

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the “Company”) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice, TD-LTE cellular voice, LTE FDD cellular voice and related value-added services are referred to as the “mobile service”, the services aforementioned other than the mobile service are hereinafter collectively referred to as the “fixed-line service”. The Company and its subsidiaries are hereinafter referred to as the “Group”. The address of the Company’s registered office is 75th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

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

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

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard (“IAS”) 34, “Interim financial reporting” issued by the International Accounting Standards Board (“IASB”). IAS 34 is consistent with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accordingly this unaudited condensed consolidated interim financial information is also prepared in accordance with HKAS 34.

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

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016. The Group’s policies on financial risk management, including management of market risk, credit risk and liquidity risk, as well as capital risk management, were set out in the financial statements included in the Company’s 2016 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2017.

The financial information relating to the year ended 31 December 2016 that is included in this interim financial report of 2017 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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### 2. BASIS OF PREPARATION (Continued)

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

#### (a) Going Concern Assumption

As at 30 June 2017, current liabilities of the Group exceeded current assets by approximately RMB233.4 billion (31 December 2016: approximately RMB260.4 billion). Given the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Approximately RMB339.8 billion of revolving banking facilities and registered quota of corporate bonds, of which approximately RMB216.2 billion was unutilised as at 30 June 2017;
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2017 have been prepared on a going concern basis.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The IASB and HKICPA has issued a number of amendments to International Financial Reporting Standards ("IFRSs")/Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

In addition, the IASB and HKICPA also published a number of new standards, amendments to standards and interpretations which are effective for the financial year beginning after 1 January 2017 and have not been early adopted by the Group except IFRS/HKFRS 9 (2010), "Financial instruments". The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements.

#### IFRS/HKFRS 15, "Revenue from contracts with customers"

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

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### IFRS/HKFRS 9 (2014), "Financial Instruments"

Compared with IFRS/HKFRS 9 (2010), IFRS/HKFRS 9 (2014) includes the new expected credit losses model for impairment of financial assets, the new general hedge accounting requirements and limited amendments to the classification and measurement of financial assets.

#### IFRS/HKFRS 16, "Leases"

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

The Group does not plan to early adopt the above new standards or amendments. With respect to IFRS/HKFRS 15, IFRS/HKFRS 9 (2014) and IFRS/HKFRS 16, given the Group has not completed its assessment of their full impact on the Group's financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

### 4. SEGMENT INFORMATION

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

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

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

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**5. REVENUE**

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

The major components of revenue are as follows:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
Mobile service		
— Usage and monthly fees	<b>16,314</b>	20,237
— Value-added services revenue	<b>54,590</b>	46,214
— Interconnection fees	<b>5,345</b>	5,760
— Other mobile service revenue	<b>595</b>	829
<b>Total service revenue from mobile service</b>	<b>76,844</b>	73,040
Fixed-line service		
— Usage and monthly fees	<b>4,458</b>	5,003
— Broadband, data and other Internet-related services revenue	<b>30,782</b>	30,176
— Interconnection fees	<b>1,727</b>	1,701
— Value-added services revenue	<b>1,666</b>	2,438
— Leased line income	<b>5,369</b>	5,214
— Information communications technology services revenue	<b>1,867</b>	1,616
— Other fixed-line service revenue	<b>699</b>	419
<b>Total service revenue from fixed-line service</b>	<b>46,568</b>	46,567
Other service revenue	<b>694</b>	643
<b>Total service revenue</b>	<b>124,106</b>	120,250
Sales of telecommunications products	<b>14,054</b>	20,005
	<b>138,160</b>	140,255

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### 6. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	Six months ended 30 June	
		2017	2016
Repairs and maintenance		4,836	5,570
Power and water charges		7,168	6,777
Operating lease charges for network, premises, equipment and facilities		5,139	4,824
Operating lease and other service charges to Tower Company	31.2	8,418	7,723
Others		804	730
		<b>26,365</b>	25,624

### 7. EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2017	2016
Salaries and wages	15,123	13,598
Contributions to defined contribution pension schemes	2,685	2,559
Contributions to medical insurance	929	877
Contributions to housing fund	1,327	1,227
Other housing benefits	10	10
	<b>20,074</b>	18,271

### 8. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	Six months ended 30 June	
	2017	2016
Handsets and other telecommunication products	14,515	21,551
Others	123	202
	<b>14,638</b>	21,753

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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### 9. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
Impairment losses for doubtful debts and write-down of inventories	2,470	2,069
Cost in relation to information communications technology services	1,425	1,206
Commission expenses	11,150	12,107
Customer acquisition cost and advertising and promotion expenses	1,698	1,407
Customer installation cost	1,742	1,983
Customer retention cost	1,507	1,633
Property management fee	1,059	1,067
Office and administrative expenses	759	807
Transportation expense	763	769
Miscellaneous taxes and fees	643	448
Technical support expenses	973	858
Repairs and maintenance expenses	349	351
Loss on disposal of property, plant and equipment	1,087	798
Others	1,568	1,454
	<b>27,193</b>	<b>26,957</b>

### 10. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
Finance costs:		
— Interest on bank loans repayable within 5 years	1,685	1,369
— Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	1,429	1,333
— Interest on related party loans repayable within 5 years	18	30
— Interest on bank loans repayable over 5 years	30	26
— Less: Amounts capitalised in Construction-in-progress ("CIP")	(366)	(394)
Total interest expense	2,796	2,364
— Exchange loss/(gain), net	162	(78)
— Others	172	182
	<b>3,130</b>	<b>2,468</b>

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### 11. OTHER INCOME — NET

	Six months ended 30 June	
	2017	2016
Dividend income from financial assets at fair value through other comprehensive income	99	188
Others	312	388
	411	576

### 12. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2016: 16.5%) on the estimated assessable profits for the six months ended 30 June 2017. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2017 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2016: 25%). Taxation for certain subsidiaries in PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2016: 15%).

	Six months ended 30 June	
	2017	2016
Provision for income tax on estimated taxable profits for the period		
— Hong Kong	22	35
— Mainland China and other countries	528	1,285
	550	1,320
Deferred taxation	444	(925)
	994	395

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### 12. TAXATION (Continued)

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

	Note	Six months ended 30 June	
		2017	2016
Profit before taxation		3,417	1,824
Expected income tax expense at PRC statutory tax rate of 25%		854	456
Impact of different tax rate outside mainland China		(11)	(18)
Tax effect of preferential tax rate	(i)	(49)	(29)
Tax effect of non-deductible expenses		210	54
Investment in joint ventures		(65)	(15)
Investment in associates	(ii)	(77)	84
Under/(Over)-provision in respect of prior years		8	(41)
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	4	(30)
Others		120	(66)
Actual tax expense		994	395

- (i) According to the PRC enterprise income tax law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Certain subsidiaries of the Group obtained the approval of High and New Technology Enterprise and were entitled to a preferential income tax rate of 15%.
- (ii) Adjustment to investment in associates represents the tax effect on share of net profit/(loss) of associates, excluding reversal of deferred tax assets on unrealised profit from transactions with Tower Company.
- (iii) As at 30 June 2017, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB2,638 million (31 December 2016: approximately RMB2,622 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired by 2021.

As at 30 June 2017, the Group did not recognise deferred tax assets of RMB1,742 million (31 December 2016: RMB1,832 million) in respect of changes in fair value on financial assets through other comprehensive income, since it is not probable that the related tax benefit will be realised.



## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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### 12. TAXATION (Continued)

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

	Note	Six months ended 30 June	
		2017	2016
Net deferred income tax assets after offsetting:			
— Beginning of period		5,986	5,642
— Deferred tax (charged)/credited to the statement of income		(447)	923
— Deferred tax (charged)/credited to other comprehensive income		(1)	5
— Reclassified from current taxes payable	(i)	—	(1,304)
— End of period		5,538	5,266
Net deferred income tax liabilities after offsetting:			
— Beginning of period		(113)	(18)
— Deferred tax credited to the statement of income		3	2
— End of period		(110)	(16)

- (i) On 14 October 2015, The Group disposed tower assets ("Tower Assets Disposal") to China Tower Corporation Limited ("Tower Company") in exchange for cash and shares issued by Tower Company. According to the applicable tax laws issued by the Ministry of Finance and the State Administration of Taxation ("SAT") of the PRC, the gain from Tower Assets Disposal in exchange for investment in Tower Company ("Qualified Income") is, upon fulfilling the filing requirement with in-charge tax bureau, eligible to be deferred and treated as taxable income on a straight-line basis over a period not exceeding five years. Before completing the filing, the Group accrued current taxes payable based on the total gain from Tower Asset Disposal. During the period ended 30 June 2016, the Group successfully completed the filing requirement with in-charge tax bureau with respect to the Qualified Income and since then has become eligible for deferring part of tax liability with respect to the Qualified Income, which would be reversed in the four years from 2016 to 2019. Accordingly, a balance of RMB1,304 million was reclassified from current taxes payable to net deferred tax assets as at 30 June 2016, and RMB187 million was reversed during the six-month-period ended 30 June 2017.

### 13. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2017 and 2016 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2017 and 2016 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. No dilutive potential ordinary shares existed for the six months ended 30 June 2017 and 2016.

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### 13. EARNINGS PER SHARE (Continued)

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

	Six months ended 30 June	
	2017	2016
Numerator (in RMB millions): Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	2,415	1,429
Denominator (in millions): Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	23,947	23,947
Basic/Diluted earnings per share (in RMB)	0.10	0.06

### 14. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2017 and 2016 are as follows:

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

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### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Six months ended 30 June 2016					Total
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	
Cost:						
Beginning of period	62,969	838,995	19,464	3,878	97,601	1,022,907
Additions	45	165	89	97	16,914	17,310
Transfer from CIP	1,165	31,192	253	208	(32,818)	—
Transfer to other assets	—	—	—	—	(1,630)	(1,630)
Disposals	(24)	(19,830)	(295)	(111)	(1)	(20,261)
End of period	64,155	850,522	19,511	4,072	80,066	1,018,326
Accumulated depreciation and impairment:						
Beginning of period	(26,612)	(525,244)	(14,059)	(2,256)	(105)	(568,276)
Charge for the period	(1,311)	(31,133)	(752)	(344)	—	(33,540)
Disposals	24	18,215	274	87	1	18,601
End of period	(27,899)	(538,162)	(14,537)	(2,513)	(104)	(583,215)
Net book value:						
End of period	36,256	312,360	4,974	1,559	79,962	435,111
Beginning of period	36,357	313,751	5,405	1,622	97,496	454,631

For the six months ended 30 June 2017, the Group recognised a loss on disposal of property, plant and equipment of approximately RMB1,087 million (for the six months ended 30 June 2016: loss of approximately RMB798 million).

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### 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<b>30 June 2017</b>	31 December 2016
Listed in the PRC	157	147
Listed outside the PRC	4,498	4,138
Unlisted	41	41
	<b>4,696</b>	4,326

For the six months ended 30 June 2017, increase in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB370 million (for the six months ended 30 June 2016: decrease of approximately RMB679 million). The increase, together with tax impact, of approximately RMB369 million (for the six months ended 30 June 2016: decrease, together with tax impact, of approximately RMB674 million) were recorded in the unaudited condensed consolidated interim statement of comprehensive income.

### 16. OTHER ASSETS

	Note	<b>30 June 2017</b>	31 December 2016
Intangible assets		10,417	11,120
Prepaid rental for premises, leased lines and electricity cables		2,843	2,854
Installation costs		337	388
Direct incremental costs for activating broadband subscribers	(i)	5,851	7,690
Receivables for the sales of mobile handsets, net of allowance	(ii)	1,132	1,432
VAT recoverable	(iii)	1,000	307
Others		935	1,088
		<b>22,515</b>	24,879

- (i) Direct incremental costs for activating broadband subscribers mainly include the costs of installing broadband terminals at customer's homes for the provision of broadband service. Such costs are amortised over the estimated service period.
- (ii) The amount includes receivables for the sales of mobile handsets that are gradually recovered over one year during the contract period. Receivables to be gradually recovered within one year are included in prepayments and other current assets (see Note 19(ii)).
- (iii) VAT recoverable includes input VAT and prepaid VAT which will likely be deducted beyond one year. VAT recoverable which will be deducted within one year are included in prepayments and other current assets (see Note 19(ii)).

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### 17. INVENTORIES AND CONSUMABLES

	<b>30 June 2017</b>	31 December 2016
Handsets and other telecommunication products	1,510	2,163
Consumables	70	59
Others	212	209
	<b>1,792</b>	2,431

### 18. ACCOUNTS RECEIVABLE

	<b>30 June 2017</b>	31 December 2016
Accounts receivable	24,645	19,088
Less: Allowance for doubtful debts	(7,645)	(5,466)
	<b>17,000</b>	13,622

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

	<b>30 June 2017</b>	31 December 2016
Within one month	7,897	6,557
More than one month to three months	3,953	3,181
More than three months to one year	3,803	2,869
More than one year	1,347	1,015
	<b>17,000</b>	13,622

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

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

As at 30 June 2017, accounts receivable of approximately RMB13,404 million (31 December 2016: approximately RMB9,626 million) were neither past due nor impaired. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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### 18. ACCOUNTS RECEIVABLE (Continued)

Accounts receivable of approximately RMB1,778 million (31 December 2016: approximately RMB1,890 million) were past due but not impaired. Such overdue amounts can be recovered based on past experience. The aging analysis of these receivables is as follows:

	<b>30 June 2017</b>	31 December 2016
More than one month to three months	<b>1,285</b>	1,369
More than three months to one year	<b>207</b>	213
More than one year	<b>286</b>	308
	<b>1,778</b>	1,890

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

### 19. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	<b>30 June 2017</b>	31 December 2016
Receivables for the sales of mobile handsets, net of allowance	(i)	<b>2,793</b>	3,266
Prepaid rental		<b>2,330</b>	2,334
Deposits and prepayments		<b>1,588</b>	1,876
Advances to employees		<b>23</b>	15
VAT recoverable	(ii)	<b>4,692</b>	4,952
Prepaid enterprise income tax		<b>401</b>	208
Others		<b>1,514</b>	1,372
		<b>13,341</b>	14,023

(i) The Group offers preferential packages to the customers which include the bundle sales of mobile handsets and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. For those contractual preferential packages which the prepaid amounts from customers less than the fair value of the mobile handsets, the revenue relating to the sale of the handsets is recognised when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handsets. The receivable for the sales of mobile handsets is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered beyond one year amounted to RMB1,132 million (31 December 2016: RMB1,432 million), and are included in long term other assets (see Note 16(ii)).

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

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

As at 30 June 2017, there was no significant impairment for the prepayments and other current assets.

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(All amounts in RMB millions unless otherwise stated)

### 20. SHARE CAPITAL

<b>Issued and fully paid:</b>	<b>Number of shares millions</b>	<b>Share capital</b>
<b>At 1 January 2016, at 31 December 2016 and at 30 June 2017</b>	23,947	179,102

### 21. DIVIDENDS

The Board has resolved not to pay a final dividend for the year ended 31 December 2016 (for the year ended 31 December 2015: final dividend of RMB0.17 per ordinary share, totaling approximately RMB4,071 million, which has been reflected as a reduction of retained profits for the six months ended 30 June 2016). Among the dividend payable of approximately RMB920 million was due to Unicom BVI as at 30 June 2017.

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from SAT, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2017 and 31 December 2016, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's unaudited condensed consolidated financial information for the undistributed profits of the Company's subsidiaries in the PRC.

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

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 22. LONG-TERM BANK LOANS

	<b>Interest rates and final maturity</b>	<b>30 June 2017</b>	31 December 2016
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 4.75% (31 December 2016: 1.08% to 1.20%) per annum with maturity through 2036 (31 December 2016: maturity through 2036)	5,476	4,246
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (31 December 2016: Nil to 1.55%) per annum with maturity through 2039 (31 December 2016: maturity through 2039)	302	321
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2016: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2016: maturity through 2034)	83	89
Sub-total		5,861	4,656
Less: Current portion		(451)	(161)
		5,410	4,495

As at 30 June 2017, long-term bank loans of approximately RMB66 million (31 December 2016: approximately RMB70 million) were guaranteed by third parties.

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

	<b>30 June 2017</b>	31 December 2016
Balances due:		
— no later than one year	451	161
— later than one year and no later than two years	560	385
— later than two years and no later than five years	2,211	1,047
— later than five years	2,639	3,063
Less: Portion classified as current liabilities	(451)	(161)
	5,410	4,495



## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 23. PROMISSORY NOTES

On 3 April 2014, the Company established a Medium Term Note Programme (the "MTN Programme"), under which the Company could offer and issue notes of aggregate principal amount of up to RMB10 billion. Notes under the MTN Programme (the "Notes") will be denominated in RMB and are to be issued to professional investors outside the United States. On 16 April 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB4 billion pursuant to the MTN Programme, with a maturity of 3 years and at an interest rate of 4.00% per annum, and was fully repaid in April 2017. On 24 July 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB2.5 billion with a maturity period of 2 years and at an interest rate of 3.80% per annum, and was fully repaid in July 2016.

On 16 April 2014, China United Network Communications Corporation Limited ("CUCL") issued tranche one of 2014 promissory notes in the amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interests at 5.35% per annum, and was fully repaid in April 2017.

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

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

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

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

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

### 24. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.50% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited, and was fully repaid in June 2017.

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

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

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 25. SHORT-TERM BANK LOANS

	<b>Interest rates and final maturity</b>	<b>30 June 2017</b>	31 December 2016
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 5.80% (31 December 2016: 2.35% to 4.35%) per annum with maturity through 2018 (31 December 2016: maturity through 2017)	<b>99,057</b>	76,994
		<b>99,057</b>	76,994

### 26. COMMERCIAL PAPERS

On 3 June 2016, CUCL issued tranche three of 2016 super short term commercial papers in an amount of RMB6 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.72% per annum, and was fully repaid in February 2017.

On 12 July 2016, CUCL issued tranche four of 2016 super short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.55% per annum, and was fully repaid in April 2017.

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

On 24 November 2016, CUCL issued tranche six of 2016 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 180 days from the date of issue and which carries interest at 3.00% per annum, and was fully repaid in May 2017.

On 24 November 2016, CUCL issued tranche seven of 2016 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 180 days from the date of issue and which carries interest at 3.00% per annum, and was fully repaid in May 2017.

On 20 April 2017, CUCL issued tranche one of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 90 days from the date of issue and which carries interest at 3.90% per annum.

On 26 April 2017, CUCL issued tranche two of 2017 super short term commercial papers in an amount of RMB4 billion, with a maturity period of 90 days from the date of issue and which carries interest at 3.95% per annum.

On 11 May 2017, CUCL issued tranche three of 2017 super short term commercial papers in an amount of RMB6 billion, with a maturity period of 90 days from the date of issue and which carries interest at 4.40% per annum.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 27. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>30 June 2017</b>	31 December 2016
Payables to contractors and equipment suppliers	<b>80,072</b>	105,674
Payables to telecommunications products suppliers	<b>4,037</b>	5,005
Customer/contractor deposits	<b>5,117</b>	4,869
Repair and maintenance expense payables	<b>5,271</b>	4,795
Bills payable	<b>1,732</b>	68
Salary and welfare payables	<b>4,949</b>	2,798
Interest payables	<b>1,331</b>	1,303
Amounts due to service providers/content providers	<b>1,793</b>	1,412
Accrued expenses	<b>13,700</b>	12,583
Others	<b>4,700</b>	4,717
	<b>122,702</b>	143,224

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

	<b>30 June 2017</b>	31 December 2016
Less than six months	<b>98,581</b>	120,191
Six months to one year	<b>11,920</b>	11,689
More than one year	<b>12,201</b>	11,344
	<b>122,702</b>	143,224

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

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

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

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.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

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

As at 30 June 2017, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,498 million (31 December 2016: approximately RMB4,138 million). For the six months ended 30 June 2017, the increase in fair value of the financial assets through other comprehensive income was approximately RMB360 million (for the six months ended 30 June 2016: decrease of approximately RMB659 million), has been recorded in the unaudited condensed consolidated interim statement of comprehensive income.

### 29. EQUITY-SETTLED SHARE OPTION SCHEMES

On 16 April 2014, the Company adopted a share option scheme (“the 2014 Share Option Scheme”). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. No share options had been granted since adoption of the 2014 Share Option Scheme.

No options outstanding as at 30 June 2017 and 2016.

### 30. FAIR VALUE ESTIMATION

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

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

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

- Level 1 valuations: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs for which market data are not available
- Level 3 valuations: fair value measured using significant unobservable inputs

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 30. FAIR VALUE ESTIMATION (Continued)

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

The following table presents the Group's assets that are measured at fair value at 30 June 2017:

	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurement</b>				
Financial assets at fair value through other comprehensive income				
— Equity securities				
— Listed	4,655	—	—	4,655
— Unlisted	—	—	41	41
	4,655	—	41	4,696
Financial assets at fair value through profit and loss				
— Equity securities				
— Unlisted	—	—	131	131
<b>Total</b>	<b>4,655</b>	<b>—</b>	<b>172</b>	<b>4,827</b>

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

	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurement</b>				
Financial assets at fair value through other comprehensive income				
— Equity securities				
— Listed	4,285	—	—	4,285
— Unlisted	—	—	41	41
	4,285	—	41	4,326
Prepayments and other current assets				
— Equity securities				
— Unlisted	—	—	123	123
<b>Total</b>	<b>4,285</b>	<b>—</b>	<b>164</b>	<b>4,449</b>

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

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 30. FAIR VALUE ESTIMATION (Continued)

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

During the six months ended 30 June 2017 and 2016, there was no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 30 June 2017 and 31 December 2016. Their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts	Fair values	Fair value measurements as at			Carrying amounts	Fair value
	as at	as at	30 June 2017 categorised into			as at	as at
	30 June	30 June	Level 1	Level 2	Level 3	31 December	31 December
	2017	2017				2016	2016
Non-current portion of long-term bank loans	5,410	5,089	—	5,089	—	4,495	4,339
Non-current portion of promissory notes	9,956	10,032	10,032	—	—	17,906	18,031
Non-current portion of corporate bonds	17,975	17,818	17,818	—	—	17,970	17,989

The fair value of the non-current portion of long-term bank loans is based on cash flows discounted using rates based on the market rates ranging from 0.86% to 4.84% (31 December 2016: 1.28% to 4.48%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 30 June 2017 and 31 December 2016 due to the nature or short maturity of those instruments.

### 31. RELATED PARTY TRANSACTIONS

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

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

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

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

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 31. RELATED PARTY TRANSACTIONS (Continued)

#### 31.1 Connected transactions with Unicom Group and its subsidiaries

##### (a) Recurring transactions

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group and its subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Note	Six months ended 30 June	
		2017	2016
<b>Transactions with Unicom Group and its subsidiaries:</b>			
Charges for value-added telecommunications services	(i)	11	18
Rental charges for property leasing	(i)	505	490
Charges for lease of telecommunications resources	(i)	139	116
Charges for engineering design and construction services	(i)	957	1,938
Charges for shared services	(i)	42	52
Charges for materials procurement services	(i)	16	40
Charges for ancillary telecommunications services	(i)	1,271	1,272
Charges for comprehensive support services	(i)	619	715
Income from comprehensive support services	(i)	12	3
Unsecured entrusted loan from Unicom Group	(i)	1,344	—
Interest expenses on unsecured entrusted loan	(i)	18	30
Net withdrawals of deposits placed with Finance Company by Unicom Group and its subsidiaries	(i)(ii)	(363)	—
Interest expenses on the deposits	(i)(ii)	17	—
Lending by Finance Company to Unicom Group	(i)(ii)	200	—
Interest income from lending services	(i)(ii)	1	—

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

(ii) China Unicom Finance Company Limited ("Finance Company") has agreed to provide financial services to Unicom Group and its subsidiaries, including deposit services, lending and other credit services, and other financial services.

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

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

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 31. RELATED PARTY TRANSACTIONS (Continued)

#### 31.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

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

Amount due from Unicom Group as at 30 June 2017 included a loan from Finance Company to Unicom Group of RMB200 million with a maturity period of 1 year and interest rate at 3.92% per annum (31 December 2016: Nil).

Amount due to Unicom Group as at 30 June 2017 included an unsecured entrusted loan from Unicom Group of RMB1,344 million with a maturity period of 1 year and interest rate at 3.92% per annum (31 December 2016: Nil).

Amount due to Unicom Group and its subsidiaries as at 30 June 2017 also included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,034 million with interest rates ranging from 0.42% to 2.75% per annum for saving and fixed deposits of different terms (31 December 2016: RMB2,397 million with interest rates ranging from 0.46% to 1.50% per annum).

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

#### 31.2 Related party transactions with Tower Company

##### (a) Related party transactions

	Note	Six months ended 30 June	
		2017	2016
<b>Transactions with Tower Company</b>			
Interest income from Cash Consideration	(i)	394	337
Operating lease and other service charges	(ii)	8,418	7,723
Income from engineering design and construction services	(iii)	100	57

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

The Tower Assets Disposal was completed on 31 October 2015 ("Completion Date"). The final consideration amount for the Tower Assets Disposal attributed to the Group was determined as RMB54,658 million. Tower Company issued 33,335,836,822 shares ("Consideration Shares") to CUCL at an issue price of RMB1.00 per share and the balance of the consideration of approximately RMB21,322 million payable in cash ("Cash Consideration"). The first tranche of the Cash Consideration of RMB3,000 million payable by Tower Company was settled in February 2016. The remaining balance of the Cash Consideration of RMB18,322 million, together with related VAT of RMB2,704 million recoverable from Tower Company, will be settled before 31 December 2017. The outstanding Cash Consideration and related VAT carries interest at 3.92% per annum. For six months ended 30 June 2017, the interest income arisen from outstanding Cash Consideration and related VAT was approximately RMB394 million (for the six months ended 30 June 2016: approximately RMB337 million).



## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 31. RELATED PARTY TRANSACTIONS (Continued)

#### 31.2 Related party transactions with Tower Company (Continued)

##### (a) Related party transactions (Continued)

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

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.

In connection with its use of telecommunication towers and related assets, the Group recognised operating lease and other service charges for the six months ended 30 June 2017 of totalled RMB8,418 million (for the six months ended 30 June 2016: RMB7,723 million).

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

##### (b) Amounts due from and to Tower Company

Amount due from Tower Company as at 30 June 2017 included outstanding Cash Consideration of RMB18,322 million and related VAT recoverable from Tower Company of RMB2,704 million (31 December 2016: RMB18,322 million and RMB2,704 million, respectively), both of which carries interest at 3.92% per annum, with the principal to be settled before 31 December 2017. Outstanding interest receivable amounted to RMB913 million as at 30 June 2017 (31 December 2016: RMB449 million).

Amount due to Tower Company balance mainly included operating lease and other service charges payable, and payable balance in relation to power charges paid by Tower Company on behalf of the Group, of RMB4,793 million in total as at 30 June 2017 (31 December 2016: RMB4,377 million in total).

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

#### 31.3 Related party transactions with a joint venture

	Six months ended 30 June	
	2017	2016
<b>Transactions with a joint venture</b>		
Unsecured entrusted loan from joint venture	50	—

As at 30 June 2017, the Group has an unsecured entrusted loan from Smart Steps Digital Technology Co., Ltd., a joint venture company of the Group, of RMB50 million with a maturity period of 6 months and interest rate at 3.92% per annum (31 December 2016: Nil).

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 31. RELATED PARTY TRANSACTIONS (Continued)

#### 31.4 Operating lease and other commitments to related parties

As at 30 June 2017 and 31 December 2016, the Group had commitments to related parties in respect of total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments totalled RMB44,854 million and RMB49,038 million respectively.

### 32. CONTINGENCIES AND COMMITMENTS

#### 32.1 Capital commitments

As at 30 June 2017 and 31 December 2016, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	30 June 2017			31 December 2016
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	1,352	10,731	12,083	13,473
Authorised but not contracted for	9,134	20,642	29,776	35,286
	<b>10,486</b>	<b>31,373</b>	<b>41,859</b>	48,759

#### 32.2 Operating lease and other commitments

As at 30 June 2017 and 31 December 2016, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments as follows:

	30 June 2017			31 December 2016
	Land and buildings	Equipment	Ancillary facilities*	Total
Arrangements expiring:				
— not later than one year	1,105	13,106	4,248	18,459
— later than one year and not later than five years	2,260	25,235	8,545	41,490
— later than five years	51	1,107	—	1,158
	<b>3,416</b>	<b>39,448</b>	<b>12,793</b>	60,184

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

#### 32.3 Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities and no material financial guarantees issued.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB millions unless otherwise stated)

### 33. NON ADJUSTING EVENT AFTER REPORTING PERIOD

A Share Company, the intermediate holding company, is currently contemplating a mixed-ownership reform plan. On 16 August 2017, the Company was informed by A Share Company that, subject to approvals by the relevant authorities and its shareholders, A Share Company expects to raise funds by way of a combination of non-public offering to certain strategic investors and other methods. In addition, subject to approvals by the relevant authorities and its shareholders, A Share Company also intends to introduce an employee incentive scheme, involving the issuance of restricted shares of A Share Company to employees, including eligible employees of our Group.

The net proceeds raised by A Share Company from the issuance referred to above is expected to be injected into our Group. A Share Company intends to discuss with the Company regarding the investment in our Group through a proposed subscription of shares of the Company either by way of a private placement or through participation in a rights issue, or by other means. As of today, the Company has not entered into any agreement in connection with any proposed subscription of shares of the Company by A Share Company.

For details, please refer to “Announcement in Relation to Mixed Ownership Reform and Resumption of trading” issued by the Company on 16 August 2017.

### 34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period’s presentation.

### 35. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 16 August 2017.