	Land and buildings	Equipment	Total	Land and buildings	Equipment	Total
Authorised and contracted for	2,192	23,921	26,113	2,582	23,500	26,082
Authorised but not contracted for	8,154	45,654	53,808	8,314	39,487	47,801
	10,346	69,575	79,921	10,896	62,987	73,883

46.2 Contingent liabilities

As at 31 December 2021, the Group had no material contingent liabilities and no material financial guarantees issued.

47. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2021	2020
ASSETS		
Non-current assets		
Equipment	1	3
Investments in subsidiaries	237,426	237,426
Loan to a subsidiary	11,644	5,300
Right-of-use assets	43	10
Financial assets measured at fair value	1,786	1,672
	250,900	244,411
Current assets		
Current portion of loan to a subsidiary	—	6,492
Amounts due from subsidiaries	161	215
Dividend receivable	7,670	15,617
Prepayments and other current assets	52	171
Cash and cash equivalents	764	989
	8,647	23,484
Total assets	259,547	267,895
EQUITY		
Share capital	254,056	254,056
Reserves	(8,800)	(8,914)
Retained profits		
— Proposed final dividend	2,937	5,018
— Others	11,231	17,575
Total equity	259,424	267,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in RMB millions unless otherwise stated)

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

	As at 31 December	
	2021	2020
LIABILITIES		
Non-current liabilities		
Lease liabilities	16	—
Other non-current liabilities	4	—
	20	—
Current liabilities		
Lease liabilities	24	10
Accounts payable and accrued liabilities	79	89
Loan from a subsidiary	—	60
Amount due to a subsidiary	—	1
	103	160
Total liabilities	123	160
Total equity and liabilities	259,547	267,895
Net current assets	8,544	23,324
Total assets less current liabilities	259,444	267,735

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 11 March 2022 and signed on behalf of the Board by:

Liu Liehong
Director

Li Yuzhuo
Director

48. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD**Proposed final dividend**

After the statement of financial position date, the Board of Directors proposed a final dividend for the year of 2021. For details, please refer to Note 32.

49. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 11 March 2022.