CHINA UNICOM (HONG KONG) Ltd
Form 6-K
April 06, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the Month of April 2018

Commission File Number 1-15028

China Unicom (Hong Kong) Limited

(Exact Name of Registrant as Specified in Its Charter)

75/F, The Center,

99 Queen s Road Central, Hong Kong

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K on paper as permitted by Regulation S-T Rule 101(b)(1): .)

(Indicate by check mark if the registrant is submitting the Form 6-K on paper as permitted by Regulation S-T Rule 101(b)(7): .)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

EXHIBITS

Exhibit Number	
1.1	Annual report for the year ended December 31, 2017, released on April 4, 2018.
1.2	Circular dated April 4, 2018 in respect of Proposed General Mandates to Buy Back Shares and to Issue Shares, Proposed Re-Election of Directors and Notice of Annual General Meeting.

FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to (i) the Company s plans and strategies and the ability to successfully execute these plans and strategies, including those in connection with mergers and acquisitions and capital expenditures; (ii) the Company s plans for network expansion, including those in connection with the build-out of mobile services and network infrastructure; (iii) the Company s competitive position, including the ability to upgrade and expand existing networks and increase network efficiency, to improve existing services and offer new services, to develop new technological applications and to leverage the Company s position as an integrated telecommunications operator and expand into new services and markets; (iv) the Company s future business condition, including future financial results, cash flows, financing plans and dividends; (v) the future growth of market demand of, and opportunities for, the Company s new and existing products and services; and (vi) future regulatory and other developments in the PRC telecommunications industry.

The words anticipate , believe , could , estimate , intend , may , seek , will and similar expressions, as th Company, are intended to identify certain of these forward-looking statements. The Company does not intend to update any of these forward-looking statements and are under no obligation to do so.

The forward-looking statements contained in this announcement are, by their nature, subject to significant risks and uncertainties. In addition, these forward-looking statements reflect the Company s current views with respect to future events and are not a guarantee of the Company s future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements as a result of a number of factors, including, without limitation:

- the Company s ability to effectively sustain its growth and to achieve or enhance profitability;

- changes in the regulatory regime and policies for the PRC telecommunications industry, including without limitation, changes in the regulatory policies of the Ministry of Industry and Information Technology, the State-owned Assets Supervision and Administration Commission, and other relevant government authorities of the PRC;

changes in the PRC telecommunications industry resulting from the issuance of licenses for telecommunications services by the central government of the PRC;

changes in telecommunications and related technologies and applications based on such technologies;

the level of demand for telecommunications services, in particular, the fourth generation mobile telecommunications services;

competitive forces from more liberalized markets and the Company s ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;

effects of restructuring and integration (if any) in the PRC telecommunications industry and any cooperation among the PRC telecommunications operators;

the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans;

costs and benefits from the Company s investment in and arrangements with China Tower Corporation Limited;

results and effects of any investigation by the relevant PRC regulatory authorities overseeing State-owned enterprises and their directors, officers and employees; and

changes in the political, economic, legal, tax and social conditions in China, including the PRC Government s policies and initiatives with respect to foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the Chinese telecommunications market and structural changes in the PRC telecommunications industry.

Please also see the Risk Factors section of the Company s latest Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA UNICOM (HONG KONG) LIMITED
(Registrant)

Date: April 6, 2018

By: /s/ Yung Shun Loy Jacky
Name: Yung Shun Loy Jacky
Title: Company Secretary

Exhibit 1.1

Contents

Forward-looking statements

Certain statements contained in this report may be viewed as forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company s most recent Annual Report on Form 20-F and other filings with the U.S. Securities and Exchange Commission.

Company Profile

China Unicom (Hong Kong) Limited (the Company) was incorporated in Hong Kong in February 2000 and was listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 21 June 2000 and 22 June 2000 respectively. On 1 June 2001, the Company was included as a constituent stock of the Hang Seng Index. The Company merged with China Netcom Group Corporation (Hong Kong) Limited on 15 October 2008.

The Company was one of the Fortune Global 500 companies for consecutive years, and ranked 241st in Fortune Global 500 for the year 2017. It was also voted as Asia s No.1 Most Honored Telecom Company for second consecutive year by Institutional Investor.

The Company is committed to being a creator of smart living trusted by customers, connecting the world to innovate and share a good smart living, improving the quality of products and services continuously to fulfill customer needs. Future products and services will be developed in a smart way. Internet of Things, cloud computing, Big Data and other technologies will be used for the smart processing on data and information. The Company s telecommunication network covers China and connects to the world. It provides full range and high quality information and telecommunication services, including mobile broadband (WCDMA, LTE FDD, TD-LTE), fixed-line broadband, GSM, fixed-line local access, ICT, data communications and other related value-added services. As at the end of 2017, the Company had mobile billing subscribers of about 284 million, in which 4G subscribers of about 175 million, fixed-line broadband subscribers of about 77 million, and fixed-line local access subscribers of about 60 million.

As at 31 December 2017, the ultimate parent company of the Company, China United Network Communications Group Company Limited had an effective interest of 52.5% of the shares in the Company through China United Network Communications Limited (A Share Company), China Unicom (BVI) Limited and China Unicom Group Corporation (BVI) Limited; the strategic investors and the public shareholders of A Share Company had an effective interest of 27.4% of the shares in the Company through A Share Company s shareholding in China Unicom (BVI) Limited. The remaining 20.1% of the shares in the Company were beneficially owned by public shareholders.

Shareholding Structure

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Performance Highlights

Turnaround Momentum Strengthened

	2015	2016	2017
SERVICE REVENUE GROWTH (YoY)	-4.2%	2.2%	4.6%

	2015	2016	2017
FREE CASH FLOW (RMB bil)	-49.58	2.48	42.92

	2015	2016	2017
NET PROFIT (RMB bil)	10.56	0.63	4.00[4]

KEY FINANCIAL DATA	**2017**	2016	Change YoY
Operating Revenue (RMB billions)	**274.829**	274.197	0.2%
Of which: Service Revenue[1]	**249.015**	238.033	4.6%
EBITDA[2] (RMB billions)	**81.425**	79.498	2.4%
EBITDA (Excluding net loss on asset disposal related to fibre network upgrade in 2017) (RMB billions)	**84.325**	79.498	6.1%
As % of Service Revenue	**33.9%**	33.4%	0.5pp
Net Profit[3] (RMB billions)	**1.828**	0.625	192.5%
Net Profit (Excluding net loss on asset disposal related to fibre network upgrade in 2017) (RMB billions)	**4.003**	0.625	540.5%
Basic EPS (RMB)	**0.074**	0.026	185.1%
Free Cash Flow (RMB billions)	**42.920**	2.483	1,628.8%

Note 1: In order to better satisfy the internal operation and management requirements, revenue from sales of products associated with the ICT business, which was previously recorded as part of the fixed-line service revenue, has been reclassified as part of the revenue from sales of telecommunications products. The related figures for 2016 have been restated.

Note 2: EBITDA represents profit for the year before finance costs, interest income, shares of net profit of associates, share of net profit of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Company.

Note 3: Net profit represented profit attributable to equity shareholders of the Company.

Note 4: Excluded net loss on asset disposal related to fibre network upgrade.

Major Events

January
China Unicom launched the innovative ice-cream package , enabling unlimited enjoyment of mobile data and voice nationwide

March
China Unicom firmly committed to the implementation and deployment of Network Speed Upgrade & Tariff Reduction

June

China Unicom put AAE-1 submarine cable in operation, creating the fastest and the most secure information highway for One Belt, One Road initiative

China Unicom s 4G+ network achieved gigabit-level transmission capacity

China Unicom built the first 5G high & low frequency outdoor experiment base and started officially running the first 5G NR outdoor testing station

August

China Unicom announced mixed-ownership reform plan, the only pilot enterprise to adopt entire group-based mixed-ownership reform

China Unicom rolled out in-depth cooperation with Baidu in Internet of Things, artificial intelligence, Big Data, telecommunication & etc.

September

China Unicom removed mobile voice domestic long distance and roaming fees, effective 1 September

October

China Unicom, leveraging the mixed- ownership reform, engaged in comprehensive in-depth cooperation with Tencent in Cloud, network services and other areas

China Unicom announced first business cooperation with Alibaba post mixed- ownership reform: mutual open-up of Cloud resources

November

China Unicom and JD.com jointly-developed smart living experience store debuted in Guangzhou

December

China Unicom and Tmall collaborated in promoting New Retail, unveiling their first- in-China innovative smart living experience store in Shanghai

China Unicom and Suning signed strategic cooperation agreement to develop a communications + payment/finance ecosystem

China Unicom became the official telecommunication services partner of Beijing 2022 Olympic and Paralympic Winter Games

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Chairman s Statement

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DEAR SHAREHOLDERS,

In 2017, the Company comprehensively deepened the implementation of Focus Strategy and emphasised on scale and profitable development, as well as growth promotion, cost control and mechanism reform, enabling the Company to achieve outstanding results via business model transformation. A substantive breakthrough was made on mixed-ownership reform and the Company saw fundamental improvement in operating results, marching a solid step forward towards its transformational development.

OVERALL RESULTS

In 2017, the Company successfully turned around its operating results with significant improvement. Service revenue for the year was RMB249.02 billion, up by 4.6% year-on-year, and EBITDA amounted to RMB81.43 billion, up by 2.4% year-on-year. Profit before income tax reached RMB2.59 billion and profit attributable to equity shareholders of the Company increased by 192.5% year-on-year to RMB1.83 billion. In 2017, the Company incurred a net loss on asset disposal related to optical fibre network upgrade of RMB2.9 billion which had

no impact on cash flow. Excluding the net loss on asset disposal related to optical fibre network upgrade, the Company s EBITDA reached RMB84.33 billion, representing 33.9% of service revenue and an increase of 0.5 percentage point year-on-year while profit before income tax reached RMB5.49 billion and profit attributable to equity shareholders of the Company increased by 540.5% year-on-year to RMB4.00 billion.

By focusing on improving quality and efficiency, the Company pushed forward precise investment, cooperation, sharing and proactively unleash value from resources to improve returns. In 2017, the Company offered competitive network quality despite a significant reduction in capital expenditure of 41.6% year-on-year to RMB42.13 billion. Benefiting from the gradual improvement in service revenue and the substantial decline in capital expenditure, the Company s free cash flow reached RMB42.92 billion, up by 16.3 times year-on-year.

The Company also benefited from the successful completion of the capital injection brought by the implementation of the mixed-ownership reform, which strengthened the Company s balance sheet substantially and developed a much solid financial position. The liabilities-to-assets ratio went down from 62.9% in the same period of last year to 46.8%.

The Company attached great importance to shareholders returns. Taking into consideration the Company s profitability, debt and cash flow level and capital requirements for its future development, the Board recommended the payment of a final dividend of RMB0.052 per share. Going forward, the Company will continue to strive to enhance its profitability to improve corporate efficiency and shareholders returns.

BUSINESS DEVELOPMENT

Strengthened Data Traffic Operation and Development Model Transformation Underpinned Fast and Effective Mobile Business Development with Industry- leading Growth Rate

In 2017, the Company actively promoted the mobile business model transformation and enhanced the quality of new subscribers through innovating products and marketing models. Using a low cost and subsidy model for expanding subscriber base, the Company achieved accelerated growth in mobile service. Mobile service revenue reached RMB156.44 billion, representing a year-on-year growth of 7.9%, exceeded industry average by 2.2 percentage points. Mobile billing subscribers achieved a net increase of 20.34 million to 284.16 million in total in 2017. The average revenue per user (ARPU) of mobile billing subscribers amounted to RMB48.0, up by 3.5% year-on-year.

During the year, the Company strengthened its data traffic operation by launching and expanding in scale the innovative and transformational products, like 2I2C, 2B2C and Ice-cream Package targeting medium-to-high end subscribers. It segmented the market and adopted targeted marketing to reach target users effectively, especially the youth market, with low marketing costs, achieving a breakthrough in the 4G subscriber base. In 2017, the Company s 4G subscriber base witnessed a net increase of 70.33 million to a total of 174.88 million. The 4G subscriber market share was up by 3.7 percentage points year-on-year. The proportion of 4G subscribers to total mobile billing subscribers increased by 21.9 percentage points year-on-year to 61.5%.

The Company sped up the transition towards an innovative business model of data + content . It vigorously promoted data-oriented products, enriched with contents and privileges, and unleashed the value of data capacity. Mobile data service sustained a strong growth momentum. In 2017, the Company s handset Internet access revenue grew by 28.8% year-on-year to RMB92.14 billion. The monthly average DOU per handset subscriber was 2,433MB, up by 359.0% year-on-year, still with enormous growth potential.

Actively Deployed and Nurtured Key Innovative Services to Stabilise Fixed-line Development, while Creating New Energy for Future Growth

In 2017, the Company actively promoted the scale development of innovative services, striving to offset the decline in fixed-line voice revenue and the competitive pressure on the fixed-line broadband market. Fixed-line service revenue was RMB90.87 billion, down by 0.9% year-on-year, which was largely stable. Within that, the proportion of voice revenue dropped to 13.3%, further improving the fixed-line service revenue structure.

The Company actively developed its business by focusing on the complementary resources and business synergies brought in by the strategic investors. Focusing on key industries and key services, it embraced open cooperation and adopted innovative incentive systems to jointly develop an innovative and win-win industry ecosystem. In 2017, the Company achieved new breakthroughs in key innovative services. ICT revenue reached RMB3.32 billion, up by 11.0% year-on-year. IDC and Cloud computing revenue reached RMB11.02 billion, up by 16.6% year-on-year. Internet of Things revenue reached RMB1.41 billion and Big Data revenue reached RMB0.16 billion.

Actively Countered Intense Market Competition through Promoting User Consumption Upgrade and Integrated Development with High-bandwidth, Mass Video and Big Integration

Facing intense competition in the broadband market, the Company further enhanced its network coverage capability and quality. Leveraging its strengths in network capability and television and video content, the Company actively promoted the use of high-bandwidth and integrated products to facilitate user consumption upgrade and mutual growth of fixed-line and mobile services. It propelled an Internet-oriented transformation in sales of broadband service to enhance customer perception. It offered new services such as home Internet and home network services in order to explore new innovative service models. In 2017, the Company s fixed-line broadband access revenue amounted to RMB42.71 billion, down by 2.6% year- on-year. Fixed-line broadband subscribers increased by 1.30 million to 76.54 million. Integrated package subscribers accounted for 43.5% of the total fixed- line broadband subscribers, up by 4.9 percentage points year-on-year. Going forward, the Company s broadband services will focus on video offering, integrated products and e-commerce channels to further optimise product offerings, strengthen operation and services, and stimulate the sales productivity of front-line staff to constantly enhance the differentiated competitive advantages of its broadband business.

NETWORK DEPLOYMENT

In 2017, the Company insisted on focused and precise investment together with cooperation to achieve efficient network deployment. It maintained market competitive network quality and customer experience, rapidly responded to market demand, providing effective support to business development, despite low capital expenditure.

Embracing a return-enhancing investment approach, the Company actively utilised the existing capacity of 4G and fixed-line broadband network, focused its investment on key cities and 4G network, as well as regions with high data traffic and high investment returns. It used Big Data to monitor traffic hotspots to achieve precise capacity expansion. It also vigorously carried out resources sharing and social cooperation in regions with weak resources and met market demand using innovative models. In 2017, the Company continued to fortify its network capabilities. The number of 4G base stations increased by 0.11 million to a total of 0.85 million. FTTH ports accounted for 79.2% of the total fixed-line broadband ports. Network efficiency significantly improved. 4G network utilisation rate increased to 57% and the percentage of FTTH subscribers to total broadband subscribers reached 77%. The network quality and customer perception in key regions continued to rise. The 4G network uplink and downlink average speeds were leading in the industry. The Net Promoter Score (NPS) of mobile network and fixed-line broadband continued to improve and Internet network latency performance ranked the best in the industry.

The Company continued to enhance its transmission, carrier network and other fundamental network capabilities. Its dedicated finance industry network loaded with SDN functions further enhanced business support performance and customer perception of major customers. Its backbone network maintained the lowest latency in the industry. The Company closely monitored the evolution of new technology, with pilot run of new services, such as VoLTE, VoWiFi and One SIM, Multi Devices in eight cities, built the world s biggest single-city NB-IoT network in Shanghai and comprehensively introduced NFV technology, building up capability for future development.

Mixed-ownership Reform

In 2017, adhering to the principle of enhance governance, strengthen incentives, protrude core businesses and raise efficiency , the Company implemented mixed-ownership reform by using Unicom A Share Company, the controlling shareholder of the Company, as the platform. By introducing strategic investors and leveraging external resources and capabilities, the Company innovated the business cooperation model and achieved strategic business collaboration. It pushed forward system and mechanism reforms, established sound and effective corporate governance and market-oriented incentive mechanism to elevate corporate vitality and efficiency, creating better returns for shareholders and employees.

Financial Strengths, Investment and Operation Capabilities Improved Substantially Following the Introduction of Strategic Investors

In 2017, through non-public issuance of new shares and transfer of existing shares of Unicom A Share Company held by Unicom Group, Unicom A Share Company successfully introduced 14 industry leaders as strategic investors who are complementary to the Company s business development. Approximately RMB75.0 billion was raised and injected into CUCL, a wholly-owned subsidiary of the Company. All the proceeds will be used by CUCL for upgrading 4G capabilities, technology validation and enablement of 5G network related technologies, launching trial programmes in relation to 5G network and developing innovative services. The injection of external capital effectively enhanced the Company s financial position and improved its risk control capability.

Pushed Ahead In-depth Synergetic Cooperation with Strategic Investors to Enhance New Energy for Innovative Development

The Company deeply explored and integrated strategic investors resources, strengths and took full advantage of the edges of its own fundamental business capabilities. Focusing on key innovative segments including channel touch points, Cloud computing, Big Data, Internet of Things, retail system, video contents, home Internet and basic communications, the Company established powerful alliance and engaged in-depth cooperation with strategic investors, thereby creating a new driving force for innovative business development. During the year, through leveraging the online marketing touch points of Tencent and various other large Internet companies as well as the synergetic development across online and offline marketing, the Company developed about 50 million 2I2C subscribers at low costs. The Company conducted in-depth cooperation with Baidu in Internet of Things, artificial intelligence and Big Data, etc. The Company entered into in-depth cooperation in Cloud services with Tencent and Alibaba through mutual resources and capabilities sharing. The Company built smart living experience stores jointly with JD.com, Alibaba and Suning to actively explore New Retail business model. The Company carried out in- depth cooperation with strategic investors in basic communications business to promote resources sharing and business synergy, thus achieving a win-win situation for all parties.

Accelerated Mechanism Transformation, Enhanced Incentive System and Improved Efficiency

The Company seized the opportunity of mixed- ownership reform to deeply propel innovative reform of mechanism and system. By downsizing and streamlining corporate structure, the Company promoted staff migration to the frontline and established a lean and highly efficient organisational structure. It advanced market-oriented and contractual management of managerial personnel such that positions could go up and down, staff could get in and out while compensation could increase and decrease. The Company pushed forward sub-division and contract-out, selected mini CEOs based on a competitive mechanism, vitalised incentives and compensation allocation, and stimulated the internal vibrancy of front- line staff. Unicom A Share Company launched an employee restrictive share incentive scheme. Under the initial grant, 848 million restrictive shares will be granted to core employees. Unlocking conditions are prescribed for units and individuals at all levels on a scientific basis so as to combine short-term and long-term incentives, and align shareholder interests, corporate development and employee interests.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Company continues to improve its corporate governance structure and strengthen its execution, which leads to continuous enhancement in management and corporate governance. In 2017, the Company was awarded a number of accolades, including Asia s Best Management Team by FinanceAsia, Asia s No. 1 Most Honored Telecom Company by Institutional Investor and the Company s annual report, BEAT THE HEADWIND TURN THE TIDE , was awarded the Best of Show World s Best Annual Report in International ARC Awards.

The Company has taken the initiative in fulfilling its social responsibilities. Adhering to the development philosophies of Innovation,

Coordination, Greenness, Openness and Sharing , it deepened supply-side structural reform to meet the ever-increasing demand for information life of the public, actively supporting the harmonious economic, social and environmental development. The Company insisted on smart development and built a quality network with craftsmanship spirit to provide users with smart network experience featuring higher speed, wider coverage and better perception. It vigorously developed smart living and smart industry, and provided a variety of smart+ applications, enabling the public to enjoy more convenient and more intelligent information life. It fully participated in universal telecommunications services, implemented speed upgrade and tariff reduction and kept introducing new concessionary offerings to narrow digital divide across regions. The Company actively engaged in green operation, facilitated cost reduction and efficiency enhancement, improved development quality and promoted harmonious co-existence between the enterprise and the environment.

OUTLOOK

At present, we are steering into the digital economic era. A new round of technological and industrial revolution is emerging. The Internet will integrate deeply with real economy to power up various industries, bringing about tremendous market potential. China s economic development is also entering a new era. New development models emphasising on high-quality development requirements will drive the entire society to improve total factor productivity and vigorously cultivate new energy. Looking ahead, China Unicom is embarking on a new historic journey as the mixed-ownership reform allows the Company to establish unique differentiated advantages and heralds new significant strategic opportunities for the Company s development. In addition, the Company also faces challenges brought about by the decline in legacy services, intensified competition and the implementation of speed upgrade and tariff reduction policies, etc. This has prompted the Company to accelerate its transformation and development, switch driving forces and enhance development quality.

In 2018, the Company will seize firmly the brand new opportunities brought by global technological and industrial reform, China s economic development model reform and mixed-ownership reform, aiming to instil into China Unicom new DNA, new governance, new operation, new energy and new ecology (the Five New). The Company will continue to deepen the strategy of Focus, Innovation and Cooperation, vigorously accelerate Internet-oriented operation, forcefully pushes ahead in-depth synergetic business cooperation with strategic investors, speed up improvement in innovative capability and deepen system and mechanism reforms to raise vibrancy and efficiency, striving to start a new era for its innovative development. In terms of new DNA, upon the implementation of mixed-ownership reform, the Company will explore to quickly adopt an Internet-oriented and market-oriented mindset as its endogenous DNA and achieve breakthroughs.

In terms of new governance, the Company will explore to achieve a governance structure ensuring separation of duties and responsibilities as well as coordinated operation with effective checks- and-balances to achieve an operation mechanism with improved total factor productivity. In terms of new operation, the Company will seek new routes to quickly enter the Internet commercial world and become a technology service company based on network operation. In terms of new energy, the Company will speed up the cultivation and enhancement of new energy for high-quality development and innovative development . For new ecology, the Company will explore to accelerate the establishment of an open, sharing, embracing and win-win ecosystem. The Company will spare no effort to push forward high-quality and sustainable development and elevate overall competitiveness and corporate efficiency to create greater value for its shareholders.

Lastly, on behalf of the Board of Directors of the Company, I would like to express my sincere gratitude to all shareholders, customers and friends across the society for their support to the Company, and to all employees for their continuous dedication and contribution along the way!

Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 15 March 2018

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Business Overview

IN 2017, THE COMPANY DEEPENED IMPLEMENTATION OF THE STRATEGY OF FOCUS, INNOVATION AND COOPERATION, ACTIVELY PROPELLING MIXED- OWNERSHIP REFORM TO PROMOTE BUSINESS DEVELOPMENT, ENABLING THE BUSINESS STRUCTURE TO BE FURTHER OPTIMISED AND A SIGNIFICANTLY HIGHER MIX OF BUSINESS TO COME FROM ONLINE CHANNELS, AND ACHIEVING A RELATIVELY FAST GROWTH IN INNOVATIVE BUSINESSES. THANKS TO THE CONTINUOUS COST RESOURCES OPTIMISATION, THE COMPANY ACHIEVED TURNAROUND IN OPERATING RESULTS.

MOBILE SERVICE

In 2017, the Company actively promoted marketing model transformation and achieved rapid development in 2I2C business, realising growth in both service revenue and subscribers of mobile service. The Company saw O2O synergetic development with accelerated online services development and quality and efficiency enhancement in offline channels. The Company built existing users value enhancement system to accelerate the migration of 2G subscribers to 4G, and launched innovative Unlimited Video Enjoyment products to improve the subscriber mix and enhance values.

Mobile billing subscribers witnessed a net increase of 20.34 million to a total of 284.16 million during the year. Mobile billing subscribers ARPU was RMB48.0. Mobile handset data traffic reached 7,786.0 billion MB, up by 384% year-on-year. Registered subscribers of Unlimited Video Enjoyment reached 8.20 million with monthly active users exceeding 3.00 million. The user base of WO Video reached 30.99 million with monthly active users up to 8.63 million.

FIXED-LINE SERVICE

In 2017, the Company focused on Mass Connection, High-bandwidth, Big Integration and Big Video and launched Fibre Broadband+ , a new broadband service brand. The Company actively promoted e-commerce business development model, integrated products offering and video add-on for broadband services, also pioneered market-oriented network deployment and fully promoted optical fibre network upgrade to improve network quality. The Company also vigorously pushed forward sub- division and contract-out (mini CEO s initiative), aiming to stimulate front-line vibrancy and thus promoting business development. Leveraged on mixed-ownership reform, the Company further strengthened its cooperation with private capital. The number of broadband subscribers witnessed a net increase of 1.30 million to a total of 76.54 million. Broadband access ARPU was RMB46.3. FTTH subscriber penetration reached 77.3%, up by 6.1 percentage points year-on-year. The number of fixed-line local access subscribers decreased by 6.65 million to 60.00 million.

NETWORK CAPABILITIES

In 2017, the Company pushed forward precise construction, continued to enhance network capabilities, and actively built up the 4G network with craftsmanship spirit. It achieved industry-leading average downlink & uplink speed on 4G, demonstrating precise and remarkable differentiation in key areas and in key scenarios. As at the end of 2017, the Company had a total

of 852,000 4G base stations in operation and its 4G coverage in towns and villages reached 90.0%. The Company used differentiated strategies for Southern and Northern China to enhance broadband capabilities, creating differentiated advantages in fibre broadband network. As at the end of 2017, the number of broadband access ports amounted to 200 million, 98.8% of which were FTTX access ports.

The Company continued to optimise its international network deployment. As at the end of 2017, its international submarine cable resource capacity reached 16.2T, international outbound Internet capacity reached 2.46T, homebound bandwidth reached 2.08T, with international roaming covering 607 operators in 252 countries and regions.

MARKETING

Branding

In 2017, the Company harnessed various major events, such as World Table Tennis Championships and National Games to reshape the brand image, and continued to improve business reputation by online targeted, innovative, and cross-sector communications. Meanwhile, the Company organised popular event such as Craftsmanship Network Thousand Miles Walk to promote the network advantages and solidify the image and position of premium network with craftsmanship spirit, while enhancing the brand influence of China Unicom and WO in an all-round manner.

Marketing Strategies

In 2017, the Company strengthened the business synergy with strategic partners brought by mixed- ownership reform, innovated its business model to promote rapid development in 2I2C, launched a series of key products such as Ice-cream Package to facilitate subscriber acquisition and value enhancement. By strengthening brand perception, high-speed bandwidth, integrated products and quality video content, the Company continued to enhance the competitiveness of its broadband service while effectively promoting business transformation.

The Company developed public Cloud products under WO Cloud brand with partners including Alibaba and Tencent, expanded SME informatisation application market through promoting DingTalk with Alibaba, continued to optimise IDC business operation model to enhance the professional capability of ICT service, and drove scale development of Internet of Things to achieve faster growth in innovative services.

Distribution Channels

In 2017, the Company actively engaged in integrated O2O operations, speeded up the development and expanded the scale of online channels, enabling online channels to be the main channels to service its customers and the key channels for product sales. The Company also actively promoted transformation, enhanced efficiency and innovated its model for offline channels. The Company expanded light touch points and strengthened professionalised operation capabilities in order to maintain steady subscriber development. Through building Internet-based customer retention and value management systems, it enhanced customer retention rate. Committed to promoting full cost assessment extensively optimising store demographic, controlling the quantity of store and terminating channels with low efficiency and without contribution, the Company set to maximise the effectiveness of the marketing costs.

Customer Care

In 2017, the Company further optimised its service standards and systems, leading to service advancement. By continuing to propel intelligent transformation and synergetic operation between traditional-service channels and Internet-service channels, and enriching operating measures in customer reward and loyalty programmes, the customer perception was improving on an ongoing basis. The Company also took proactive approach to mitigate service shortcomings and pain points, thus maintained the second lowest customer complaint rate and the industry lowest complaint rate for unsolicited charges during the year.

KEY OPERATING DATA	**2017**	2016
Mobile Billing Subscribers[1] (millions)	**284.2**	263.8
4G Subscribers (millions)	**174.9**	104.6
Mobile Billing Subscribers ARPU (RMB)	**48.0**	46.4
4G Subscribers ARPU (RMB)	**63.4**	76.4
Fixed-line Broadband Subscribers (millions)	**76.5**	75.2
Fixed-line Broadband Access ARPU (RMB)	**46.3**	49.4
Fixed-line Local Access Subscribers (millions)	**60.0**	66.7

Note 1: In order to better satisfy the strategic management needs of the Company, the Company s internal management and analysis in relation to the mobile service began to focus more on the mobile billing subscribers (which in general refer to subscribers who have revenue contribution in the current month) and 4G subscribers (mobile billing subscribers who possess 4G handsets and use the 4G network of the Company) from 2016. From January 2016 onwards, the aggregate number and net addition of mobile billing subscribers and 4G subscribers are disclosed. The adjustment in the disclosure of subscriber statistics does not affect the Company s revenue and profit recognition.

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Financial Overview

I. OVERVIEW

In 2017, the Company comprehensively deepened the implementation of the Focus Strategy, the Company s revenue was RMB274.83 billion in 2017, up by 0.2% compared with last year, of which service revenue improved steadily and reached RMB249.02 billion, up by 4.6% compared with last year. Net profit[1] was RMB1.83 billion, up by 192.5% compared with last year. Excluding the net loss on asset disposal related to optical fibre network upgrade, net profit was RMB4.00 billion, up by RMB3.38 billion compared with last year.

In 2017, net cash flow from operating activities was RMB85.05 billion. Capital expenditure was RMB42.13 billion. Liabilities-to-assets ratio was 46.8% as at 31 December 2017.

II. REVENUE

In 2017, the Company s revenue was RMB274.83 billion, up by 0.2% compared with last year, of which, service revenue accounted for RMB249.02 billion, up by 4.6% compared with last year.

The table below sets forth the composition of service revenue, including as a percentage of the service revenue for the years of 2017 and 2016:

(RMB in billions)	**2017** Total amount	**2017** As a percentage of service revenue	2016 Total amount	2016 As a percentage of service revenue
Service revenue	**249.02**	**100.0%**	238.03	100.0%
Include: Voice service	**53.52**	**21.5%**	62.41	26.2%
Non-voice services	**195.50**	**78.5%**	175.62	73.8%

1. Voice Service

In 2017, service revenue from the voice service was RMB53.52 billion, down by 14.2% compared with last year.

2. Non-Voice Services

In 2017, service revenue from the non-voice services was RMB195.50 billion, up by 11.3% compared with last year.

III. COSTS AND EXPENSES

In 2017, total costs and expenses amounted to RMB272.24 billion, down by 0.4% compared with last year.

The table below sets forth the major items of the costs and expenses and their respective percentage of the revenue for the years of 2017 and 2016:

	2017		2016	
(RMB in billions)	**Total amount**	**As a percentage of revenue**	Total amount	As a percentage of revenue
Total costs and expenses	**272.24**	**99.06%**	273.41	99.71%
Operating costs	**270.89**	**98.57%**	271.49	99.01%
Include: Interconnection charges	**12.62**	**4.59%**	12.74	4.65%
Depreciation and amortisation	**77.49**	**28.20%**	76.80	28.01%
Network, operation and support expenses	**54.51**	**19.83%**	51.17	18.66%
Employee benefit expenses	**42.47**	**15.45%**	36.91	13.46%
Costs of telecommunications products sold	**26.64**	**9.69%**	39.30	14.33%
Selling and marketing expenses	**34.09**	**12.40%**	34.65	12.64%
General, administrative and other expenses	**23.07**	**8.41%**	19.92	7.26%
Finance costs, net of interest income	**4.09**	**1.49%**	3.86	1.41%
Share of net profit of associates	**-0.89**	**-0.32%**	-0.20	-0.07%
Share of net profit of joint ventures	**-0.57**	**-0.21%**	-0.15	-0.06%
Other income-net	**-1.28**	**-0.47%**	-1.59	-0.58%

1. Interconnection charges

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB12.62 billion in 2017, down by 1.0% compared with last year and, as a percentage of revenue, decreased from 4.65% in 2016 to 4.59% in 2017.

2. Depreciation and amortisation

Depreciation and amortisation charges in 2017 were RMB77.49 billion, up by 0.9% compared with last year and, as a percentage of revenue, changed from 28.01% in 2016 to 28.20% in 2017.

3. Network, operation and support expenses

The expanded network scale caused higher usage fee of telecommunication towers. The Company incurred network, operation and support expenses of RMB54.51 billion in 2017, up by 6.5% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 18.66% in 2016 to 19.83% in 2017.

4. Employee benefit expenses

As a result of the improved operating results, the Company s employee benefit expenses amounted to RMB42.47 billion in 2017, up by 15.1% compared with last year and, as a percentage of revenue, changed from 13.46% in 2016 to 15.45% in 2017.

5. Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB26.64 billion and revenue from sales of telecommunications products amounted to RMB25.81 billion in 2017. Loss on sales

of telecommunications products was RMB0.83 billion, of which terminal subsidy cost amounted to RMB1.25 billion in 2017, down by 59.1% compared with last year.

6. Selling and marketing expenses

In 2017, the Company continuously promoted the transformation of its sales and marketing model. Selling and marketing expenses were RMB34.09 billion, down by 1.6% compared with last year and, as a percentage of revenue, changed from 12.64% in 2016 to 12.40% in 2017.

7. General, administrative and other expenses

General, administrative and other expenses were RMB23.07 billion in 2017, up by 15.8% compared with last year and, as a percentage of revenue, changed from 7.26% in 2016 to 8.41% in 2017. It was mainly due to the net loss on asset disposal related to the optical fibre network upgrade of RMB2.90 billion.

8. Finance costs, net of interest income

In 2017, finance costs, net of interest income, was RMB4.09 billion, up by 6.0% compared with last year.

9. Other income-net

Other income-net was RMB1.28 billion in 2017, down by RMB0.31 billion compared with last year.

IV. EARNINGS

1. Profit before income tax

In 2017, the Company s profit before income tax was RMB2.59 billion. Excluding the net loss on asset disposal related to the optical fibre network upgrade, the Company s profit before income tax was RMB5.49 billion, up by RMB4.71 billion compared with last year.

2. Income tax

In 2017, the Company s income tax was RMB0.74 billion and the effective tax rate was 28.6%.

3. Net profit[1]

In 2017, the Company s net profit was RMB1.83 billion. Excluding the net loss on asset disposal related to the optical fibre network upgrade, the Company s net profit was RMB4.00 billion, up by RMB3.38 billion compared with last year. Basic earnings per share was RMB0.074, up by 185.1% compared with last year.

V. EBITDA[2]

In 2017, the Company s EBITDA was RMB81.43 billion, up by 2.4% compared with last year. Excluding the net loss on asset disposal related to the optical fibre network upgrade, the Company s EBITDA was RMB84.33 billion, up by 6.1% compared with last year. EBITDA as a percentage of service revenue was 33.9%, up by 0.5 percentage points compared with last year.

VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2017, capital expenditure of the Company totaled RMB42.13 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2017, the Company s net cash inflow from operating activities was RMB85.05 billion. Free cash flow was RMB42.92 billion after the deduction of the capital expenditure.

Note 1: Net profit represented profit attributable to equity shareholders of the Company.

Note 2: EBITDA represents profit for the year before finance costs, interest income, shares of net profit of associates, share of net profit of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Company.

The table below sets forth the major items of the capital expenditure in 2017.

	2017	
(RMB in billions)	Total amount	As percentage
Total	**42.13**	**100.0%**
Include: Mobile network	**15.92**	**37.8%**
Broadband and data	**9.02**	**21.4%**
Infrastructure and transmission network	**11.94**	**28.3%**
Others	**5.25**	**12.5%**

VII. BALANCE SHEET

The Company s total assets changed from RMB614.15 billion as at 31 December 2016 to RMB571.98 billion as at 31 December 2017. Total liabilities changed from RMB386.47 billion as at 31 December 2016 to RMB267.64 billion as at 31 December 2017. The liabilities-to-assets ratio changed from 62.9% as at 31 December 2016 to 46.8% as at 31 December 2017. The debt-to-capitalisation ratio changed from 43.5% as at 31 December 2016 to 19.5% as at 31 December 2017. The net debt-to-capitalisation ratio was 10.8% as at 31 December 2017.

VIII. SUBSCRIPTION OF NEW SHARES OF THE COMPANY BY UNICOM BVI

As part of the mixed ownership reform plan implemented by Unicom Group, on 28 November 2017, the Company completed the issuance of 6,651,043,262 shares of the Company to Unicom BVI. The gross proceeds raised by the Company amounted

to RMB74,954 million. The proceeds will be used by the Company in accordance with the plan disclosed in the circular issued by the Company on 28 August 2017.

Directors And Senior Management

Wang Xiaochu

(Chairman and Chief Executive Officer)

Aged 59, was appointed in September 2015 as an Executive Director, Chairman and Chief Executive Officer of the Company. Mr. Wang, a professor level senior engineer, graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang province, Director General of the Tianjin Posts and Telecommunications Administration, Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited, Vice President of China Mobile Communications Corporation, an Executive Director, Chairman and Chief Executive Officer of China Telecom Corporation Limited, Chairman and President of China Telecommunications Corporation, and Chairman and a Non-Executive Director of China Communications Services Corporation Limited. Mr. Wang has served as a Director of Telefónica S.A. (listed on various stock exchanges including Madrid, New York and London) since September 2015. Mr. Wang also serves as the Chairman of China United Network Communications Group Company Limited (Unicom Group), China United Network Communications Limited (A Share Company) and China United Network Communications Corporation Limited (CUCL), respectively. Mr. Wang has extensive experience in management and telecommunications industry.

Lu Yimin

(Executive Director and President)

Aged 54, was appointed as an Executive Director of the Company in October 2008 and President of the Company in February 2009. Mr. Lu, a researcher level senior engineer, graduated from Shanghai Jiao Tong University in 1985 and received a master s degree in public administration from the John F. Kennedy School of Government at Harvard University in 2001. Mr. Lu joined China Network Communications Group Corporation (Netcom Group) in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited (PCCW , listed on the Hong Kong Stock Exchange with an American Depositary Receipts trading on OTC Markets Group Inc. in the U.S.) since May 2008, the Deputy Chairman of the Board of PCCW, a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Prior to joining the Netcom Group, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, served as the Deputy Director and the Director of the Information Processing Office, Secretary at deputy director general level and Secretary at director general level. Mr. Lu also serves as a Vice Chairman and General Manager of Unicom Group, a Director and President of A Share Company, as well as a Director and President of CUCL. Mr. Lu has extensive experience in administration and business management in the government and the telecommunications industry.

Li Fushen

(Executive Director and Chief Financial Officer)

Aged 55, was appointed in March 2011 as an Executive Director and Chief Financial Officer of the Company. Mr. Li graduated from the Jilin Engineering Institute in 1988 and received a master s degree in management from the Australian National University in 2004. Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company, General Manager of the Finance Department of Netcom Group, the Chief Accountant of Netcom Group, Chief Financial Officer of China Netcom Group Corporation (Hong Kong) Limited (China Netcom), Executive Director of China Netcom, Joint Company Secretary of China Netcom and Senior Vice President of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipts trading on OTC Markets Group Inc.) since July 2007, a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li is a Vice General Manager and Chief Accountant of Unicom Group, a Director and Senior Vice President of A Share Company, as well as a Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Shao Guanglu

(Executive Director and Senior Vice President)

Aged 53, was appointed in March 2017 as an Executive Director of the Company. Mr. Shao was appointed in April 2011 as a Senior Vice President of the Company. Mr. Shao, a professor level senior engineer, graduated from Harbin Institute of Technology in 1985. Mr. Shao received a master s degree in engineering and a master s degree in economics from Harbin Institute of Technology in 1988 and 1990 respectively, a master s degree in management from BI Norwegian Business School in 2002 and a doctor s degree in management from Nankai University in 2009. Mr. Shao joined Unicom Group in February 1995. Mr. Shao served as Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. In addition, Mr. Shao has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipts trading on OTC Markets Group Inc.) since March 2017, and a Non-Executive Director of China Communications Services Corporation Limited (listed on the Hong Kong Stock Exchange) since June 2017. Mr. Shao also serves as a Vice General Manager of Unicom Group, a Senior Vice President of A share Company as well as a Director and Senior Vice President of CUCL. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

Cesareo Alierta Izuel

(Non-Executive Director)

Aged 72, was appointed in October 2008 as a Non-Executive Director of the Company. Mr. Alierta is Executive Chairman of Telefónica Foundation and Profuturo Foundation, Director of Telefónica Audiovisual Digital, S.L.U. and Trustee of Caixa d Estalvis i Pensions de Barcelona Banking Foundation (la Caixa). He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University) and member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he served as General Manager of the Capital Markets division at Banco Urquijo in Madrid. He was the founder and Chairman of Beta Capital. Since 1991, he has also acted as Chairman of the Spanish Financial Analysts Association. He was also a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he served as Chairman of Tabacalera, S.A., and subsequently Altadis following the company s merger with the French group Seita. Between January 1997 and May 2017, he was a member of the Board of Directors of Telefónica S.A. (listed on various stock exchanges including Madrid, New York and London). Between July 2000 and April 2016, he served as Executive Chairman of Telefónica S.A.. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. From April 2008 to December 2013 he was a member of the Board of Directors of Telecom Italia, S.p.A.. Between September 2010 and June 2016, Mr. Alierta served as a member of the Board of Directors of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London). Between October 2017 and March 2018, Mr. Alierta served as a member of the Board of Directors of Mediobanca S.p.A. (listed on Milan stock exchange). In September 2005, Mr. Alierta received The Global Spanish Entrepreneur award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master s degree in business administration (MBA) at the University of Columbia (New York) in 1970.

Cheung Wing Lam Linus

(Independent Non-Executive Director)

Aged 69, was appointed in May 2004 as an Independent Non-Executive Director of the Company. Mr. Cheung is Independent Non-Executive Directors of HKR International Limited (listed on the Hong Kong Stock Exchange) and Sotheby s (listed on the New York Stock Exchange). Mr. Cheung was a member of the University of Hong Kong Council, Chairman of the Council of Centennial College, a member of the Board of Governors of Centennial College, Chairman of the University of Hong Kong School of Professional and Continuing Education, Chairman of Asia Television Limited, Deputy Chairman of PCCW Limited, an Independent Non-Executive Director of Taikang Life Insurance Company Limited, as well as President of the Chartered Institute of Marketing (Hong Kong Region). Prior to the merger of Pacific Century Cyberworks Limited and Hong Kong Telecom Limited, Mr. Cheung was the Chief Executive of Hong Kong Telecom Limited and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung worked at Cathay Pacific Airways for 23 years, leaving as Deputy Managing Director. He was appointed an Official Justice of the Peace in 1990 and a Non-official Justice of the Peace in 1992. Mr. Cheung received a bachelor s degree in social sciences and a diploma in management studies from the University of Hong Kong. He is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.

Wong Wai Ming

(Independent Non-Executive Director)

Aged 60, was appointed in January 2006 as an Independent Non-Executive Director of the Company. Mr. Wong is Executive Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the Hong Kong Stock Exchange and the New York Stock Exchange). Prior to his current executive position at Lenovo Group Limited, Mr. Wong was the Chief Executive Officer and Executive Director of Roly International Holdings Limited. Mr. Wong was previously an investment banker with over 15 years of experience in investment banking business in Greater China and was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Wong is a chartered accountant and holds a bachelor s degree (with Honors) in management science from the Victoria University of Manchester in the United Kingdom.

Chung Shui Ming Timpson

(Independent Non-Executive Director)

Aged 66, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 13th Chinese People s Political Consultative Conference. He is also the Pro-Chancellor of the City University of Hong Kong. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, China Construction Bank Corporation, Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited (formerly known as Jinmao Investments and Jinmao (China) Investments Holdings Limited), China Railway Group Limited (all listed on the Hong Kong Stock Exchange). From October 2004 to October 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director- General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Advisory Committee on Arts Development, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee, an Independent Non-Executive Director of Henderson Land Development Company Limited and Nine Dragons Paper (Holdings) Limited, an Independent Director of China Everbright Bank Company Limited and China State Construction Eng. Corp. Ltd. and an Outside Director of China Mobile Communications Corporation. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master s degree in business administration from the Chinese University of Hong Kong. Mr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Law Fan Chiu Fun Fanny

(Independent Non-Executive Director)

Aged 65, was appointed in November 2012 as an Independent Non-Executive Director of the Company. Mrs. Law is currently Chairman of the Board of Directors of Hong Kong Science and Technology Parks Corporation, a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region (HKSAR), the Special Adviser to the China-US Exchange Foundation, a Director of the Fan Family Trust Fund and the Honorary Principal of Ningbo Huizhen Academy. Besides, Mrs. Law is an Independent Non-Executive Director of CLP Holdings Limited and DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) and Nameson Holdings Limited (all listed on the Hong Kong Stock Exchange), as well as External Director of China Resources (Holdings) Co., Limited. Mrs. Law served as a Deputy of HKSAR to the National People s Congress of the People s Republic of China. Prior to her retirement from the civil service in 2007, Mrs. Law was the Commissioner of the Hong Kong Independent Commission Against Corruption. During her 30 years as an Administrative Officer, Mrs. Law has worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, civil service, transport and education. Mrs. Law graduated from the University of Hong Kong with an Honours degree in Science, and in 2009 was named an outstanding alumnus of the Science Faculty of the University of Hong Kong. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow of Harvard University. She also holds a Master degree in Education from the Chinese University of Hong Kong and is a Fellow of The Hong Kong Institute of Directors.

Mai Yanzhou

(Senior Vice President)

Aged 49, was appointed in February 2018 as a Senior Vice President of the Company. Mr. Mai, a professor level senior engineer, graduated from Zhengzhou University in 1991 and received a master s degree in Electronics and Information Engineering from Beijing University of Posts and Telecommunications in 2002. Mr. Mai served as Deputy General Manager of Guangdong Branch of China Network Communications Group Corporation, Deputy General Manager of Guangdong Branch, General Manager of Fujian Branch, as well as General Manager of Liaoning Branch of Unicom Group. Mr. Mai served as a Delegate to the 12th National People s Congress. Mr. Mai also serves as Vice General Manager of Unicom Group, Senior Vice President of A Share Company as well as Director and Senior Vice President of CUCL. Mr. Mai has extensive experience in management and telecommunications industry.

Liang Baojun

(Senior Vice President)

Aged 48, was appointed in February 2018 as a Senior Vice President of the Company. Mr. Liang, a professor level senior engineer, graduated from Changchun Institute of Posts and Telecommunications in 1991, received a master s degree in Engineering from Beijing University of Posts and Telecommunications in 1998 and an executive master s degree of Business Administration from Tsinghua University in 2006. Mr. Liang served as Deputy General Manager of Beijing Branch of China Telecom Corporation Limited, as well as General Manager of Henan Branch, General Manager of Corporate Informatisation Department, General Manager of Government and Enterprise Customers Department of China Telecommunications Corporation. Mr. Liang also serves as Vice General Manager of Unicom Group, Senior Vice President of A Share Company as well as Director and Senior Vice President of CUCL. Mr. Liang has extensive experience in management and telecommunications industry.

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CORPORATE GOVERNANCE REPORT

The Board is committed to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Company s business. As a company incorporated in Hong Kong, the Company adopts the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance of Hong Kong and other related laws and regulations as the basic guidelines for the Company s corporate governance. As a company dual-listed in Hong Kong and the United States, the current articles of association are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the regulatory requirements for non-US companies listed in the United States. These rules serve as guidance for the Company to improve the foundation of its corporate governance, and the Company strives to comply with the relevant requirements of international and local corporate governance best practices. The Company has regularly published statements relating to its internal control in accordance with the US Sarbanes-Oxley

Act and the regulatory requirements of the U.S. Securities and Exchange Commission and the New York Stock Exchange to confirm its compliance with related financial reporting, information disclosure, corporate internal control requirements and other regulatory requirements. The Board is responsible for performing overall corporate governance duties. The Company has adopted a Corporate Governance Practice which sets out the key terms of reference of the Board on corporate governance functions, including, amongst others, developing and reviewing the Corporate Governance Policy and corporate governance practices of the Company; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company s media enquiry policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and reviewing the Company s compliance with the Code.

In 2017, the Company s continuous efforts in corporate governance gained wide recognition from the capital markets and the Company was accredited with a number of awards. The Company was voted by institutional investors as Asia s No.1 Most Honored Telecom Company for two years in a row in 2017 All-Asia Executive Team ranking organised by the authoritative financial magazine, Institutional Investor. Meanwhile, Mr. Wang Xiaochu, Chairman and CEO of the Company was named as Asia s Best CEO (Telecoms) 1st , Mr. Li Fushen, executive Director and CFO of the Company was named as Asia s Best CFO (Telecoms) 1st . The Company was awarded as Asia s Best Management Team in Asia s Best Managed Companies Poll 2017 by FinanceAsia. Meanwhile, Mr. Wang Xiaochu was named again as Best CEO in China 1st and Mr. Li Fushen was named as Best CFO in China 1st . The Company was awarded The Best of Asia Icon on Corporate Governance by Corporate Governance Asia. Meanwhile, Mr. Wang Xiaochu was named Asia s Best CEO , Mr. Li Fushen was also named Asia s Best CFO , and the Company was also

honoured as Best Investor Relations Company . The Company was accredited with Platinum Award for Excellence in Environmental, Social, and Corporate Governance and Mr. Wang Xiaochu was accredited with Best Chief Executive Officer Award in The Asset Corporate Awards 2017 .

The Corporate Governance Code (the Code) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) provides for code provisions (the Code Provisions) and recommended best practices with respect to (i) Directors, (ii) remuneration of Directors and senior management and evaluation of the Board of Directors (the Board), (iii) accountability and audit, (iv) delegation by the Board, (v) communication with shareholders and (vi) company secretary. Other than the disclosures made in the section headed Board of Directors below, the Company confirms that for the year ended 31 December 2017, it complied with all the Code Provisions.

BOARD OF DIRECTORS

To serve the best interests of the Company and its shareholders, the Board is responsible for reviewing and approving major corporate matters, including, amongst others, business strategies and budgets, major investments, capital market operations, as well as mergers and acquisitions. The Board is also responsible for monitoring risk management and internal control, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities.

In order to achieve a sustainable and balanced development, the Company views Board diversity as a key element for supporting its strategic goals and maintaining sustainable development. The Board membership maintains wide representation. Members of the Board consist of outstanding individuals from different professions in Mainland China, Hong Kong and overseas. As at 31 December 2017, the Board comprises nine Directors, including four executive Directors, one non-executive Director and four independent non-executive Directors. Particulars of the Directors are set out on pages 32 to 39 of this annual report. The Company believes that the Board currently comprises experts from diversified professions such as telecommunications, information technology, banking, finance and management, and is diversified in terms of gender, age, duration of service, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

The below sets out the analysis of the composition of the Board as at 31 December 2017:

The roles and responsibilities of chairman and chief executive of the Company were performed by the same individual for the year ended 31 December 2017. Mr. Wang Xiaochu serves as Chairman and CEO of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Wang Xiaochu is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company. The Board believes that at the present stage, Mr. Wang Xiaochu and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities to ensure balance of power and authority. These arrangements also facilitate the formulation and implementation of the Company s strategies in a more effective manner so as to support the effective development of the Company s business.

All non-executive Director and independent non-executive Directors of the Company are influential members of society and possess good knowledge and experience in different areas. They have been making positive contributions to the development of the Company s strategies and policies through independent, constructive and informed advices. They have maintained close contact with the management and actively express constructive opinions on matters relating to the shareholders and the capital market at board meetings. These views and opinions facilitate the Board in making their decisions in the shareholders best interests. All independent non-executive Directors, except for their equity interests and remuneration disclosed in this annual report, do not have any business with or financial interests in the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. The functions of non-executive Director and independent non-executive Directors include, amongst other things, attending board meetings, exercising independent judgements at meetings, playing a leading role in resolving any potential

conflicts of interest, serving on committees by invitation and carefully examining whether the performance of the Company has reached the planned corporate targets and objectives, and monitoring and reporting on matters relating to the performance of the Company.

With respect to the nomination and appointment of new directors and senior management members, the Nomination Committee would, after considering the Company s need for new directors and/or senior management members, identify a wide range of candidates from within the Company and the human resources market and make recommendations to the Board. The Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. After having obtained the consent from candidates in relation to the relevant nomination and based on the Company s actual needs, the Board would convene a meeting, attendees of which include independent non-executive Directors and non-executive Director, to consider the qualifications of the candidates. The Directors of the Company (including non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation at general meetings pursuant to the Company s articles of association and at least once every three years.

Every newly appointed Director is provided with a comprehensive, formal and tailored induction on appointment, and would subsequently receive all briefing and professional development necessary to ensure that he/she has proper understanding of the Company s operations and businesses, full understanding of his/her responsibilities under the statutes, the common law, the Listing Rules, applicable legal and regulatory requirements, and the Company s business and corporate governance policies. Furthermore, formal letters of appointment setting out the key terms and conditions of the Directors appointment will be duly prepared.

Directors   training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and/or industrial environment to Directors. In 2017, the Directors as at 31 December 2017 have participated in various training and continuous professional development activities and the summary of which is as follows:

	Types of training
Executive Director	
Wang Xiaochu *(Chairman)*	**A, B**
Lu Yimin	**A, B**
Li Fushen	**A, B**
Shao Guanglu	**A, B**
Non-Executive Director	
Cesareo Alierta Izuel	**A, B**
Independent Non-Executive Director	
Cheung Wing Lam Linus	**A, B**
Wong Wai Ming	**A, B**
Chung Shui Ming Timpson	**A, B**
Law Fan Chiu Fun Fanny	**A, B**

A: attending relevant seminars and/or conferences and/or forums; delivering speeches at relevant seminars and/or conferences and/or forums

B: reading or writing relevant newspapers, journals and articles relating to general economy, general business, telecommunications, corporate governance or directors   duties

The remuneration package for executive Directors includes salary and performance-linked annual bonuses. The remuneration of executive Directors is determined by reference to their respective duties and responsibilities in the Company, their respective experience, prevailing market conditions and applicable regulatory requirements while the award of the performance-linked annual bonuses is tied to the attainment of key performance indicators or targets set by the Company. The remuneration of non-executive Directors is determined by reference to prevailing market conditions and their respective workload from serving as non-executive Directors and members of the board committees

of the Company. The Company also adopted share option scheme for the purpose of providing long term incentives to eligible participants, including Directors (details of such share option scheme are set out in the paragraph headed   Share Option Scheme of the Company   on pages 72 to 73 of this annual report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 143 to 145 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

The Board has provided clear guidelines for delegation of powers and responsibilities to management. However, certain important matters must be decided only by the Board, including, but not limited to, long-term objectives and strategies, annual budget, initial announcements on quarterly, interim and final results, dividends, major investments, equity-related capital market operations, mergers and acquisitions, major connected transactions and annual internal control evaluation. The arrangements on delegation of powers and responsibilities to management are reviewed by the Board periodically to ensure that they remain appropriate to the needs of the Company.

The Board convenes meetings regularly and all Directors have adequate opportunity to be present at the meetings and to include matters for discussion in the meeting agenda. Notices of regular board meetings are delivered to the Directors at least 14 days in advance of the meetings. The Company delivers, on a best endeavour basis, all documents for regular board meetings to the Directors at least one week prior to the meetings (and ensures that all documents are delivered to the Directors no less than three days prior to the regular meetings as required by the Code Provisions).

The Company Secretary, being an employee of the Company, has day-to-day knowledge of the Company s affairs and reports to the Chairman of the Board. He keeps close contact with all Directors and ensures that the operation of the Board and all board committees is in compliance with the procedures as set forth in the Company s articles of association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meetings will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform his duties, the Company Secretary attended sufficient professional training in 2017.

The Directors may, upon request, obtain independent professional advice at the expense of the Company. In addition, if any substantial shareholder of the Company or any Directors has significant conflicts of interest in a matter to be resolved, the Board will convene a board meeting in respect of such matter and those Directors who have conflicts of interest must abstain from voting and will not be counted in the quorum of the meeting.

All Directors are required to devote sufficient time and attention to the affairs of the Company. A culture of openness and debate are promoted in the Board and the Directors are encouraged to express their views and concerns. The Company provides monthly operating update to the Directors, so as to ensure the Directors are familiar with the Company s latest operations. In addition, through regular board meetings and reports from management, the Directors are able to clearly understand the operations, business strategy and latest development of the Company and the industry. Besides formal board meetings, the Chairman also meets annually with non-executive Director and

independent non-executive Directors, without the presence of the executive Directors, which further promotes the exchange of diversified views and opinions. In order to ensure that all Directors have appropriate knowledge of the matters discussed at the meetings, adequate, accurate, clear, complete and reliable information regarding those matters is provided in advance and in a timely manner, and all Directors have the right to inspect documents and information in relation to matters to be decided by the Board. The Directors have frequently visited various branches in Mainland China to gain better understanding of the Company s daily operations. In addition, the Company has arranged relevant trainings for the Directors (which include training sessions conducted by professional advisers, such as lawyers and accountants, from time to time) in order to broaden their knowledge in the relevant areas and to improve their understanding of the Company s business, legal and regulatory requirements and the latest operational technologies. The Board also conducts annual evaluation of its performance. Such efforts have improved the corporate governance of the Company.

In 2017, the Board held five board meetings for, amongst other things, discussion and approval of important matters such as the 2016 annual results, the 2016 Form 20-F, the 2017 annual budget, the 2017 interim results, the first and the first three quarters results for 2017, corporate social responsibility report, reports on risk management and internal control, connected transaction regarding the subscription of new shares of the Company by China Unicom (BVI) Limited as well as the appointment of executive Director.

Set forth below is an overview of the attendance during the year by the Board members at various meetings:

	Meetings Attended/Held					
	Board Meeting	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**Independent Board Committee Meeting**	**Shareholders Meeting**
Executive Directors						
Wang Xiaochu *(Chairman)*	5/5	N/A	N/A	1/1	N/A	2/2
Lu Yimin	5/5	N/A	N/A	N/A	N/A	2/2
Li Fushen	5/5	N/A	N/A	N/A	N/A	1/2
Shao Guanglu[1]	3/4	N/A	N/A	N/A	N/A	2/2
Non-Executive Director						
Cesareo Alierta Izuel	0/5	N/A	N/A	N/A	N/A	0/2
Independent Non-Executive Directors						
Cheung Wing Lam Linus	5/5	4/4	1/1	N/A	1/1	2/2
Wong Wai Ming	4/5	3/4	0/1	N/A	1/1	1/2
Chung Shui Ming Timpson	5/5	3/4	1/1	1/1	1/1	1/2
Law Fan Chiu Fun Fanny	4/5	3/4	N/A	1/1	1/1	2/2

Note 1: On 16 March 2017, Mr. Shao Guanglu was appointed as executive Director of the Company.

Note 2: Certain Directors (including independent non-executive Directors) did not attend the shareholders meeting and some of the meetings of the Board and committees due to other business commitments or being overseas.

In 2017, the Board performed their fiduciary duties and devoted sufficient time and attention to the affairs of the Company. The Board works effectively and performs its responsibilities efficiently with all key and appropriate issues being discussed and approved in a timely manner.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers , as set out in Appendix 10 to the Listing Rules (the Model Code) to govern securities transactions by directors. Further to the specific enquiries made by the Company to the Directors, all Directors have confirmed their compliance with the Model Code for the year ended 31 December 2017.

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2017, which give a true and fair view of the financial position of the Company as at the statement of financial position date and financial performance and cash flows of the Company for the year ended the statement of financial position date, are properly prepared on the going concern basis in accordance with relevant statutory requirements and applicable financial reporting standards. A statement of the independent auditors about their reporting responsibilities related to the financial statements is set out in the independent auditor s report on page 98 to page 103 of this annual report.

COMMITTEES UNDER THE BOARD

The Company has established three committees of the Board under the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee has a written charter, which is available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange). From time to time as required by the Listing Rules, the Board also establishes independent board committee for the purpose of advising and providing voting recommendations to independent shareholders on connected transactions and transactions subject to independent shareholders approval entered into by the Company and/or its subsidiaries. The committees are provided with sufficient resources, including, amongst others, obtaining independent professional advice at the expense of the Company, to perform its duties. The committees report their decisions or recommendations to the Board after meetings.

Audit Committee

Composition

As at 31 December 2017, the Audit Committee comprised Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Wong Wai Ming. All members of the Audit Committee have satisfied the independence requirements in relation to an Audit Committee member under applicable laws, regulations and rules. The Chairman of the Audit Committee is an accountant with expertise and experience in accounting and financial management. Another member of the Audit Committee is also an accountant with extensive accounting professional experience.

Major Responsibilities

The primary responsibilities of the Audit Committee include: as the key representative body, overseeing the Company s relationship with the independent auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor s independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from

the independent auditor to the management and responses of the management; discussing the risk management and internal control system with the management as well as reviewing the reports on the risk management and internal control procedures of the Company. The Audit Committee also has the authority to set up a reporting system to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company s accounting, internal control and audit matters. Any complaints on the aforementioned subject matters can be submitted by post (No. 21 Financial Street, Xicheng District, Beijing, 100033, China) or by phone (86-(010) 88091674). The Audit Committee is responsible to and regularly reports its work to the Board.

Work Completed in 2017

The Audit Committee meets at least four times each year, and assists the Board in its review of the financial statements to ensure effective risk management and internal control as well as efficient audit.

The Audit Committee held four meetings in 2017 for, amongst other things, discussion and approval of the 2016 annual results, the 2016 Form 20-F, the 2017 interim results, and the first and the first three quarters results for 2017. In addition, the Audit Committee approved in the meetings the report on risk management, the report on internal audit and internal control, the report on continuing connected transaction, the re-appointment, the audit fees and the audit plans of the independent auditor as well as the non-audit services provided by the independent auditor in 2017.

The Audit Committee has performed its duties effectively, and enabled the Board to better monitor the financial condition of the Company, supervise the risk management and internal control of the Company, ensure the integrity and reliability of the financial statements of the Company, prevent significant errors in the financial statements and ensure the Company s compliance with the relevant requirements of the Listing Rules, the U.S. federal securities regulations and the New York Stock Exchange listing standards with respect to audit committee.

Remuneration Committee

Composition

As at 31 December 2017, the Remuneration Committee comprised Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson, all being independent non-executive Directors of the Company. The Chairman of the Remuneration Committee is Mr. Cheung Wing Lam Linus.

Major Responsibilities

The primary responsibilities of the Remuneration Committee include: making recommendations to the Board on the policies and structure for all Directors and senior management s remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; reviewing and approving the management s remuneration proposals with reference to the corporate goals and objectives set by the Board; making recommendations to the Board on the remuneration packages of individual executive Directors and senior management (including benefits in kind, pension right and compensation payments, including any compensation payable for loss or termination of their office or appointment); making recommendations to the Board on the remuneration of non-executive Directors; consulting the Chairman about the remuneration proposals for other executive Directors; considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; considering any concrete plan proposed by the management of the Company for the grant of option which has not been granted, and any plan to amend any existing option scheme of the Company; reviewing and approving compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms; reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms; and ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Work Completed in 2017

The Remuneration Committee meets at least once a year. The Remuneration Committee held one meeting in 2017 for, amongst other things, discussion and approval of proposal for appraisal and remuneration of senior management.

The Remuneration Committee has performed its duties effectively on reviewing and approving the proposal of appraisal of senior management, as well as making recommendations to the Board with regards to the remuneration packages for senior management.

Nomination Committee

Composition

As at 31 December 2017, the Nomination Committee comprised Mr. Chung Shui Ming Timpson, Mr. Wang Xiaochu and Mrs. Law Fan Chiu Fun Fanny. Except for Mr. Wang Xiaochu, who is the Chairman and CEO of the Company, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny are independent non-executive Directors of the Company. The Chairman of the Nomination Committee is Mr. Chung Shui Ming Timpson.

Major Responsibilities

The primary responsibilities of the Nomination Committee include: reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals suitably qualified to become Board members and making recommendations to the Board; formulating, reviewing and implementing the board diversity policy; assessing the independence of independent non-executive Directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; providing advice to the Board on candidates of the senior management nominated by the CEO and on changes to the senior management of the Company.

Work Completed in 2017

The Nomination Committee meets at least once a year. The Nomination Committee held one meeting in 2017 for, amongst other things, reviewing the structure, size and composition of the Board, assessment of the independence of independent non-executive Directors, making recommendations to the Board on the proposed re-election of Directors and the appointment of executive Director.

The Company has adopted a policy concerning diversity of board members. The Company recognises and embraces the benefits of having a diverse Board, and notes increasing diversity at Board level as an essential element in maintaining a competitive advantage. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective. In reviewing Board composition, the Nomination Committee will consider a number of factors, including professional knowledge, skills, experience and diversity of perspectives which are appropriate to the Company s business model and specific needs. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and duration of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Independent Board Committee Established in Connection with the Issuance of New Shares Pursuant to the requirements of the Listing Rules, the Company has established an Independent Board Committee, comprising all 4 Independent non-executive Directors to consider the terms of the connected transaction regarding the subscription of new shares of the Company by China Unicom (BVI) Limited. The Independent Board Committee convened one meeting in 2017 and provided its advice and voting recommendation on this matter to the independent shareholders of the Company.

INDEPENDENT AUDITOR

KPMG is the independent auditor of the Company. Apart from audit services, it also provides other assurance and non-audit services. The other assurance and non-audit services provided by the independent auditors did not contravene the requirements of the US Sarbanes-Oxley Act and therefore enabling them to maintain the independence. The remuneration paid/payable to the independent auditor for provision of services in 2017 is as follows:

Items	**Note**	**2017 (in RMB thousands)**
Audit services	(i)	**74,277**
Other assurance services	(ii)	**8,084**
Non-audit services	(iii)	**1,461**

Notes:

(i) Audit services in 2017 mainly included audit work in connection with the audit of the Company s consolidated financial statements and internal control over financial reporting, pursuant to Section 404 of the U.S. Sarbanes-Oxley Act of 2002.

(ii) Other assurance services included other assurance and related services that can be reasonably provided by the independent auditor. In 2017, the provisions of other assurance and related services mainly included performing the limited procedures on the XBRL-tagged data related to Form 20-F for the year ended 31 December 2017, and accounting and reporting consultations service.

(iii) Non-audit services included other services that can be reasonably provided by the independent auditor. In 2017, the provisions of non-audit services mainly included tax compliance services and permitted advisory services on clearing and settlement process of one of the Company s subsidiary.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company s strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems, promotes the sustainable and healthy development of the Company, and enhances the Company s operation management level and risk prevention ability. The Board should oversee management in the design; implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems. The Board acknowledges that it is its responsibility for the risk management and internal control systems and reviewing their effectiveness.

Risk management and internal control systems have been designed to monitor and facilitate the accomplishment of the Company s business objectives, safeguard the Company s assets against loss and misappropriation, ensure maintenance of proper accounting records for the provision of reliable financial information, ensure the Company s compliance with applicable laws, rules and regulations. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Organisation systems

The Company set up a group-wide risk management and internal control systems consisting of the Board, the Internal Control and Risk Management Committee, the Integrated Management Department and each relevant professional functional departments.

The Company has an internal audit department with over 597 staff members, with officers stationed at various provincial branches. The internal audit department reports directly to the Audit Committee at least twice annually and is independent of the Company s daily operation and accounting functions. The internal audit department responsible for overall risk evaluation, special risk evaluation and internal control self-testing etc. It has also formulated targeted risk prevention and control measures, conducted risk follow-up inspections and has enhanced the risk awareness of the employees, all of which have played an active role in the Company s effective support and safeguard of its operation management and business development. Furthermore, with an emphasis on the effectiveness of internal control with respect to the efficiency of operations, accuracy of financial information, and compliance with rules and regulations, the internal audit department conducts, amongst others, internal control assessment and internal audit on economic accountability. In addition, the internal audit department also contributes to strengthening the operation and management, improving internal control systems, mitigating operational risks and increasing the economic efficiency of the Company.

Using the risk evaluation as fundamental with the adoption of Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (the

COSO), the Company established internal control systems based on the following five fundamental components:

1. Control Environment: Establishes the control environment which fulfill COSO requirements to provide the appropriate operating environment for the effective implementation of internal control

2. Risk Evaluation: Establishes the Policy on Risk Evaluation Management and evaluation mechanism, evaluates the risks to the achievement of its objectives across the Company and identifies to the new risk due to the changes

3. Control Activities: Deploys appropriate policies and control procedures over the Company s business activities, identifies key control procedures and policies of significant control activities thru evaluation

4. Information and Communication: Identifies relevant information and communication methods, establishes information and communication mechanisms to aggregate and delivers relevant information

5. Monitoring Activities: Establishes the internal control monitoring mechanism, implements the monitoring procedures and adopted the before, during and extensive monitoring principles, and carries on the proper monitoring to the internal control

Risk evaluation and management

The Company has established and gradually improved its comprehensive closed-loop risk management system for the purpose of integrating management of day-to-day general risks and spontaneous critical risks, achieved the closed-loop management by risk evaluation, early warning and follow-up inspections to ensure the effectiveness of operation management. The Company evaluated the adequacy and appropriateness on risk and control measures according to the new business model, management requirement, change of system, adjustment of duties and findings from internal and external inspections.

2017 Risk evaluation result

In 2017, the Company faced the risks arising from continuously intensified industry competition, changes of regulatory policies in the telecommunications industry, technology upgrade, risks associated with interest rates and exchange rates.

The followings were the major significant risks and countermeasures of the Company in 2017:

Continuously intensified industry competition risk

In facing the risks from continuously intensified industry competition, the company responded proactively to the profound impact resulting from the new changes. The Company deepened the implementation of the Focus strategy, leveraged the benefits from the mix ownership reform, expedited the Internet-oriented operation, rapidly adapted to market development demand, improved customer perception, continuously enhanced the competitive strength, and strived to achieve sustainable growth of the revenue.

Risk from the changes of regulatory policies in the telecommunications industry

In response to the risks arising from the changes of regulatory policies in the industry, in accordance with the requirements of relevant PRC regulators,

the Company adjusted the related impact resulting from the change in a timely manner, and further implemented its network speed upgrading and tariff reduction. Operators strengthened their innovation and cooperation magnitude, improved quality and efficiency, reduced tariff and enhanced traffic consumption perception substantially.

Technology upgrade risk

For the upgrade in telecommunications technology, the company had extensive 2G/3G/4G network construction and operation experience and fully understood the mobile communications market, and carried out a large number of 5G network needs analysis. The Company conducted in-depth research and testing on new technologies and new businesses, continuously improved its technological innovation capability, reasonably planned and constructed its network and maintained its competitive strength.

Interest rates and exchange rates risk

Regarding the interest rates and exchange rates risks, the Company continued to monitor the changes in the exchange rates and interest rates markets, adjusted the debt structure rationally and strengthened fund management in order to reduce exchange rates and interest rates risk.

The scope of the 2017 overall risk evaluation covered the whole Group, which included headquarter, 31 provincial companies and its cities-level branch offices, around 20 subsidiaries. Through both the quantitative and qualitative analysis, the Company fully considered the changes in operating environment, business and policies, identified the potential risk to the Company s operation, and planned for the risk according to the quantitative result. After reporting to each professional departments and the management, the significant risks and the risk level of the year were finally determined. The annual risk management instructions from the management were implemented according to the Policy on Risk Management and the Company s risk management requirement. This included the formulation of relevant risk management strategies, solution and corresponding departments carried out interim follow-up inspection works. The negative impacts arising from the risks and risk events were controlled as planned and were within an acceptable range. There were no significant control failings or weaknesses that have been identified during the year.

Monitoring and Optimisation

To ensure the effectiveness of risk management and internal control designs, the Company carried out risk evaluation timely and compared the risk points, formulated or enhanced corresponding internal control measures according to the change in business and management. At the same time, the internal control manual will be updated timely through the assessment and review on applications on internal control workflow modification submitted by professional departments, risk evaluation reports and exceptional issues from internal control assessment etc. Internal Control and Risk Management Office conducted inspections on effectiveness on risk management and internal control implementation in regular or irregular time interval, improved and enhanced risk management and internal control designs continuously. In 2017, each business unit of the Group docked and updated the results of optimisation of rules and regulations with internal control standards, and supported the implementation of internal control standards. According to the internal control self-assessment reports from the branches and subsidiaries, self-assessment reports from each professional

department, current year exceptional issues in internal control discovered during internal audit and the Company annual risk management report, the Group s Internal Control and Risk Management Office at its headquarter formed the Company s internal control self-assessment report, which acted as supporting document for the management to issue a statement of the effectiveness of internal control. Based on different disclosure requirements on Company s internal control assessment report from different listing regulatory body, the Company prepared internal control assessment report respectively. External auditor issued and disclosed independence opinions on financial statement as at 31 December on that year and effectiveness on internal control over financial reporting.

Certain of the management personnel of the Company and/or its subsidiaries had engaged or were alleged to have engaged in unlawful conduct in the past few years. Such unlawful conduct may include the acceptance of bribes, and some of these incidents are still under investigation. The Company believes that such management personnel misconduct are isolated incidents. In response to such management personnel misconduct, the Company had taken and will continue to take various measures, including enhancing the employees compliance awareness and strengthening the risk management and internal control procedure.

Annual review

The Board oversees the Company s risk management and internal control systems on an ongoing basis and the Board conducted an annual review of the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2017, which covered all material controls including financial, operational and compliance controls. After receiving the reports from the Internal Audit Department, as well as the confirmation from the management to the Board on the effectiveness of these systems, the Board is of the view that the Company s risk management and internal control systems is effective and adequate. The review also ensure, with respect to the Company s accounting, internal audit and financial reporting function, the adequacy of resources, staff qualifications and experience, and training programs and budget.

REQUIREMENTS UNDER SECTION 404 OF THE SARBANES-OXLEY ACT

Compliance with the requirements under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) has been an area of emphasis for the Company. The relevant sections of the Sarbanes-Oxley Act require the management of non-U.S. issuers with equity securities listed on U.S. stock exchanges to issue reports and make representations as to internal control over financial reporting.

The relevant internal control report needs to stress the management s responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company s internal control over financial reporting as at year end. Under Section 404 of the Sarbanes-Oxley Act, the Company s management is required to conduct an assessment of the effectiveness of the Company s internal control over financial reporting as at 31 December 2017. Management is currently in the process of finalising the management s report on internal control over financial reporting, which will be included in the Company s annual report on Form 20-F for the year ended 31 December 2017 to be filed with the United States Securities and Exchange Commission by 30 April 2018.

Information Disclosure Controls and Procedural Standards

In order to further enhance the Company s system of information disclosure, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures (including inside information), the Company has adopted and implemented the Information Disclosure Control Policy. In an effort to standardise the principles for information disclosures, the Company established the Information Disclosure Review Committee under the management and formulated the procedures in connection with the compilation and reporting of the Company s financial and operational statistics and other information, as well as the procedures in connection with the preparation and review of the periodic reports. Moreover, the Company established detailed implementation rules with respect to the contents and requirements of

financial data verification, in particular, the upward undertakings by the individual responsible officers at the levels of subsidiaries, branches and major departments.

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

In addition to publishing annual reports and interim reports, the Company discloses major unaudited financial information (including revenue, operating expenses, EBITDA, net profit) and other key performance indicators on a quarterly basis and announces operational statistics on a monthly basis in order to enhance the Company s transparency and improve investors understanding of the business operations of the Company. In addition, the Company submits annual reports and regular reports to the United States Securities and Exchange Commission pursuant to the requirements under the U.S. federal securities laws.

Upon the announcement of interim and annual results or major transactions, the Company will generally hold analyst briefings, press conferences, and global conference calls with investors. During such conferences, the management of the Company would interact directly with analysts, fund managers, investors and journalists to provide them with relevant information and data of the Company. The Company s management would accurately and thoroughly respond to questions raised by analysts, fund managers, investors and journalists. Archived webcast of the investor presentation is also available on the Company s website to ensure wide dissemination of information and data.

The Company s investor relations department is responsible for providing information and services requested by investors, maintaining timely communications with investors and fund managers, including responding to investors inquiries and meeting with company-visit investors, as well as gathering market information and passing views from shareholders to the Directors and management to ensure such views are properly communicated. The Company also arranges from time to time road shows and actively attends investor conferences arranged by investment banks, through which the

Company s management meets and communicates with investors to provide them with opportunities to understand more accurately the Company s latest development and performance in various aspects, including business operations and management.

In 2017, the Company participated in the following investor conferences:

Date	Conferences
January 2017	Morgan Stanley China TMT Conference 2017
January 2017	DBS Vickers Pulse of Asia Conference
January 2017	UBS Greater China Conference 2017
January 2017	dbAccess China Conference 2017
January 2017	Bank of America Merrill Lynch Greater China Telco and Media Corporate Day
March 2017	Morgan Stanley Seventh Annual Hong Kong Investor Summit
March 2017	Nomura Internet, Education & Telecom Corporate Day
March 2017	Credit Suisse 20th Annual Asian Investment Conference
April 2017	Bernstein Asia Pacific Tech Tour
April 2017	Macquarie Greater China Conference 2017
May 2017	HSBC 4th Annual China Conference
May 2017	dbAccess Asia Conference 2017
May 2017	CICC TMT and AI Forum
May 2017	BNP Paribas 8th Asia Pacific TMT Conference
May 2017	Goldman Sachs TechNet Conference Asia Pacific 2017
May 2017	DBS Pulse of Asia Conference
June 2017	Morgan Stanley Third Annual China Investor Summit
June 2017	J.P. Morgan Global China Summit 2017
June 2017	Nomura Investment Forum Asia 2017
June 2017	UBS Asia Telco and Internet Conference 2017
August 2017	Citi Greater China TMT Conference 2017
September 2017	Goldman Sachs China Conference 2017
September 2017	24th CLSA Investors Forum
September 2017	Citi Pan Asia Corporate Forum 2017
October 2017	Macquarie Telecom/5G Corporate Day
October 2017	Citi China Investor Conference 2017
November 2017	CICC Investment Forum 2017
November 2017	Jefferies 7th Annual Greater China Summit
November 2017	Credit Suisse China Investment Conference 2017
November 2017	Daiwa Investment Conference (Hong Kong) 2017
November 2017	J.P. Morgan 5th Global TMT Conference
November 2017	Morgan Stanley 16th Asia Pacific Summit

In addition, through announcements, press releases and the Company website (www.chinaunicom.com.hk), the Company disseminates the latest information regarding any significant business development in a timely and accurate manner. In the perspective of investor relations, the company s website not only serves as an important channel for the Company to disseminate press releases and corporate information to investors and the capital market, but also plays a significant role in the Company s valuation and our compliance with regulatory requirements for information disclosure. In 2017, the Company updated the content of its website on an ongoing basis to further enhance the functions of website and level of transparency in information disclosure, striving for achieving international best practices. Our website has been honoured with the Grand Award Investor Relations Website in the iNova Awards 2017 .

Furthermore, the Company has adopted a Shareholders Communication Policy to ensure that the shareholders of the Company are provided with readily, equal and timely access to balanced and understandable information about the Company, to enable shareholders to exercise their rights in an informed manner, and to enhance the shareholders and the investment community s communication with the Company.

SHAREHOLDERS RIGHTS

Annual General Meeting

The Board endeavors to maintain an on-going dialogue with shareholders, and in particular, to communicate with shareholders through annual general meetings. Notices of annual general meeting are sent to shareholders at least 20 clear business days before the meeting. The Directors and representatives of the Board committees usually attend the meetings and treasure the opportunities to communicate with shareholders at such meetings. At general meetings, the chairman of the meeting proposes individual resolutions in respect of each substantially separate matter. All matters at the Company s general meetings are resolved by poll and the relevant procedures are explained at the meeting. The Company also appoints external scrutineers to ensure that all votes are counted and recorded appropriately, and publishes the poll results in a timely manner.

The last annual general meeting of the Company was held on 10 May 2017, at which the following resolutions were passed:

to receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2016

to re-elect Mr. Shao Guanglu, Mr. Cesareo Alierta Izuel, Mr. Cheung Wing Lam Linus and Mr. Wong Wai Ming as Directors, and to authorise the Board to fix remuneration of the Directors

to re-appoint auditor and authorise the Board to fix their remuneration for the year ending 31 December 2017

to grant a general mandate for share buy- back

to grant a general mandate to issue new shares

to extend the general mandate to issue new shares

The next annual general meeting will be held on 11 May 2018. Please refer to the circular, which sets out the details, that has been sent together with this Annual Report.

Putting Forward Resolutions at Annual General Meetings

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the following persons may put forward a resolution at the next annual general meeting of the Company: (a) any number of shareholders, together holding not less than 2.5% of the total voting rights of all shareholders which have, as at the date of the requisition, a right to vote at the next annual general meeting, or (b) not less than 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The resolution must be one which may be properly moved and is intended to be moved at the next annual general meeting. The requisition must be signed by the requisitionists and deposited at the registered office of the Company at least six weeks or if later, the time at which notice is given of the annual general meeting before the annual general meeting, the Company has a duty to give notice of such proposed resolution to all shareholders who are entitled to receive notice of the next annual general meeting.

In addition, requisitionists may require the Company to circulate to shareholders entitled to receive notice of the annual general meeting a statement of not more than 1,000 words with respect to the resolution to be proposed. However, the Company is not required to circulate any statement if the court is satisfied that this right is being abused to secure needless publicity for defamatory matters. In such event, the requisitionists may be ordered to pay for the Company s expenses for application to the court.

If the requisition signed by the requisitionists does not require the Company to give shareholders notice of a resolution, such requisition may be deposited at the registered office of the Company not less than one week before the next annual general meeting.

Extraordinary General Meeting

Notices of extraordinary general meeting are required to be sent to shareholders at least 10 clear business days before the meeting.

The last extraordinary general meeting of the Company was held on 15 September 2017, at which the independent shareholders of the Company passed the resolution to approve the connected transaction in relation to the share subscription of new shares of the Company by China Unicom (BVI) Limited.

Convening Extraordinary General Meetings

Pursuant to Section 566 of the Companies Ordinance, shareholder(s) holding not less than 5% of the total voting rights of all shareholders having a right to vote at general meetings of the Company as at the date of deposit of the requisition, may request the Directors of the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company.

If the Directors do not, within 21 days from the date of deposit of the requisition, proceed duly to convene a meeting to be held not more than 28 days after the notice of the meeting, shareholder(s) requisitioning the meeting, or any of them representing more than half of their total voting rights, may themselves convene a meeting to be held within three months of such date.

Meetings convened by the requisitionists must be convened in the same manner, as nearly as possible, as meetings to be convened by Directors of the Company. Any reasonable expenses incurred by the requisitionists will be reimbursed by the Company due to the failure of the Directors duly to convene a meeting.

Putting Forward Resolutions at Extraordinary General Meetings

Shareholders may not put forward resolutions to be considered at any general meetings other than annual general meetings. However, shareholders may request an extraordinary general meeting to consider any such resolution as described in Convening Extraordinary General Meetings above.

Any queries relating to shareholders rights on putting forward resolutions at general meetings and convening extraordinary general meetings should be directed to the Company Secretary of the Company. Requisitions should be deposited at the Company s registered office and marked for the attention of the Company Secretary.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE PRACTICES OF THE COMPANY AND THE CORPORATE GOVERNANCE PRACTICES REQUIRED TO BE FOLLOWED BY U.S. COMPANIES UNDER THE LISTING STANDARDS OF THE NEW YORK STOCK EXCHANGE

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the Companies Ordinance, as well as applicable U.S. federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act. In addition, the Company is subject to the listing standards of the New York Stock Exchange to the extent applicable to non-U.S. issuers. As a non-U.S. issuer, the Company is not required to comply with all of the corporate governance listing standards of the New York Stock Exchange.

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its website (www.chinaunicom.com.hk) a summary of the significant differences between corporate governance practices of the Company and those required to be followed by U.S. companies under the listing standards of the New York Stock Exchange.

ENQUIRY ON THE COMPANY

Shareholders may raise any enquiry on the Company at any time through the following channels:

China Unicom (Hong Kong) Limited

Address: 75th Floor, The Center, 99 Queen s Road Central, Hong Kong

Tel	:	(852) 2126 2018
Fax	:	(852) 2126 2016
Website	:	www.chinaunicom.com.hk
Email	:	ir@chinaunicom.com.hk

These contact details are also available in the Contact Us section on the Company s website (www.chinaunicom.com.hk) designated to enable shareholders to send enquiries to the Company on a timely and effective manner.

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REPORT OF THE DIRECTORS

The board of directors (the Board) of China Unicom (Hong Kong) Limited (the Company) is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (the Group) for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of 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.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2017 are set out on pages 104 to 105 of this annual report.

Taking into consideration the Company s profitability, debt and cash flow level and capital requirements for its future development, the Board has resolved to recommend at the forthcoming shareholders general meeting that the payment of a final dividend of RMB0.052 per ordinary share (2017 Final Dividend), totaling approximately RMB1,591 million for the year ended 31 December 2017. Going forward, the Company will continue to strive for enhancing its profitability and improving corporate efficiency and shareholders returns.

FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 188 to 189 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2017.

Please refer to the financial statements on pages 104 to 187 for the operating results of the Group for the year ended 31 December 2017 and the respective financial positions of the Group and the Company as at that date.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed Chairman s Statement on pages 10 to 17, Business Overview on pages 18 to 23, Financial Overview on pages 26 to 31, Financia Statements on pages 104 to 187, Human Resources Development on pages 90 to 91, Social Responsibility on pages 92 to 95, Corporate Governance Report on pages 42 to 66 and Report of the Directors on pages 70 to 87 respectively of this annual report. All references herein to other sections or reports in this annual report form part of this Report of the Directors.

LOANS

Please refer to Notes 31, 36, 41.3 and 41.4 to the financial statements for details of the borrowings of the Group.

PROMISSORY NOTES

Please refer to Note 32 to the financial statements for details of the promissory notes of the Group.

CORPORATE BONDS

Please refer to Note 33 to the financial statements for details of the corporate bonds of the Group.

COMMERCIAL PAPERS

Please refer to Note 37 to the financial statements for details of the commercial papers of the Group.

CAPITALISED INTEREST

Please refer to Note 15 to the financial statements for details of the interest capitalised by the Group for the year.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed in this Report of Directors, as at 31 December 2017, no equity-linked agreements were entered into by the Group during the year or subsisted.

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 15 to the financial statements for movements in the property, plant and equipment of the Group for the year.

CHARGE ON ASSETS

As at 31 December 2017, no property, plant and equipment was pledged to banks as loan security (31 December 2016: Nil).

SHARE CAPITAL

Please refer to Note 28 to the financial statements for details of the share capital.

RESERVES

Please refer to page 108 and page 168 of this annual report for the movements in the reserves of the Group and the Company during the year ended 31 December 2017 respectively. As at 31 December 2017, the distributable reserve of the Company amounted to approximately RMB2,259 million (2016: approximately RMB1,421 million).

SUBSIDIARIES AND ASSOCIATES

Please refer to Notes 18 and 19 to the financial statements for details of the Company s subsidiaries and the Group s associates.

CHANGES IN SHAREHOLDERS EQUITY

Please refer to page 108 of this annual report for the Consolidated Statement of Changes in Equity and page 168 for the Statement of Changes in Equity.

EMPLOYEE BENEFIT EXPENSES

Please refer to Note 8 to the financial statements for details of the employee benefit expenses provided to employees of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the articles of association of the Company requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

MAJOR CUSTOMERS AND SUPPLIERS

The Group s sales to its five largest customers for the year ended 31 December 2017 did not exceed 30% of the Group s total turnover for the year.

The Group s purchases from its largest supplier for the year ended 31 December 2017 represented approximately 28.1% of the Group s total purchases for the year. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2017 accounted for approximately 49.7% of the total purchases of the Group for the year.

None of the Directors nor their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) nor any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company s share capital) had any interests in the five largest suppliers of the Group for the year ended 31 December 2017.

SHARE OPTION SCHEME OF THE COMPANY

2014 Share Option Scheme

Pursuant to a resolution passed at the annual general meeting held on 16 April 2014, the Company adopted a new share option scheme (the 2014 Share Option Scheme). The purpose of the 2014 Share Option Scheme was to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. 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. Following the expiry of the 2014 Share Option Scheme, no further share option can be granted under the 2014 Share Option Scheme, but the provisions of the 2014 Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share

options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2014 Share Option Scheme. Under the 2014 Share Option Scheme:

(1) share options may be granted to employees including all Directors;

(2) 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;

(3) the maximum aggregate number of shares in respect of which share options may be granted shall be calculated in accordance with the following formula:

N = A B C

where:

N is the maximum aggregate number of shares in respect of which share options may be granted pursuant to the 2014 Share Option Scheme;

A is the maximum aggregate number of shares in respect of which shares options may be granted pursuant to the 2014 Share Option Scheme and any other share option schemes of the Company, being 10% of the aggregate of the number of shares in issue as at the date of adoption of the 2014 Share Option Scheme;

B is the maximum aggregate number of shares underlying the share options already granted pursuant to the 2014 Share Option Scheme; and

C is the maximum aggregate number of shares underlying the options already granted pursuant to any other share option schemes of the Company.

Shares in respect of share options which have lapsed in accordance with the terms of the 2014 Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of determining the maximum aggregate number of shares in respect of which options may be granted pursuant to the 2014 Share Option Scheme.

(4) 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;

(5) the subscription price shall not be less than the higher of:

(a) the closing price of the shares on the Hong Kong Stock Exchange on the offer date in respect of the share options; and

(b) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the offer date;

(6) the total number of shares in the Company issued and to be issued upon exercise of the share options granted to a participant of the 2014 Share Option Scheme (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and

(7) the consideration payable for each grant is HKD1.00.

No share options had been granted since adoption of the 2014 Share Option Scheme.

As at 31 December 2017, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme, representing approximately 5.81% of issued share capital of the Company as at the date of this annual report.

Directors , Chief Executives and Employees Interests Under the Share Option Scheme of the Company

For the year ended 31 December 2017 and as at 31 December 2017, none of the Directors of the Company or chief executives or employees of the Company had any interests under any share option scheme of the Company.

DIRECTORS AND CHIEF EXECUTIVES INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of Directors and chief executives of the Company and their respective close associates in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Hong Kong Securities and Futures Ordinance (the SFO)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code) as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the Listing Rules), were as follows:

Name of Director	Capacity	Ordinary Shares Held	Percentage of Issued Shares
Cheung Wing Lam Linus	Beneficial owner (Personal)	200,000	0.0007%
Chung Shui Ming Timpson	Beneficial owner (Personal)	6,000	0.0000%

Save as disclosed in the foregoing, as at 31 December 2017, none of the Directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, underlying shares, or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Furthermore, save as disclosed in the foregoing, during the year ended 31 December 2017, none of the Directors or chief executives (including their spouses and children under the age of 18) of the Company had any interests in or was granted any right to subscribe in any shares, underlying shares, or debentures of the Company or any of its associated corporations, or had exercised any such rights.

MATERIAL INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL

SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the following persons (other than disclosed under the section headed Directors and Chief Executives Interests and Short Positions in Shares, Underlying Shares and Debentures) had the following interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of Part XV of the SFO:

	Ordinary Shares Held		Percentage of Issued
Name of Shareholders	**Directly**	**Indirectly**	**Shares**
(i) China United Network Communications Group Company Limited (Unicom Group[1,2])		24,683,896,309	80.67%
(ii) China United Network Communications Limited (Unicom A Share Company [1])		16,376,043,282	53.52%
(iii) China Unicom (BVI) Limited (Unicom BVI)1	16,376,043,282		53.52%
(iv) China Unicom Group Corporation (BVI) Limited (Unicom Group BVI [2])[3]	8,082,130,236	225,722,791	27.15%

Notes:

1. Unicom Group and Unicom A Share Company directly or indirectly control one-third or more of the voting rights in the shareholders meetings of Unicom BVI, and in accordance with the SFO, the interests of Unicom BVI are deemed to be, and have therefore been included in, the respective interests of Unicom Group and Unicom A Share Company.

2. Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. In accordance with the SFO, the interests of Unicom Group BVI are deemed to be, and have therefore been included in, the interests of Unicom Group.

3. Unicom Group BVI holds 8,082,130,236 shares (representing 26.41% of the total issued shares) of the Company directly. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.74% of the total issued shares) of the Company held as trustee on behalf of a PRC shareholder.

Apart from the foregoing, as at 31 December 2017, no person had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

Please also refer to Note 28 to the consolidated financial statements for details of the share capital of the Company.

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company s listed shares.

COMPOSITION OF THE BOARD

The following is the list of Directors during the year and up to date of this report.

Executive Directors:

Wang Xiaochu

(Chairman and Chief Executive Officer)

Lu Yimin

Li Fushen

Shao Guanglu (appointed on 16 March 2017)

Non-Executive Director:

Cesareo Alierta Izuel

Independent Non-Executive Directors:

Cheung Wing Lam Linus

Wong Wai Ming

Chung Shui Ming Timpson

Law Fan Chiu Fun Fanny

Pursuant to the articles of association of the Company, Mr. Li Fushen, Mr. Chung Shui Ming Timpson, and Mrs. Law Fan Chui Fun Fanny will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Please refer to Note 8 to the financial statements for details of the emoluments of the Directors.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors the annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are currently independent.

DIRECTORS INTEREST IN CONTRACTS

Save for the service agreements between the Company and the executive Directors, as at 31 December 2017, the Directors did not have any material interest, whether directly or indirectly, in any significant contracts entered into by the Company.

None of the Directors for re-election at the forthcoming annual general meeting has an unexpired service agreement which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS INTEREST IN COMPETING BUSINESSES

Unicom Group and the A Share Company are engaged in telecommunications business and other related businesses in China that are similar to and/or compete with those of the Company. Executive directors of the Company also hold executive positions with Unicom Group and the A Share Company. Please refer to the section headed Directors and Senior Management on pages 32 to 39 of this annual report for further details.

Mr. Wang Xiaochu, chairman of the Board and Chief Executive Officer of the Company, has served as a director of Telefónica S.A. since September 2015. Mr. Cesareo Alierta Izuel is a director of Telefónica Audiovisual Digital, S.L.U., which is an affiliate of Telefónica, S.A.

Mr. Lu Yimin, an executive Director and President of the Company, has served as a non-executive director of PCCW Limited since May 2008 and the deputy chairman of the board of directors of PCCW Limited since November 2011. Mr. Lu Yimin has also served as a non-executive director of HKT Limited and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li Fushen, an executive Director and Chief Financial Officer of the Company, has served as a non-executive director of PCCW Limited since July 2007 and as a non-executive director of HKT Limited and HKT Management Limited since November 2011. Mr. Shao Guanglu, an executive Director and Senior Vice President of the Company, has served as a non-executive director of PCCW Limited since March 2017.

Each of Telefónica S.A., PCCW Limited, HKT Limited and HKT Management Limited, is engaged in the telecommunications business and other related businesses that may compete with those of the Company.

Apart from the above, there are no competing interests of directors which are disclosable under Rule 8.10(2)(b) of the Listing Rules at any time during the year of 2017 up to and including the date of this annual report.

DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2017 and up to the date of this report of directors are available on the Company s website (http://www.chinaunicom.com.hk).

PERMITTED INDEMNITY

Pursuant to the Company s articles of association, subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 251,786 employees, 588 employees and 181 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 15,035 temporary staff in Mainland China. For the year ended 31 December 2017, employee benefit expenses were approximately RMB 42.471 billion (for the year ended 31 December 2016: RMB36.907 billion). The Group endeavors to maintain its employees remuneration in line with the market trend and to remain competitive. Employees remuneration is determined in accordance with the Group s remuneration and bonus policies based

on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits and internal and external training programmes, which are tailored in accordance with individual needs.

The Company has adopted share option schemes, under which the Company may grant share options to eligible employees for subscribing for the Company s shares.

CONNECTED TRANSACTION - ISSUE OF NEW SHARES

On 22 August 2017, the Company and Unicom BVI entered into a share subscription agreement. The completion of allotment and issuance of the subscription shares took place on 28 November 2017. 6,651,043,262 new ordinary shares of the Company have been issued for a cash consideration of HKD13.24 per share to Unicom BVI and the gross proceeds amounted to HKD88,059.81 million (equivalent to approximately RMB74,953.87 million) and the net issue price amounted to HKD13.24 each. The closing price was HKD12.04 per share as quoted on the Hong Kong Stock Exchange as at the date of the share subscription agreement. Details of such issue have been disclosed in the circular dated 28 August 2017.

The share subscription is part of the mixed ownership reform plan implemented by Unicom Group. Through integrated planning on the mixed ownership reform plan, Unicom A Share Company actively introduced strategic investors which are engaged in businesses that are highly correlated with and complementary to the principal businesses of Unicom A Share Company and which reduced the state-owned shareholding in Unicom A Share

Company, so as to progress with the mixed ownership reform. Through implementing the mixed ownership reform plan, Unicom A Share Company expects to further optimise its corporate governance in accordance with the market-oriented principles, focus on the development of its principal businesses, establish an innovative business model and further develop innovative businesses, so as to improve and enhance its overall efficiency and competitiveness and to achieve its strategic goals.

As disclosed in the circular in relation to the subscription of new shares by Unicom BVI issued by the Company on 28 August 2017, the use of proceed was intended to be utilised for the following purposes:

(a) approximately HKD46,777.96 million (equivalent to approximately RMB39,816 million) for upgrading the 4G network capabilities of the Company, which involves the upgrading of the transmission capacity of existing nationwide 4G network, construction of new 4G stations, improving the interoperation with 5G network and construction of transmission network in connection with the interoperation;

(b) approximately HKD23,011.85 million (equivalent to approximately RMB19,587 million) for technology validation and enablement and launch of trial programs in relation to the 5G network, which involve research, development and validation of 5G network related technologies, construction of 5G trial stations and establishment of basic 5G network capability;

(c) approximately HKD2,728.01 million (equivalent to approximately RMB2,322 million) for developing innovative businesses, which involves the establishment of specialised teams and business platforms to back up the development of cloud computing, big data, the Internet of Things, industrial Internet, payment finance, video and other businesses; and

(d) approximately HKD15,538.98 million (equivalent to approximately RMB13,226 million) for the repayment of the outstanding principal amount of loans obtained from the banks.

As at 31 December 2017, RMB19,902 million of the proceeds has been utilised for the following purposes:

(Unit: RMB, million)

Intended use of proceeds as set out in the circular	Intended amounts to be utilised as set out in the circular	Actual amounts utilised for the year ended 31 December 2017	Amounts not yet utilised as at 31 December 2017 (Note 1)
Upgrading the 4G network capabilities	39,816	6,580	33,236
Technology validation and enablement and launch of trial programs in relation to the 5G network	19,587		19,587
Developing innovative businesses	2,322	96	2,226
Repayment of the principal amount of loans	13,226	13,226	

Note 1: As at 31 December 2017, approximately RMB55,049 million of the proceeds from issuance remains unused, which was temporarily used to supplement the Company s working capital. The remaining proceeds will be utilised according to the use of proceeds disclosed in the circular and the actual development plan of projects.

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CONTINUING CONNECTED TRANSACTIONS

On 25 November 2016, China United Network Communications Corporation Limited (CUCL), a wholly-owned subsidiary of the Company, and Unicom Group entered into a comprehensive services agreement (the 2017-2019 Comprehensive Services Agreement) to renew certain continuing connected transactions including (i) telecommunications resources leasing; (ii) property leasing; (iii) value-added telecommunications services; (iv) materials procurement services; (v) engineering design and construction services; (vi) ancillary telecommunications services; (vii) comprehensive support services; (viii) shared services; and (ix) financial services are new continuing connected transactions, including deposit services, lending and other credit services, and other financial services. Pursuant to the 2017-2019 Comprehensive Services Agreement, CUCL and Unicom Group shall provide certain services and facilities to each other and the receiving party shall pay the corresponding service fees in a timely manner. The 2017-2019 Comprehensive Services Agreement is valid for a term of three years starting from 1 January 2017 and expiring on 31 December 2019. Unicom Group is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

Details of the continuing connected transactions under the 2017-2019 Comprehensive Services Agreement are as follows:

(1) Telecommunications Resources Leasing
Unicom Group agrees to lease to CUCL:

(a) 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
(b) certain other telecommunications facilities required by CUCL 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 telecommunications facilities provided that such charges would not be higher than market rates. CUCL shall be responsible for the on-going maintenance of such international telecommunications resources. CUCL and Unicom Group shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in (b). Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group is responsible for maintaining any telecommunications facilities referred to in (b), CUCL shall pay to Unicom Group the relevant maintenance service charges which shall be determined with reference to market rate, or where there is no market rate, shall be agreed between the parties and determined on a cost-plus basis. When determining the pricing standard or reasonable profit margin, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered with or carried out by Independent Third Parties or relevant industry profit margins in the corresponding period of reference. CUCL and Unicom Group agree to settle the net rental charges and service charges due to Unicom Group on a quarterly basis.

For the year ended 31 December 2017, the total charges paid by CUCL to Unicom Group amounted to approximately RMB270 million.

(2) Property Leasing

CUCL and Unicom Group agree to lease each other properties and ancillary facilities owned by CUCL or Unicom Group (including their respective branch companies and subsidiaries).

The rental charges for the leasing of each other properties and ancillary facilities are based on market rates. Where there is no market rate or it is not possible to determine the market rate, the rate shall be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties in the ordinary course of business and under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs plus the amount of the relevant taxes and reasonable profit margin. When determining the pricing standard or reasonable profit margin, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered with or carried out by Independent Third Parties in the corresponding period of reference. The rental charges are payable quarterly in arrears.

For the year ended 31 December 2017, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB1,017 million, and the rental charges paid by Unicom Group to CUCL was negligible.

(3) Value-added Telecommunications Services

Unicom Group (or its subsidiaries) agrees to provide the customers of CUCL with various types of value-added telecommunications services.

CUCL shall settle the revenue generated from the value-added telecommunications services with the branches of Unicom Group (or its subsidiaries) on the condition that such settlement will be based on the average revenue for independent value-added telecommunications content providers who provide value-added telecommunications content to CUCL in the same region. The revenue shall be settled on a monthly basis.

For the year ended 31 December 2017, the total revenue allocated to Unicom Group in relation to value-added telecommunications services amounted to approximately RMB30 million.

(4) Materials Procurement Services

Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group also agrees 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.

Charges for the provision of materials procurement services are calculated at the rate of:

(a) up to 3% of the contract value of those procurement contracts in the case of domestic materials procurement; and

(b) up to 1% of the contract value of those procurement contracts in the case of imported materials procurement.

The charges for the provision of materials operated by Unicom Group, and the pricing and/or charging standard of various materials procurement services, and storage and logistics services commission relevant to the direct material procurement are based on the market rates. Where there is no market rate or it is not possible to determine the market rate, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of assets or services is provided by Independent Third Parties in the ordinary course of business and under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. When determining the pricing standard or reasonable profit margin , to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with Independent Third Parties in the corresponding period or the relevant industry profit margin for reference. The service charges due to Unicom Group will be settled on a monthly basis.

For the year ended 31 December 2017 the total charges paid by CUCL to Unicom Group amounted to approximately RMB60 million.

(5) Engineering Design and Construction Services

Unicom Group agrees to provide to CUCL engineering design, construction and supervision services and IT services. Engineering design services include planning and design, engineering inspection, telecommunications electronic engineering, telecommunications equipment engineering and corporate telecommunications

engineering. Construction services include services relating to telecommunications equipment, telecommunications routing, power supplies, telecommunications conduit, and technical support systems. IT services include services relating to office automation, software testing, network upgrading, research and development of new business, and development of support systems.

The charges for the provision of engineering design and construction services are based on market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by Independent Third Parties in the ordinary course of business and under normal commercial terms. When determining the pricing standard, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered with or carried out by Independent Third Parties in the corresponding period of reference. In the event the recipient will determine the specific provider of engineering design and construction services through tender, the provider will be no less qualified and equipped than the Independent Third Parties, and will participate in the tender procedure in a similar manner as the Independent Third Parties. Under such circumstances, the pricing will be determined by the final rate according to the tender procedure.

The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.

For the year ended 31 December 2017, the total charges paid by CUCL to Unicom Group amounted to approximately RMB2,411 million.

(6) Ancillary Telecommunications Services

Unicom Group agrees to provide to CUCL ancillary telecommunications services, including certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain client telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers services.

The charges payable for the provision of ancillary telecommunications services are determined by the market rates between the two parties. Where there is no market rate or it is not possible to determine the market rates, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of assets or services are provided by Independent Third Parties under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs plus the amount of the relevant taxes and reasonable profit margin. When determining the pricing standard or reasonable profit margin , to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with Independent Third Parties in the corresponding period or the relevant industry profit margin for reference. The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.

For the year ended 31 December 2017, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB2,699 million.

(7) Comprehensive Support Services

Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities which are provided under the Telecommunications Resources Leasing 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 service charges are determined by the market rates between the two parties. Where there is no market rate or it is not possible to determine the market rate, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of assets or services are provided by Independent Third Parties under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs plus the amount of the relevant taxes and reasonable profit margin. When determining the pricing standard or reasonable profit margin, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with Independent Third Parties in the corresponding period or the relevant industry profit margin for reference. The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.

For the year ended 31 December 2017, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB1,274 million, and the total services charges paid by Unicom Group to CUCL amounted to approximately RMB67 million.

(8) Shared Services

Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following: (a) CUCL will provide headquarter human resources services to Unicom Group; (b) Unicom Group and CUCL will provide business support centre services to each other; (c) CUCL will provide hosting services related to the services referred to in (a) and (b) above to Unicom Group; and (d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters. In relation to the services referred to in (b) above, CUCL will provide support services, such as billing and settlement services provided by the business support centre and operational statistics reports. Unicom Group will provide support services, including telephone card production, development and related services, maintenance and technical support and management services in relation to the telecommunications card operational system.

Unicom Group and CUCL share the costs related to the shared services proportionately in accordance with their respective total assets value, except that the total assets value of the overseas subsidiaries and the listed company of Unicom Group will be excluded from the total asset value of Unicom Group. The shared costs proportion will be agreed between Unicom Group and CUCL in accordance with the total assets value set out in the financial statements provided to each other, as adjusted in accordance with their respective total assets value on an annual basis.

For the year ended 31 December 2017, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB83 million, and the services charges paid by Unicom Group to CUCL was negligible.

(9) Financial Services

CUCL or its subsidiaries agrees to provide financial services to Unicom Group, including deposit services, lending and other credit services, and other financial services. Other financial services include settlement services, acceptance of bills, entrusted loans, credit verification, financial and financing consultation, consultation, agency business, approved insurance agent services, and other businesses approved by China Banking Regulatory Commission.

The key pricing policies are follows:

(a) Deposit Services

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

(b) Lending and other credit services

The lending 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 by CUCL and its subsidiaries 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. For the year ended 31 December 2017, the maximum daily lending and other credit services balance (including accrued interests) amounted to approximately RMB704 million.

(c) Other financial services

The fees to be charged by CUCL or its subsidiaries for the provision of the financial services to Unicom Group will comply with the relevant prescribed rates for such services as determined by the People s Bank of China or the China Banking Regulatory Commission. Where no relevant prescribed rate is applicable, the fee will be determined with reference to market rates of similar financial services charges and agreed between the parties.

The service charges will be settled between CUCL or its subsidiaries and Unicom Group as and when the relevant services are provided.

For the financial year ended 31 December 2017, the above continuing connected transactions have not exceeded their respective caps.

The Company has formulated and strictly implemented various systems including the *Administrative Measures of Connected Transactions of China Unicom* to ensure that connected transactions are properly entered into in accordance with pricing mechanisms and the terms of the transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The staff from the relevant business departments and the connected persons of the Company will negotiate the pricing terms of the continuing connected transactions. These pricing terms will be determined in accordance with the pricing policy principles set out in the 2017 2019 comprehensive services agreement, which should be fair and reasonable and subject to the review of the finance department.

The legal department is responsible for the review of the agreement for connected transactions. The finance department takes the lead in the daily management and supervision of connected transactions, including liaising with the relevant business departments for account reconciliation with connected parties, monitoring the implementation of connected transactions together with business departments on a routine basis and performing supervisory examination. The finance department regularly reports the status of the implementation of connected transactions to the Audit Committee. The audit department includes review on connected transactions into the scope of annual internal control assessment and reports the results to the management.

Furthermore, the aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or better or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company s independent auditor was engaged to report on the Group s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 79 to 84 of this annual report in accordance with paragraph 14A.56 of the Listing Rules. The independent auditors letter has confirmed that nothing has come to their attention that cause them to believe that the continuing connected transactions:

(A) have not been approved by the Board;

(B) were not, in all material respects, in accordance with the pricing policies of the Group as stated in this annual report;

(C) were not entered into, in all material respects, in accordance with the relevant agreements governing the continuing connected transactions; and

(D) have exceeded their respective caps for the financial year ended 31 December 2017 set out in the previous announcements of the Company.

A copy of the independent auditor s letter has been provided by the Company to the Hong Kong Stock Exchange.

The Company confirms that it has complied with the requirements of Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which any Group member was a party during 2017. Please

refer to Note 41 to the financial statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

Report on the Company s corporate governance is set out in Corporate Governance Report on pages 42 to 66.

MATERIAL LEGAL PROCEEDINGS

As a company incorporated in Hong Kong and dual-listed in Hong Kong and the United States, the Company adopts the Companies Ordinance of Hong Kong, the Securities and Futures Ordinance of Hong Kong, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the regulatory requirements for non-US companies listed in the United States, the Company s Articles of Association and other related laws and regulations as the basic guidelines for the Company s corporate governance.

The principal activities of 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 Company is required to comply with the Telecommunications Regulations of the People s Republic of China, Administrative Regulations on Telecommunications Companies with Foreign Investments, Cybersecurity Law of the People s Republic of China and other related laws and regulations. At the same time, oversea subsidiaries of the Company are also required to comply with the related laws and regulations where their business operations are located.

For the year ended 31 December 2017, the Company had not been involved in any material litigation, arbitration or administrative proceedings. So far as the Company is aware of, no such litigation, arbitration or administrative proceedings were pending or threatened as at 31 December 2017.

PUBLIC FLOAT

Based on publicly available information and so far as Directors are aware, the Company has maintained the specified amount of public float as required by the Hong Kong Stock Exchange during the year ended 31 December 2017 and as at the date of this annual report.

DONATIONS

For the year ended 31 December 2017, the Group made charitable and other donations in an aggregate amount of approximately RMB12.65 million.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the shareholders rights to attend and vote at the Annual General Meeting (and any adjournment thereof), and entitlement to the 2017 Final Dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(1) For ascertaining the shareholders rights to attend and vote at the Annual General Meeting:

Latest time to lodge transfer documents for registration	4:30 p.m. of 4 May 2018
Closure of register of members	From 7 May 2018 to 11 May 2018
Record date	7 May 2018

(2) For ascertaining the shareholders entitlement to the 2017 Final Dividend:

Latest time to lodge transfer documents for registration	4:30 p.m. of 17 May 2018
Closure of register of members	18 May 2018
Record date	18 May 2018

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the Annual General Meeting, and to qualify for the 2017 Final Dividend, all transfers, accompanied by the relevant certificates, must be lodged with the Company s Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen s Road East, Wan Chai, Hong Kong, by no later than the aforementioned latest times.

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2017 FINAL DIVIDEND

Pursuant to (i) the Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management (the Notice) issued by the State Administration of Taxation of the People s Republic of China (the SAT); (ii) the Enterprise Income Tax Law of the People s Republic of China (the Enterprise Income Tax Law) and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People s Republic of China (the Implementation Rules); and (iii) information obtained from the SAT, the Company is required to withhold and pay enterprise income tax when it pays the 2017 Final Dividend to its non-resident enterprise shareholders. The enterprise income tax is 10% on the amount of dividend paid to non-resident enterprise shareholders (the Enterprise Income Tax), and the withholding and payment obligation lies with the Company.

As a result of the foregoing, in respect of any shareholders whose names appear on the Company s register of members on the Dividend Record Date and who are not individuals (including HKSCC Nominees Limited, other custodians, corporate nominees and trustees such as securities companies and banks, and other entities or organisations), the Company will distribute the 2017 Final Dividend payable to them after deducting the amount of Enterprise Income Tax payable on such dividend. Investors who invest in the shares in the Company listed on the Main Board of The Stock Exchange of Hong Kong Limited through the Shanghai Stock Exchange or Shenzhen-Hong Kong Stock Exchange (the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect investors) are investors who hold shares through HKSCC Nominees Limited, and in accordance with the above requirements, the Company will pay to HKSCC Nominees Limited the amount of the 2017 Final Dividend after deducting the amount of Enterprise Income Tax payable on such dividend.

In respect of any shareholders whose names appear on the Company s register of members on the Dividend Record Date and who are individual shareholders, there will be no deduction of Enterprise Income Tax from the dividend that such shareholder is entitled to.

Shareholders who are not individual shareholders listed on the Company s register of members and who (i) are resident enterprises of the People s Republic of China (the PRC) (as defined in the Enterprise Income Tax Law), or (ii) are enterprises deemed to be resident enterprises of the PRC in accordance with the Notice, and who, in each case, do not desire to have the Company withhold Enterprise Income Tax from their 2017 Final Dividend, should lodge with the Company s Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen s Road East, Wan Chai, Hong Kong, at or before 4:30 p.m. of 17 May 2018, and present the documents from such shareholder s governing tax authority in

the PRC confirming that the Company is not required to withhold and pay Enterprise Income Tax in respect of the dividend that such shareholder is entitled to.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the Enterprise Income Tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government agencies and adhere strictly to the information set out in the Company s register of members on the Dividend Record Date. The Company assumes no liability whatsoever in respect of and will not process any claims, arising from any delay in, or inaccurate determination of, the status of the shareholders, or any disputes over the mechanism of withholding.

INDEPENDENT AUDITOR

The Hong Kong financial reporting and U.S. financial reporting for the year ended 31 December 2017 have been audited by KPMG and KPMG Huazhen LLP, respectively, which retire and, being eligible, offer themselves for re-appointment at the 2018 annual general meeting. A resolution to re-appoint KPMG and KPMG Huazhen LLP and to authorise the Directors to fix their respective remuneration will be proposed at the 2018 annual general meeting.

By Order of the Board

Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 15 March 2018

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HUMAN RESOURCES DEVELOPMENT

China Unicom adheres to its people-oriented principle and continuously upholds mechanism innovation to pursue the harmonious development between the Company and its employees. In 2017, underpinned by its Focus Strategy and taking mixed-ownership reform as an opportunity, China Unicom s human resources practice proactively adapted to Internet-oriented transformation and pushed forward the development of market-oriented human resources system and mechanism, promoted to achieve better salary up and down , staff in and out , and post up and down , with the aim to provide support and assurance for the stable development of corporate reform.

Focusing on labour efficiency enhancement to conduct in-depth reform. In 2017, China Unicom s employee productivity was RMB924,000 per staff, up by 5.8% year-on-year. Pulling back outsourcing business for internal staff handling enabled the Company to save outsourcing costs of RMB280

million. As a result, the overall human resources cost efficiency was further improved. The Company s staff mix was further optimised as the ratio of bachelor degree (or above) holders reached 58.3% and the proportion of dispatched worker maintained below 10%.

Optimising compensation system to spur vitality. The Company further refined its dynamic allocation principles on employee compensation by focusing on efficiency enhancement and its related effectiveness. The Company focused on segmentation management and mechanism rationalisation to establish a differentiated incentive and control scheme compatible with the management model aligning authority and responsibility. The Company further established its comprehensive incentive system with share-based compensation which drives collective sharing of upside and downside and improves staff s sense of achievement.

Enhancing staff selection and building competent teams. Taking the pilot mixed-ownership reform as an opportunity, the Company strived to build a professional high-caliber cadre team, continued to improve cadre management system, promoted market-oriented and contract-based management, strictly complied with the staff selection and appointment standards and procedures, and strengthened leadership team quality in all levels. The Company enhanced its talent structure build-up and had selected 195 expert talents, 1,492 backbone talents, 2,758 young and competitive talents, with a total of 4,445 talents from over 10 professions including IT, network optimisation and proprietary research and development, etc. The Company established Internet-oriented talent community to enhance talent value contributions and deployment efficiency. The Company held various training sessions during the year, including 11 leadership training courses, 176 specialised skills training courses, as well as 58 high-end technical training courses, to enhance staff professional skills and corporate strategy execution.

Analysis of Staff Composition

	By Age
30 years old or below	17%
31-50 years old	70%
51 years old or above	13%

	By Education Background
Postgraduate or above	6%
Bachelor degree including double degree)	52%
College	24%
Secondary school or below	18%

Have a look at our outstanding employee of China Unicom, please visit our website at

www.chinaunicom.com.hk/en/about/our_people.php.

For further details of Human Resources Development, please refer to the relevant sections of our detailed Corporate Social Responsibility Report 2017 to be published in June 2018. Please visit our website at
www.chinaunicom.com.hk.

SOCIAL RESPONSIBILITY

Guided by new development philosophies of innovation, coordination, eco-friendliness, openness and sharing , China Unicom practically implemented national strategic measures such as network superpower, the Belt and Road initiative and supply-side structural reform. The Company fulfils its responsibilities in a proactive manner by ensuring responsible business operations while strengthening the ability to generate integrated economic, social and environmental value, so as to facilitate sustainable development and make due contributions to the informatisation process of the national economy and society.

INNOVATION DRIVES GOOD SMART LIVING

Innovation is an indispensable driving force for maintaining corporate vibrancy. It is the primary power for development and provides strategic support for building a modernised economy. China Unicom persists in bringing good smart living to its customers through innovation. In 2017, the Company actively pushed forward the construction of intelligent networks, stepped up deployment in areas such as cloud computing, Big Data and Internet of Things, and proactively explored artificial

intelligence. The Company rolled out a diverse range of Smart+ applications, strived to foster a smart brand, and facilitated smart living and smart industry development, comprehensively improving customer services via multiple channels. It deeply propelled system and mechanism reform to achieve innovation-driven development.

CONTRIBUTE TO BALANCE AND COORDINATION THROUGH UNIVERSAL AND PRECISE SERVICES

Balanced and robust social development represents the key theme of a new era. China Unicom is committed to meeting the public s ever-changing demand for information life and facilitating the development of the society as a whole. In 2017, the Company continued to improve its 4G network, accelerated all-fibre network construction and actively advanced Speed Upgrade and Tariff Reduction . It coordinated network construction and endeavoured to narrow the digital divide. It actively assumed obligations in universal service by offering concessionary tariffs and promoting universal availability of information. It served the Belt and Road initiative and drove robust development in both local and overseas markets.

BUILD A WIN-WIN INDUSTRY ECOLOGY THROUGH OPEN COOPERATION

Open cooperation is an important driving force that stimulates corporate creativity and propels industry development. In line with the principles of cooperation, openness and win-win , China Unicom engages in concerted development with its business partners. In 2017, China Unicom facilitated healthy industry development by deepening cooperation with fellow operators and sharing resources. It cooperated with various partners in the supply chain to innovate and build a prosperous and mutually beneficial industry ecology. It will also work with the next Winter Olympics to jointly deliver a smart future.

SHARE BENEFITS WITH THE PUBLIC TO ENHANCE SENSE OF REWARD FOR THE WHOLE SOCIETY

As a responsible corporate citizen, China Unicom adheres to people-oriented development and regards public well-being and comprehensive social development as the basis of its business. In 2017, the Company deeply cultivated team spirit, continued to grow with its staff and pragmatically safeguarded the lawful interests of its employees, fostering friendly and harmonious labour relations. It adhered to the belief that business development is for the society and the outcomes of development should be shared with the society. It proactively gave back to the society, emphasised obligation performance in overseas markets, and continued to enhance the sense of reward for the whole society, heading towards a future of sustainable development.

ECO-FRIENDLY OPERATION HELPS PRESERVE GREEN ENVIRONMENT

China Unicom actively advocates and practises the philosophy of Green environment is as valuable as gold and silver . In strict compliance with national resource conservation and environmental protection policies, the Company continued to strengthen initiatives such as green networks, green operations, green supply and green actions. It actively implemented the national supply-side reform and earnestly practised energy conservation and emission reduction, contributing to the harmonious co-existence between people and the nature and helping to build a beautiful China .

SECURE AND CONTROLLABLE NETWORK CREATES A CLEAN CYBERSPACE

It is essential that information network is secure and controllable, which serves as the solid foundation for healthy and sustainable growth of the information and communications industry. In 2017, the Company upheld proper cybersecurity ethics and continued to enhance communication security and support measures. It acted proactively in safeguarding communication during emergencies, protecting customers information security and privacy, and curbing malicious contents, thereby fostering a secure and clean cyberspace and providing strong support for national security and social stability.

SOCIAL RESPONSIBILITY MANAGEMENT

Improving the organisation of social responsibility

Establishing a system for social responsibility

Providing training in social responsibility

Assessing the performance of social responsibility

Evaluating social responsibility practices

Institutionalising communication of social responsibility

SOCIAL RESPONSIBILITY AGENDA

Enhance institutionalisation and efficiency of internal management

Forge quality network with ubiquitous connectivity

Quest for innovation-driven smart living

Refine customer-oriented and meticulous services

Create prosperous industry ecology through win-win cooperation

Build secure and clean cyberspace

Foster growth ambience with team collaboration

Procure harmonious development of green and low-carbon

Promote charity undertaking to share benefits with public

The Company will publish our detailed Corporate Social Responsibility Report 2017 in June 2018.

For more details, please visit our website at **www.chinaunicom.com.hk**.

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Independent Auditor s Report

TO THE MEMBERS OF CHINA UNICOM (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Unicom (Hong Kong) Limited (the Company) and its subsidiaries (the Group) set out on pages 104 to 187, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Revenue recognition

Refer to note 6 to the consolidated financial statements on page 142 and the accounting policies on page 128.

The Key Audit Matter

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, leased lines and associated services and sales of telecommunications products.

The accuracy of revenue recorded in the consolidated financial statements is an inherent industry risk because the billing systems of telecommunications companies are complex and process large volumes of data with a combination of different products sold during the year, through a number of different systems.

Significant management judgement can be required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled sales packages, which may include services and telecommunication products such as handsets, and complex settings are required in the Group s information technology (IT) systems to achieve the appropriate allocation of transaction prices.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complex IT systems and management judgement both of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of management s key internal controls over the general IT environment in which the business systems operate, including access to program controls, program change controls, program development controls and computer operation controls;

assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of management s key internal IT controls over the completeness and accuracy of rating and bill generation and the end-to-end reconciliation controls from the rating and billing systems to the accounting system;

selecting bills issued to customers, on a sample basis, and comparing the details with the corresponding trade receivable details and cash receipts;

recalculating the balances of trade receivables and advances from customers with the use of electronic audit tools using data extracted from the business support systems and reconciling the results to the Group s financial records;

assessing, on a sample basis, the standalone selling prices determined by the Group for services and handsets offered in mobile handset bundled sales packages, by comparison with the observable prices of the service or handset when the Group sells that service or handset separately in similar circumstances and to similar customers;

assessing, on a sample basis, the settings in the IT system for revenue allocation between the services and handsets offered in mobile handset bundled sales packages by comparing the settings with the Group s allocation basis and recalculating and comparing the allocation results with the system generated results;

evaluating journals entries posted to revenue accounts, on a specific risk-based sample basis, and comparing details of these journals entries with relevant underlying documentation, which included service contracts and progress reports.

Independent Auditor s Report

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

Refer to note 15 to the consolidated financial statements on pages 152 to 153 and the accounting policies on pages 121 to 122.

The Key Audit Matter

The Group continues to incur a significant level of capital expenditure in connection with the expansion of its network coverage and improvements to network quality. The carrying value of PP&E as at 31 December 2017 was approximately RMB416,596 million.

There are a number of areas where management judgement impacts the carrying value of PP&E, and the related depreciation profiles. These include:

determining which costs meet the criteria for capitalisation;

determining the date on which construction-in- progress is transferred to property, plant and equipment and depreciation commences;

the estimation of economic useful lives and residual values assigned to property, plant and equipment.

We identified the carrying value of property, plant and equipment as a key audit matter because of the high level of management judgement involved and because of its significance to the consolidated financial statements.

How the matter was addressed in our audit

Our audit procedures to assess the carrying value of PP&E included the following:

assessing the design, implementation and operating effectiveness of key internal controls over the completeness, existence and accuracy of property, plant and equipment, including the key internal controls over the estimation of useful economic lives and residual values;

assessing, on a sample basis, costs capitalised during the year by comparing the costs capitalised with the relevant underlying documentation, which included purchase agreements and invoices, and assessing whether the costs capitalised met the relevant criteria for capitalisation; which included comparing interest rates to loan agreements, recalculating the interest capitalisation rate and assessing, on a sample basis, the calculation of interest capitalised in construction-in-progress;

challenging the date of transferring construction-in-progress to PP&E by examining the inspection reports and/or project progress reports, on a sample basis;

evaluating management s estimation of useful economic lives and residual values by considering our knowledge of the business and practices adopted in the wider telecommunications industry.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor s responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG

Certified Public Accountants

8th Floor, Prince s Building

10 Chater Road

Central, Hong Kong

15 March 2018

Consolidated Statement of Income

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

	Note	Year ended 31 December 2017	2016
Revenue	6	**274,829**	274,197
Interconnection charges		**(12,617)**	(12,739)
Depreciation and amortisation		**(77,492)**	(76,805)
Network, operation and support expenses	7	**(54,507)**	(51,167)
Employee benefit expenses	8	**(42,471)**	(36,907)
Costs of telecommunications products sold	9	**(26,643)**	(39,301)
Other operating expenses	10	**(57,166)**	(54,585)
Finance costs	11	**(5,734)**	(5,017)
Interest income		**1,647**	1,160
Share of net profit of associates		**893**	204
Share of net profit of joint ventures		**574**	153
Other income net	12	**1,280**	1,591
Profit before income tax		**2,593**	784
Income tax expenses	13	**(743)**	(154)
Profit for the year		**1,850**	630
Profit attributable to:			
Equity shareholders of the Company		**1,828**	625
Non-controlling interests		**22**	5
Earnings per share for profit attributable to equity shareholders of the Company during the year:			
Basic earnings per share (RMB)	14	**0.07**	0.03
Diluted earnings per share (RMB)	14	**0.07**	0.03

Details of dividends attributable to equity shareholders of the Company for the years ended 31 December 2017 and 2016 are set out in Note 30.

The notes on pages 111 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(All amounts in RMB millions)

	Year ended 31 December	
	2017	2016
Profit for the year	**1,850**	630
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Changes in fair value of financial assets through other comprehensive income	**(56)**	(544)
Tax effect on changes in fair value of financial assets through other comprehensive income	**(2)**	14
Changes in fair value of financial assets through other comprehensive income, net of tax	**(58)**	(530)
Remeasurement of net defined benefit liability, net of tax	**6**	14
	(52)	(516)
Item that may be reclassified subsequently to statement of income:		
Currency translation differences	**(178)**	153
Other comprehensive income for the year, net of tax	**(230)**	(363)
Total comprehensive income for the year	**1,620**	267
Total comprehensive income attributable to:		
Equity shareholders of the Company	**1,598**	262
Non-controlling interests	**22**	5

The notes on pages 111 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

(All amounts in RMB millions)

		As at 31 December	
	Note	**2017**	2016
ASSETS			
Non-current assets			
Property, plant and equipment	15	**416,596**	451,115
Lease prepayments	16	**9,313**	9,436
Goodwill	17	**2,771**	2,771
Interest in associates	19	**33,233**	32,248
Interest in joint ventures	20	**2,368**	1,175
Deferred income tax assets	13	**5,973**	5,986
Financial assets at fair value through other comprehensive income	21	**4,286**	4,326
Other assets	22	**20,721**	24,879
		495,261	531,936
Current assets			
Inventories and consumables	23	**2,239**	2,431
Accounts receivable	24	**13,964**	13,622
Prepayments and other current assets	25	**13,801**	14,023
Amounts due from ultimate holding company	41	**239**	
Amounts due from related parties	41	**3,274**	22,724
Amounts due from domestic carriers		**4,683**	3,908
Financial assets at fair value through profit and loss		**160**	123
Short-term bank deposits and restricted deposits	26	**5,526**	1,754
Cash and cash equivalents	27	**32,836**	23,633
		76,722	82,218
Total assets		**571,983**	614,154
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	28	**254,056**	179,102
Reserves	29	**(20,912)**	(21,017)
Retained profits			
Proposed final dividend	30	**1,591**	
Others		**69,315**	69,322
		304,050	227,407
Non-controlling interests		**297**	275
Total equity		**304,347**	227,682

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		As at 31 December	
	Note	**2017**	2016
LIABILITIES			
Non-current liabilities			
Long-term bank loans	31	**3,473**	4,495
Promissory notes	32		17,906
Corporate bonds	33	**17,981**	17,970
Deferred income tax liabilities	13	**108**	113
Deferred revenue	34	**3,020**	2,998
Other obligations	35	**432**	335
		25,014	43,817
Current liabilities			
Short-term bank loans	36	**22,500**	76,994
Commercial papers	37	**8,991**	35,958
Current portion of long-term bank loans	31	**410**	161
Current portion of promissory notes	32	**17,960**	18,976
Accounts payable and accrued liabilities	38	**125,260**	143,224
Taxes payable		**1,121**	732
Amounts due to ultimate holding company	41	**2,176**	2,463
Amounts due to related parties	41	**8,126**	8,700
Amounts due to domestic carriers		**2,538**	1,989
Dividend payable		**920**	920
Current portion of corporate bonds	33		2,000
Current portion of deferred revenue	34	**350**	369
Current portion of other obligations	35	**2,987**	3,141
Advances from customers		**49,283**	47,028
		242,622	342,655
Total liabilities		**267,636**	386,472
Total equity and liabilities		**571,983**	614,154
Net current liabilities		**(165,900)**	(260,437)
Total assets less current liabilities		**329,361**	271,499

The notes on pages 111 to 187 are an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 15 March 2018 and signed on behalf of the Board by:

Wang Xiaochu
Director

Li Fushen
Director

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Consolidated Statement of Changes in Equity

(All amounts in RMB millions)

	Attributable to equity shareholders of the Company								
	Share capital	**General risk reserve**	**Investment revaluation reserve**	**Statutory reserves**	**Other reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	179,102		(6,406)	28,780	(43,108)	72,848	231,216		231,216
Total comprehensive income for the year			(530)		167	625	262	5	267
Capital contribution from non-controlling interests								270	270
Appropriation to statutory reserves				47		(47)			
Appropriation to other reserves		33				(33)			
Dividends relating to 2015 (Note 30)						(4,071)	(4,071)		(4,071)
Balance at 31 December 2016	179,102	33	(6,936)	28,827	(42,941)	69,322	227,407	275	227,682
Balance at 1 January 2017	**179,102**	**33**	**(6,936)**	**28,827**	**(42,941)**	**69,322**	**227,407**	**275**	**227,682**
Total comprehensive income for the year			**(58)**		**(172)**	**1,828**	**1,598**	**22**	**1,620**
Issue of share capital	**74,954**						**74,954**		**74,954**
Share of associate s other reserve					**91**		**91**		**91**
Appropriation to statutory reserves				**50**		**(50)**			
Appropriation to other reserves		**194**				**(194)**			
Balance at 31 December 2017	**254,056**	**227**	**(6,994)**	**28,877**	**(43,022)**	**70,906**	**304,050**	**297**	**304,347**

The notes on pages 111 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB millions)

		Year ended 31 December	
	Note	**2017**	2016
Cash flows from operating activities			
Cash generated from operations	(a)	**91,519**	81,168
Interest received		**807**	335
Interest paid		**(6,293)**	(4,938)
Income tax paid		**(979)**	(1,972)
Net cash inflow from operating activities		**85,054**	74,593
Cash flows from investing activities			
Purchase of property, plant and equipment		**(61,489)**	(98,293)
Proceeds from disposal of Tower Assets and other property, plant and equipment		**22,121**	6,390
Dividends received from financial assets at fair value through other comprehensive income		**167**	357
Proceeds from disposal of financial assets at fair value through profit and loss		**60**	68
Dividends received from associates		**10**	
(Increase)/Decrease in short-term bank deposits and restricted deposits		**(3,094)**	2
Purchase of other assets		**(4,204)**	(4,092)
Acquisition of financial assets at fair value through profit and loss		**(74)**	(51)
Acquisition of financial assets at fair value through other comprehensive income		**(8)**	(18)
Acquisition of interest in associates		**(5)**	(48)
Acquisition of interest in joint ventures		**(620)**	(64)
Lending by China Unicom Finance Company Limited (Finance Company)		**(700)**	
Repayment of loan lent by Finance Company		**500**	
Net cash outflow from investing activities		**(47,336)**	(95,749)
Cash flows from financing activities			
Proceeds from shares issued		**74,954**	
Capital contributions from non-controlling interests			270
Proceeds from commercial papers		**26,941**	59,880
Proceeds from short-term bank loans		**117,571**	142,567
Proceeds from long-term bank loans		**1,549**	3,307
Loans from ultimate holding company		**5,237**	
Loans from related parties		**535**	
Proceeds from corporate bonds			17,965
Repayment of commercial papers		**(54,000)**	(44,000)
Repayment of short-term bank loans		**(172,065)**	(149,425)
Repayment of long-term bank loans		**(2,686)**	(84)
Repayment of related party loan		**(60)**	
Repayment of ultimate holding company loan		**(3,893)**	(1,344)
Repayment of finance lease		**(695)**	(406)
Repayment of promissory notes		**(19,000)**	(2,500)

Repayment of corporate bonds		**(2,000)**	
Payment of issuing expense for promissory notes		**(82)**	(102)
Dividends paid to equity shareholders of the Company	30		(4,071)
Net (withdrawal)/deposits by Unicom Group and its subsidiaries from/with Finance Company		**(112)**	2,397
Net deposits from a joint venture with Finance Company		**12**	
Increase in statutory reserve deposits placed by Finance Company	26(i)	**(620)**	(1,577)
Net cash (outflow)/inflow from financing activities		**(28,414)**	22,877
Net increase in cash and cash equivalents		**9,304**	1,721
Cash and cash equivalents, beginning of year		**23,633**	21,755
Effect of changes in foreign exchange rate		**(101)**	157
Cash and cash equivalents, end of year	27	**32,836**	23,633
Analysis of the balances of cash and cash equivalents:			
Cash balances		**3**	1
Bank balances		**32,833**	23,632
		32,836	23,633

The notes on pages 111 to 187 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB millions)

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

	Year ended 31 December	
	2017	2016
Profit before income tax	**2,593**	784
Adjustments for:		
Depreciation and amortisation	**77,492**	76,805
Interest income	**(1,647)**	(1,160)
Finance costs	**5,363**	4,832
Loss on disposal of property, plant and equipment	**3,489**	355
Impairment losses for doubtful debts and write-down of inventories	**3,955**	4,173
Dividends from financial assets at fair value through other comprehensive income	**(206)**	(357)
Share of net profit of associates	**(893)**	(204)
Share of net profit of joint ventures	**(574)**	(153)
Other investment gain	**(19)**	(9)
Changes in working capital:		
Increase in accounts receivable	**(3,667)**	(2,664)
Decrease in inventories and consumables	**81**	1,354
(Increase)/Decrease in short-term bank deposits and restricted deposits	**(58)**	23
Increase in other assets	**(2,034)**	(4,763)
Decrease in prepayments and other current assets	**166**	4,171
Increase in amounts due from ultimate holding company	**(39)**	
Decrease/(Increase) in amounts due from related parties	**112**	(3,302)
Increase in amounts due from domestic carriers	**(775)**	(1,914)
Increase/(Decrease) in accounts payable and accrued liabilities	**5,752**	(835)
Increase/(Decrease) in taxes payable	**362**	(1,176)
Increase/(Decrease) in advances from customers	**2,255**	(1,329)
Increase in deferred revenue	**365**	395
Increase in other obligations	**45**	69
(Decrease)/Increase in amounts due to ultimate holding company	**(203)**	73
(Decrease)/Increase in amounts due to related parties	**(945)**	5,311
Increase in amounts due to domestic carriers	**549**	689
Cash generated from operations	**91,519**	81,168

Notes to the Consolidated Financial Statements

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the Company) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (Hong Kong), the People s Republic of China (the PRC) on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company s subsidiaries are the provision of voice usage, broadband and mobile data services, data and other internet application services, other value-added services, leased lines and associated services and sales of telecommunications products in the PRC. The Company and its subsidiaries are hereinafter referred to as the Group . The address of the Company s registered office is 75th Floor, The Center, 99 Queen s Road Central, Hong Kong.

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

The substantial shareholders of the Company are China Unicom (BVI) Limited (Unicom BVI) and China Unicom Group Corporation (BVI) Limited (Unicom Group BVI). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited (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.

Under a mixed ownership reform, A Share Company completed a non-public share issuance to certain strategic investors in October 2017. The gross proceeds of the non-public share issuance amounted to RMB61,725 million. Immediately upon the completion of non-public share issuance by A Share Company, Unicom Group also transferred certain shares in A Share Company to China Structural Reform Fund Corporation Limited at a cash consideration of RMB12,975 million.

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

As a result of the above transactions, the shareholding of Unicom BVI in the Company increased from 40.61% to 53.52%, while Unicom Group remain as the ultimate holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of Preparation

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

Financial assets at fair value through other comprehensive income

Financial assets at fair value through profit and loss

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

reversal of the revaluation surplus or deficit and related amortisation charges arising from the revaluation of prepayments for the leasehold land performed by independent valuers for the purpose of reporting to relevant PRC government authorities;

recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005; and

adjustments for deferred taxation in relation to the above adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(a) Going Concern Assumption

As at 31 December 2017, current liabilities of the Group exceeded current assets by approximately RMB165.9 billion (2016: approximately RMB260.4 billion). Given the current global 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 RMB307.4 billion of revolving banking facilities and registered quota of corporate bonds, of which approximately RMB271.5 billion was unutilised as at 31 December 2017; and

Other available sources of financing from domestic banks and other financial institutions in view of the Group s good credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2017 have been prepared on a going concern basis.

(b) Critical Accounting Estimates and Judgment

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments

(i) The IASB and HKICPA has issued a number of amendments to IFRSs/HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 27(b) to satisfy the new disclosure requirements introduced by the amendments to IAS/HKAS 7, Statement of cash flows: Disclosure initiative , which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(ii) Up to the date of issue of these financial statements, the IASB and HKICPA issued certain amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements except for IFRS/HKFRS 9 (2010), Financial instruments was early adopted by the Group on 1 January 2011. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS/HKFRS 9 (2014), Financial instruments	1 January 2018
IFRS/HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to IFRS/HKFRS 2, Share- based payment Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS/HKFRS 40, Investment property Transfer of investment property	1 January 2018
HK(IFRIC) 22, Foreign currency transaction and advance consideration	1 January 2018
Annual Improvements to IFRSs/HKFRSs 2014 2016 Cycle	1 January 2018
IFRS/HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019

The Group is required to adopt IFRS/HKFRS 9 (2014) and IFRS/HKFRS 15 from 1 January 2018 and the Group is currently finalising its assessment of the impact of these new standards will have on its consolidated financial statements upon adoption. In addition, it is in the process of making an assessment of what the impact of other amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified the following aspects of the new standards which may have impact on the consolidated financial statements. The actual impacts upon the initial adoption of the standards may differ as the assessment to date is based on the information currently available to the Group, and further impacts may be identified before the Group publishes its interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

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.

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

The Group has been assessing whether and how the new requirements will impact its accounting in different areas, including identification of the number and the nature of performance obligations for bundled sales transactions and sales incentive offers, determination of standalone price, price allocation method, contract modifications and cost capitalisation. Based on the assessment completed to date, with the exception of the accounting for contract costs which is further explained below, the Group expects that the new requirements will not result in material adjustments on the opening balances at 1 January 2018 as the Group s current accounting policy is generally consistent with the new requirements in material respects.

Sales commission

IFRS/HKFRS 15 requires an entity to capitalise incremental costs of obtaining a contract with a customer e.g. sales commissions, and amortise the capitalised costs on a systematic basis that is consistent with the pattern of transfer of the good or service to which the capitalised costs related.

This requirement will result in a change in the timing of expensing sales commission and similar costs incurred in obtaining contracts as under the Group s current policy sales commissions are expensed when incurred. However, as allowed by IFRS/HKFRS 15, the Group will continue to expense the costs of obtaining contracts when incurred if the amortisation period of those costs would be one year or less.

IFRS/HKFRS 15 allows for two transition methods, namely the full retrospective method and the cumulative effect transition method with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS/HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS/HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

IFRS/HKFRS 15, Revenue from contracts with customers (Continued)

Sales commission (Continued)

Based on a preliminary assessment, upon the initial adoption of IFRS/HKFRS 15, this change in accounting policy will result in a recognition of contract asset of approximately RMB2 billion to RMB2.5 billion, with a corresponding after-tax increase to the opening balance of retained profits at 1 January 2018. The adoption will also result in additional disclosures around the nature and timing of the Group s performance obligations, deferred revenue contract liabilities, deferred contract cost assets, as well as significant judgments and practical expedients used by the Group in applying the new revenue recognition model.

The Group has identified and is in the process of implementing changes to its systems and processes and internal control to meet the standard s reporting and disclosure requirements.

IFRS/HKFRS 9 (2014), Financial Instruments

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

The new impairment model in IFRS/HKFRS 9 (2014) replaces the incurred loss model in IAS/HKAS 39 with an expected credit loss model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. However, lifetime expected credit loss measurement always applies for trade receivables and contract assets without a significant financing component. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

IFRS/HKFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, credit loss allowance at that date would increase by approximately RMB1 billion, compared with that recognised under IAS/HKAS 39, with a corresponding after-tax decrease to the opening balance of retained profits at 1 January 2018.

The Group has identified and is in the process of implementing changes to its systems and processes and internal control to meet the standard s reporting and disclosure requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

IFRS/HKFRS 16, Leases

As disclosed in Note 2.27, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and Non-Controlling Interests (Continued)

The Group adopted the purchase method of accounting to account for business combination of entities and businesses under common control before 2005. Under the purchase method of accounting in force at the date of the acquisition, the cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group s share of the identifiable net assets acquired was recorded as goodwill. If the cost of acquisition was less than the fair value of the Group s share of the identifiable net assets of the subsidiary acquired, the difference was recognised directly in the statement of income.

Under HKFRSs, business combination of entity and business under common control of the Group after 2005 was accounted for using merger accounting in accordance with the Accounting Guideline 5 Merger accounting for common control combinations (AG 5) issued by the HKICPA in 2005. Upon the adoption of IFRSs by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method, which is consistent with HKFRSs.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests proportionate share of the subsidiary s net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2.19 depending on the nature of the liability.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and Joint Ventures

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment Reporting

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

2.6 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity.

When a foreign operation is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on disposal.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, Plant and Equipment (Continued)

(c) Depreciation

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

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

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

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

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

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

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

2.8 Goodwill

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

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

2.9 Lease Prepayments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Other Assets

Other assets mainly represent (i) computer software; (ii) prepaid rental for premises, leased lines and electricity cables and (iii) capitalised direct incremental costs for activating broadband and Internet Protocol Television (IPTV) subscribers.

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

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

(iii) Capitalised 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. Such costs are amortised over the expected service period.

2.11 Financial Assets

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

Financial assets measured at amortised cost

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial Assets (Continued)

Financial assets measured at fair value

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

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

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

2.12 Impairment of Non-Financial Assets

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

2.13 Impairment of Financial Assets Carried at Amortised Costs

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

2.14 Inventories and Consumables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Accounts Receivable and Other Receivables

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

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

2.16 Short-term Bank Deposits

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

2.17 Cash and Cash Equivalents

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

2.18 Deferred Revenue and Advances from Customers

(a) Deferred revenue

(i) Government grants

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

(ii) Subscriber points reward program

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

(b) Advances from customers

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Borrowings

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

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

2.20 Share Capital

Ordinary shares are classified as equity.

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

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

2.21 Employee Benefits

(a) Retirement benefits

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

(b) Medical insurance

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

(c) Housing benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee Benefits (Continued)

(d) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. The present value of the defined benefit obligation is included in non-current other obligations and salary and welfare payables (current portion). The liability is remeasured with sufficient regularity and the movement of the remeasurement is recognised in other comprehensive income, which is not allowed to reverse to profit and loss in subsequent period. As at 31 December 2017, the amount of the liability was RMB68 million (2016: RMB75 million).

(e) Share-based compensation costs

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

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

2.22 Accounts Payable

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

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

2.23 Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue Recognition

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

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

Sales of services and goods

Voice usage and monthly fees are recognised when the services are rendered;

Revenue from the provision of broadband and mobile data services are recognised when the services are provided to customers;

Data and internet application service revenue, which mainly represent revenue from the provision of data storage and application, information communications technology and other internet related services, are recognised when services are rendered;

Other value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalised ring, caller number display and secretarial services to subscribers etc., are recognised when services are rendered;

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

Revenue from leased lines and associated services, which mainly represent income from offering lines and customer- end equipment to customers for usage and related services, are recognised on a straight-line basis over the respective lease and service period;

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

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

2.25 Interest income

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

2.26 Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Leases (as the lessee)

(a) Operating lease

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

(b) Finance lease

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

(c) Sale and leaseback

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

2.28 Borrowing Costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

2.30 Dividend Distribution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Contingent Liabilities and Contingent Assets

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

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

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

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

2.32 Earnings per Share

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

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

2.33 Related parties

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

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

(ii) has significant influence over the Group; or

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.33 Related parties (Continued)

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

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

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Group s fund management center at its headquarter is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years of 2017 and 2016, the Group had not entered into any forward exchange contracts or currency swap contracts.

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The following table details the Group s exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the People s Bank of China as at 31 December 2017 and 2016.

	2017			2016		
	Original currency millions	**Exchange rate**	**RMB equivalent millions**	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
denominated in HK dollars	**508**	**0.84**	**425**	410	0.89	367
denominated in US dollars	**150**	**6.53**	**980**	271	6.94	1,879
denominated in Euro	**12**	**7.80**	**95**	13	7.31	96
denominated in Japanese Yen	**17**	**0.06**	**1**	218	0.06	13
denominated in SGD		**4.88**	**1**	1	4.80	7
denominated in GBP	**1**	**8.78**	**10**	1	8.51	6
Sub-total			**1,512**			2,368
Accounts receivable:						
denominated in US dollars	**229**	**6.53**	**1,496**	195	6.94	1,355
denominated in Euro	**2**	**7.80**	**16**	1	7.31	6
Sub-total			**1,512**			1,361
Financial assets at fair value through other comprehensive income:						
denominated in Euro	**522**	**7.80**	**4,070**	566	7.31	4,138
Total			**7,094**			7,867
Borrowings:						
denominated in US dollars	**43**	**6.53**	**278**	46	6.94	321

denominated in Euro	**9**	**7.80**	**72**	12	7.31	89
denominated in HK dollars	**520**	**0.84**	**435**		0.89	
Sub-total			**785**			410
Accounts payable:						
denominated in US dollars	**58**	**6.53**	**379**	60	6.94	416
denominated in Euro	**2**	**7.80**	**16**	3	7.31	20
Sub-total			**395**			436
Total			**1,180**			846

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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

As at 31 December 2017, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen, SGD and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB138 million (2016: approximately RMB216 million) for cash and cash equivalents, borrowings and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income would be approximately RMB407 million (2016: approximately RMB414 million) for financial assets denominated in foreign currency, which were recorded in fair value through other comprehensive income.

(ii) Price risk

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

The financial assets at fair value through other comprehensive income comprise primarily equity securities of Telefónica S.A. (Telefónica). As at 31 December 2017, 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 RMB407 million (2016: approximately RMB414 million).

(iii) Cash flow and fair value interest rate risk

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

The Group s interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, corporate bonds and related parties loans. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2017 and 2016, the Group s borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group s outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group s financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2017 and 2016.

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)

As at 31 December 2017, the Group had approximately RMB33,310 million (2016: approximately RMB112,997 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB40,516 million (2016: approximately RMB62,257 million) of long-term fixed rate borrowings.

For the year ended 31 December 2017, if interest rates on the floating rate borrowings and short-term fixed rate borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on profit after tax is approximately RMB125 million (2016: approximately RMB424 million).

(b) Credit risk

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

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

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

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

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

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funds including the raising of bank loans and issuance of commercial papers, promissory notes and corporate bonds. Due to the dynamic nature of the underlying business, the Group s fund management center at its 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 balances of the financial liabilities (including interest expense) categorised by time from the end of the period under review to the contractual maturity date:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Carrying amounts
At 31 December 2017					
Long-term bank loans	**412**	**444**	**1,329**	**2,567**	**3,883**
Corporate bonds	**544**	**17,282**	**1,049**		**17,981**
Promissory notes	**18,440**				**17,960**
Other obligations	**3,006**	**293**	**48**	**47**	**3,419**
Accounts payable and accrued liabilities	**125,260**				**125,260**
Amounts due to related parties	**8,138**				**8,126**
Amounts due to ultimate holding company	**2,184**				**2,176**
Amounts due to domestic carriers	**2,538**				**2,538**
Commercial papers	**9,127**				**8,991**
Short-term bank loans	**22,945**				**22,500**
	192,594	**18,019**	**2,426**	**2,614**	**212,834**
At 31 December 2016					
Long-term bank loans	207	472	1,299	4,119	4,656
Corporate bonds	2,583	544	18,331		19,970
Promissory notes	20,078	18,440			36,882
Other obligations	3,179	258	44	55	3,476
Accounts payable and accrued liabilities	143,224				143,224
Amounts due to related parties	8,700				8,700
Amounts due to ultimate holding company	2,463				2,463
Amounts due to domestic carriers	1,989				1,989
Commercial papers	36,395				35,958
Short-term bank loans	78,210				76,994
	297,028	19,714	19,674	4,174	334,312

Regarding the Group s use of the going concern basis for the preparation of its financial statements, please refer to Note 2.2(a) for details.

3. 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, obligations under finance lease, and certain amounts due to ultimate holding company and related parties, as shown in the consolidated statement of financial position. The interest-bearing debts do not include balance of deposits received by Finance Company from Unicom Group and its subsidiaries and a joint venture of RMB2,285 million and RMB12 million, respectively, as at 31 December 2017 (2016: balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,397 million).

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

	2017	2016
Interest-bearing debts:		
Commercial papers	**8,991**	35,958
Short-term bank loans	**22,500**	76,994
Long-term bank loans	**3,473**	4,495
Promissory notes		17,906
Corporate bonds	**17,981**	17,970
Obligations under finance lease included in other obligations	**231**	208
Amounts due to ultimate holding company	**1,344**	
Amounts due to related parties	**475**	
Current portion of long-term bank loans	**410**	161
Current portion of promissory notes	**17,960**	18,976

Current portion of corporate bonds		2,000
Current portion of obligations under finance lease	**461**	586
	73,826	175,254
Total equity	**304,347**	227,682
Interest-bearing debts plus total equity	**378,173**	402,936
Debt-to-capitalisation ratio	**19.5%**	43.5%

The decrease in debt-to-capitalisation ratio during 2017 resulted primarily from the decrease in interest-bearing debts and the increase in total equity.

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

3.3 Fair value estimation

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits and restricted deposits, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, accounts receivable, 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 valuation: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

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

Level 3 valuation: fair value measured using significant unobservable inputs

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

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

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

3.3 Fair value estimation (Continued)

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

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

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

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

During the years ended 31 December 2017 and 2016, 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.

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

3.3 Fair value estimation (Continued)

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

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

	Carrying amount as at 31 December 2017	Fair value as at 31 December 2017	Fair value measurement as at 31 December 2017 categorised into			Carrying amount as at 31 December 2016	Fair value as at 31 December 2016
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	**3,473**	**3,187**		**3,187**		4,495	4,339
Non-current portion of promissory notes						17,906	18,031
Non-current portion of corporate bonds	**17,981**	**17,712**	**17,712**			17,970	17,989

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 1.18% to 5.51% (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 31 December 2017 and 2016 due to the nature or short maturity of those instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Depreciation on property, plant and equipment

Depreciation on the Group s property, plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. The Group reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. The Group estimates the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Impairment of Non-Financial Assets

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

No significant impairment loss on property, plant and equipment was recognised for the years ended 31 December 2017 and 2016.

4.3 Allowance for doubtful debts

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

4.4 Income tax and deferred taxation

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

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to deductible tax losses, unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, and allowance for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded net deferred tax assets amounting to approximately RMB5,973 million as at 31 December 2017 (2016: approximately RMB5,986 million) (see Note 13). Deferred tax assets are recognised based on the Group s estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

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

Group s results or financial position.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.5 Determining the type of lease

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

5. SEGMENT INFORMATION

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

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

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

6. REVENUE

Revenue from telecommunications services are subject to value-added tax (VAT) and VAT rates applicable to various telecommunications services. The VAT rate for basic telecommunications services is 11%; the VAT rate for value-added telecommunications services is 6% and the VAT rate for sales of telecommunications products remains at 17%. Basic telecommunications services include business activities for the provision of voice services, and leased lines and associated services etc. Value-added telecommunications services include business activities for the provision of Short Message Service and Multimedia Message Service, broadband and mobile data services, and data and internet application services etc. VAT is excluded from the revenue.

The major components of revenue are as follows:

	2017	2016
Voice usage and monthly fees	**39,154**	47,500
Broadband and mobile data services	**137,133**	118,209
Data and internet application services	**20,074**	17,782
Other value-added services	**22,793**	24,187
Interconnection fees	**14,233**	14,748
Leased lines and associated services	**12,519**	11,618
Other services	**3,109**	3,989
Total service revenue	**249,015**	238,033
Sales of telecommunications products	**25,814**	36,164

274,829	274,197

7. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	2017	2016
Repairs and maintenance		**10,531**	11,150
Power and water charges		**14,853**	13,898
Operating lease charges for network, premises, equipment and facilities		**10,724**	9,779
Operating lease and other service charges to Tower Company	41.2	**16,524**	14,887
Others		**1,875**	1,453
		54,507	51,167

8. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries and wages	**32,155**	27,178
Contributions to defined contribution pension schemes	**5,550**	5,236
Contributions to medical insurance	**2,010**	1,889
Contributions to housing fund	**2,722**	2,569
Other benefits	**34**	35
	42,471	36,907

8.1 Directors emoluments

The remuneration of each Director for the year of 2017 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			**195**	**398**	**114**	**707**
Lu Yimin			**195**	**398**	**114**	**707**
Li Fushen			**166**	**367**	**114**	**647**
Shao Guanglu	(a)		**132**	**283**	**91**	**506**
Cesareo Alierta Izuel		**260**				**260**
Cheung Wing Lam Linus		**355**				**355**
Wong Wai Ming		**363**				**363**

Chung Shui Ming Timpson	**372**				**372**
Law Fan Chiu Fun Fanny	**337**				**337**
Total	**1,687**	**688**	**1,446**	**433**	**4,254**

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8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors emoluments (Continued)

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

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

* In addition, according to the Notice on the Compensation Information Disclosure of the Central Government Controlled Enterprises (Guozifenpei [2016] No.339) (Translated from 知》（國資分配 [2016]3 Directors were also entitled to deferred bonuses in relation to 2013 and 2014. The deferred bonuses paid to Mr. Lu Yimin and Mr. Li Fushen were RMB394,000 and RMB347,000 respectively.

Notes:

(a) Mr. Shao Guanglu was appointed as executive director on 16 March 2017.
(b) Mr. Zhang Junan resigned as executive director on 1 November 2016.

During 2017 and 2016, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2017 and 2016.

During 2017 and 2016, the Company did not incur any payment to any director for loss of office or as an inducement to any director to join the Company.

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.2 Senior management s emoluments

Of the 5 senior management of the Company for the year ended 31 December 2017, 4 of them are directors of the Company and their remuneration has been disclosed in Note 8.1. For the remuneration of the 5 senior management, all fall within the band from RMB Nil to RMB1,000,000.

8.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2017, five of them are staffs and four fall within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB2,500,001 to RMB3,000,000 (2016: five of them are staffs and four fall within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB2,000,001 to RMB2,500,000).

The aggregate of the emoluments in respect of the five (2016: five) individuals are as follows:

	2017 (RMB 000)	2016 (RMB 000)
Salaries and allowances	**3,363**	3,089
Bonuses paid and payable	**3,508**	3,480
Contributions to pension schemes	**788**	323
	7,659	6,892

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2017	2016
Handsets and other telecommunication products	**26,406**	38,888
Others	**237**	413
	26,643	39,301

10. OTHER OPERATING EXPENSES

	2017	2016
Impairment losses for doubtful debts and write-down of inventories	**3,955**	4,173
Commission and other service expenses	**22,658**	23,826
Advertising and promotion expenses	**3,894**	3,188
Internet access terminal maintenance expenses	**3,547**	3,857
Customer retention costs	**3,987**	3,775
Auditors remuneration	**74**	69
Property management fee	**2,169**	2,150
Office and administrative expenses	**1,919**	1,972
Transportation expense	**1,642**	1,676
Miscellaneous taxes and fees	**1,251**	1,375
Service technical support expenses	**4,355**	4,641
Repairs and maintenance expenses	**824**	852
Loss on disposal of property, plant and equipment	**3,489**	355
Others	**3,402**	2,676
	57,166	54,585

11. FINANCE COSTS

	Note	**2017**	2016
Finance costs:			
Interest on bank loans repayable within 5 years		**3,378**	2,730
Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		**2,403**	2,885
Interest on related parties loans repayable within 5 years		**73**	
Interest on bank loans repayable over 5 years		**53**	62
Less: Amounts capitalised in CIP	15	**(670)**	(769)
Total interest expense		**5,237**	4,908
Net exchange loss/(gain)		**231**	(260)
Others		**266**	369
		5,734	5,017

12. OTHER INCOME NET

2017	2016

Dividend income from financial assets at fair value through other comprehensive income	**206**	357
Others	**1,074**	1,234
	1,280	1,591

13. TAXATION

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

	2017	2016
Provision for income tax on the estimated taxable profits for the year		
Hong Kong	**44**	13
Mainland China and other countries	**654**	1,722
Under/(Over)-provision in respect of prior years	**39**	(41)
	737	1,694
Deferred taxation	**6**	(1,540)
Income tax expenses	**743**	154

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

	Note	**2017**	2016
Profit before taxation		**2,593**	784
Expected income tax expense at PRC statutory tax rate of 25%		**648**	196
Impact of different tax rates outside mainland China		**(55)**	(14)
Tax effect of preferential tax rate	(i)	**(82)**	(68)
Tax effect of non-deductible expenses		**300**	191
Investment in joint ventures		**(143)**	(38)
Investment in associates	(ii)	**(133)**	39
Under/(Over)-provision in respect of prior years		**39**	(41)
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	**49**	(45)
Others		**120**	(66)
Actual tax expense		**743**	154

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

(ii)

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

(iii) As at 31 December 2017, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB1,923 million (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 2022.

As at 31 December 2017, the Group did not recognise deferred tax assets of RMB1,849 million (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.

13. TAXATION (Continued)

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

	2017	2016
Deferred tax assets:		
Deferred tax asset to be recovered after 12 months	**8,011**	8,168
Deferred tax asset to be recovered within 12 months	**2,598**	1,198
	10,609	9,366
Deferred tax liabilities:		
Deferred tax liabilities to be settled after 12 months	**(4,079)**	(2,897)
Deferred tax liabilities to be settled within 12 months	**(557)**	(483)
	(4,636)	(3,380)
Net deferred tax assets after offsetting	**5,973**	5,986
Deferred tax liabilities:		
Deferred tax liabilities to be settled after 12 months	**(108)**	(113)
Deferred tax liabilities to be settled within 12 months		
	(108)	(113)
Net deferred tax liabilities after offsetting	**(108)**	(113)

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

	Note	**2017**	2016
Net deferred tax assets after offsetting:			
Beginning of year		**5,986**	5,642
Deferred tax (charged)/credited to the statement of income		**(11)**	1,635
Deferred tax (charged)/credited to other comprehensive income		**(2)**	13
Reclassified from current taxes payable	(i)		(1,304)
End of year		**5,973**	5,986