

Keating Ronald C
Form 3
July 18, 2017

FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0104
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *		2. Date of Event Requiring Statement	3. Issuer Name and Ticker or Trading Symbol	
Â Keating Ronald C		(Month/Day/Year)	US ECOLOGY, INC. [ECOL]	
(Last)	(First)	(Middle)	07/17/2017	
251 E. FRONT STREET, Â SUITE 400			4. Relationship of Reporting Person(s) to Issuer	5. If Amendment, Date Original Filed(Month/Day/Year)
(Street)			(Check all applicable)	
BOISE, Â ID Â 83702			<input checked="" type="checkbox"/> Director	<input type="checkbox"/> 10% Owner
(City)	(State)	(Zip)	<input type="checkbox"/> Officer	<input type="checkbox"/> Other
			(give title below)	(specify below)
			6. Individual or Joint/Group Filing(Check Applicable Line)	
			<input checked="" type="checkbox"/> Form filed by One Reporting Person	
			<input type="checkbox"/> Form filed by More than One Reporting Person	

Table I - Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
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Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect (I)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Keating Ronald C 251 E. FRONT STREET SUITE 400 BOISE, ID 83702	X			

Signatures

/s/ Ronald C.
Keating

07/18/2017

Signature of
Reporting Person

Date

Explanation of Responses:

No securities are beneficially owned

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.

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Additions

103 7 110

Transfer from CIP

4,703 126 4,829

Disposals

(370) (42) (412)

At December 31, 2015

23,449 1,883 25,332

Additions

159 18 177

Transfer from CIP

2,761 242 3,003

Disposals

(1,148) (67) (1,215)

At December 31, 2016

25,221 2,076 27,297

Accumulated amortization and impairment:

At January 1, 2015

(9,913) (593) (10,506)

Amortization charge for the year

(3,193) (199) (3,392)

Disposals

370 19 389

At December 31, 2015

(12,736) (773) (13,509)

Amortization charge for the year

(3,618) (228) (3,846)

Explanation of Responses:

Disposals

1,129 49 1,178

At December 31, 2016

(15,225) (952) (16,177)

Net book value:

At December 31, 2016

9,996 1,124 11,120

Explanation of Responses:

At December 31, 2015

10,713 1,110 11,823

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

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

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

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Table of Contents**22. INVENTORIES AND CONSUMABLES**

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

23. ACCOUNTS RECEIVABLE

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

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

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

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

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

Table of Contents**23. ACCOUNTS RECEIVABLE (CONTINUED)**

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

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

	2014	2015	2016
Balance, beginning of year	4,291	4,464	4,910
Allowance for the year	3,098	3,365	3,999
Written-off during the year	(2,925)	(2,919)	(3,443)
Balance, end of year	4,464	4,910	5,466

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

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

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

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

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

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

considered fully recoverable.

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Table of Contents**24. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

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

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

(ii) VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year. Prepayments and other current assets are expected to be recovered or recognized as expenses within one year.

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

Table of Contents**25. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS**

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

- (i) In order to carry on its business, Finance Company placed statutory reserve deposits with the People's Bank of China according to Notice of the People's Bank of China on Implementing the Average Method to Assess Deposit Reserves (Yinfa [2015] No.289). These statutory reserve deposits are not available for use by the Group in daily operations.

26. CASH AND CASH EQUIVALENTS

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

Table of Contents**27. SHARE CAPITAL**

	Number of shares millions	Share capital	Share premium	Capital redemption reserve	Total
Issued and fully paid:					
At January 1, 2014	23,782	2,328	175,204	79	177,611
Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance (Note 38)	2		19		19
Transition to no-par value regime on March 3, 2014		175,302	(175,223)	(79)	
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 38)	163	1,471			1,471
At December 31, 2014	23,947	179,101			179,101
Issuance of shares upon exercise of options		1			1
At December 31, 2015 and 2016	23,947	179,102			179,102

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance occurred automatically on March 3, 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the new Hong Kong Companies Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been in accordance with the requirements of Parts 4 and 5 of the new Hong Kong Companies Ordinance.

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28. RESERVES

(a) Nature and purpose

(i) Statutory reserves

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

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

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

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRSs, the appropriations to the staff bonus and welfare fund are charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended December 31, 2014, 2015 and 2016, no appropriation to staff bonus and welfare fund has been made by CUCL.

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

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28. RESERVES (CONTIUNED)

(a) Nature and purpose (Continued)

(ii) Employee share-based compensation reserve

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

(iii) General risk reserve

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

(iv) Investment revaluation reserve

The investment revaluation reserve represents the changes in fair value of financial assets through other comprehensive income, net of tax, until the financial assets are derecognized.

(v) Convertible bonds reserve

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

(vi) Other reserve

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

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29. DIVIDENDS

At the annual general meeting held on May 8, 2015, the shareholders of the Company approved the payment of a final dividend of RMB0.20 per ordinary share for the year ended December 31, 2014, totaling approximately RMB4,789 million which has been reflected as a reduction of retained profits for the year ended December 31, 2014. The dividend payable of approximately RMB920 million was due to Unicom BVI as of December 31, 2015.

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

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

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after January 1, 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise (TRE). On November 11, 2010, the Company obtained an approval from the SAT of the PRC, pursuant to which the Company qualifies as a PRC TRE from January 1, 2008. Therefore, as of December 31, 2015 and 2016, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

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

Table of Contents**30. LONG-TERM BANK LOANS**

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

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

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

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

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31. PROMISSORY NOTES

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

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

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

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

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

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

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

Table of Contents**32. CORPORATE BONDS**

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

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

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

33. OTHER OBLIGATIONS

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

(a) One-off cash housing subsidies

Certain staff quarters, prior to 1998, were sold to certain of the Group's employees at preferential prices, subject to a number of eligibility requirements. In 1998, the State Council issued a circular which stipulated that the sale of quarters to employees at preferential prices should be terminated. In 2000, the State Council issued a further circular stating that cash subsidies should be made to certain eligible employees following the withdrawal of the allocation of staff quarters. However, the specific timetable and procedures for the implementation of these policies were to be determined by individual provincial or municipal governments based on the particular situation of the provinces or municipality.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who had not been allocated with quarters or who had not been allocated with quarters up to the prescribed standards before the discounted sales of quarters were terminated, the Group determined to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. Based on the available information, the Group estimated the required provision for these cash housing subsidies amounted to RMB4,142 million, which was charged to the statement of income for the year ended December 31, 2000 (the year in which the State Council circular in respect of cash subsidies was issued).

In January 2009, through the absorption of China Netcom (Group) Company Limited (CNC China) by CUCL and the absorption of China Network Communications Group Corporation (Netcom Group) by Unicom Group, the rights and obligations formerly undertaken by CNC China and Netcom Group were taken over by CUCL and Unicom Group separately. As of December 31, 2016, the Group's unpaid one-off cash housing subsidies amounted to approximately

RMB2,496 million. If the actual payments required for these one-off housing subsidies differ from the amount provided, Unicom Group will bear any additional payments required. If the actual payments are lower than the amount provided, the difference will be paid to Unicom Group.

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Table of Contents**33. OTHER OBLIGATIONS (CONTINUED)**

(b) Obligations under finance lease

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

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

34. SHORT-TERM BANK LOANS

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

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35. COMMERCIAL PAPERS

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

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

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

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

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

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

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

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

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

Table of Contents**36. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

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

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

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37. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA IN EACH OTHER

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

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

On May 14, 2012, Telefónica declared a dividend. The Company chose to implement it by means of a scrip dividend and received 1,646,269 ordinary shares of approximately RMB146 million.

As of December 31, 2016, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,138 million (2015: approximately RMB4,665 million). For the year ended December 31, 2016, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB531 million (2014: decrease of approximately RMB694 million, net of tax impact, decrease of approximately RMB520 million; 2015: decrease of approximately RMB1,041 million, together with tax impact, decrease of approximately RMB2,172 million), has been recorded in the consolidated statement of comprehensive income.

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38. EQUITY-SETTLED SHARE OPTION SCHEMES

38.1 2014 share option scheme

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

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

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

Table of Contents**38. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)**

38.2 Share option information

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

	2014		2015		2016	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year	6.61	174,498,077	6.35	3,540,000		
Lapsed	6.00	(5,759,994)	6.35	(3,432,000)		
Exercised	6.64	(165,198,083)	6.35	(108,000)		
Balance, end of year	6.35	3,540,000				
Exercisable at end of year	6.35	3,540,000				

Exercise of share options during the year ended December 31, 2015 resulted in 108,000 shares being issued (2014: 165,198,083 shares), with exercise proceeds of approximately RMB1 million (2014: RMB871 million).

No options outstanding as of December 31, 2015 and 2016.

Details of share options exercised during 2014 and 2015 were as follows:

For the year ended December 31, 2014:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
July 20, 2004	5.92	11.94	80,464,640	13,592,000
December 21, 2004	6.20	13.30	793,600	128,000
February 15, 2006	6.35	11.85	433,882,800	68,328,000

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October 15, 2008	5.57	12.27	217,608,197	39,067,899
October 15, 2008	8.26	12.41	364,118,840	44,082,184
			1,096,868,077	165,198,083

For the year ended December 31, 2015:

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

For the years ended 31 December 2014, 2015 and 2016, there were no employee share-based compensation expenses.

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39. RELATED PARTY TRANSACTIONS

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

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

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

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

Table of Contents**39. RELATED PARTY TRANSACTIONS (CONTINUED)**

39.1 Connected transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

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

	Note	2014	2015	2016
Transactions with Unicom Group and its subsidiaries:				
Charges for value-added telecommunications services	(i), (ii)	51	62	42
Rental charges for property leasing	(i), (iii)	955	929	1,050
Charges for lease of telecommunications resources	(i), (iv)	271	283	281
Charges for engineering design and construction services	(i), (v)	3,138	5,018	4,487
Charges for shared services	(i), (vi)	119	107	104
Charges for materials procurement services	(i), (vii)	91	125	88
Charges for ancillary telecommunications services	(i), (viii)	2,111	2,504	2,541
Charges for comprehensive support services	(i), (ix)	840	1,455	1,690
Income from comprehensive support services	(i), (ix)	19	12	51

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39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) Recurring transactions (Continued)

- (i) The agreement governing the recurring related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries expired on December 31, 2016. Accordingly, on November 25, 2016, CUCL entered into the new agreement, 2017-2019 Comprehensive Services Agreement with Unicom Group to renew certain continuing connected transactions. 2017-2019 Comprehensive Services Agreement has a term of three years commencing on January 1, 2017 and expiring on December 31, 2019, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for certain transactions have changed under the new agreement.
- (ii) UNISK (Beijing) Information Technology Corporation Limited (UNISK) agreed to provide the mobile subscribers of CUCL with various types of value-added services through its cellular communications network and data platform. The Group retains a portion of the revenue generated from the value-added services provided to the Group's subscribers (and actually received by the Group) and allocates a portion of such fees to UNISK for settlement, on the condition that such proportion allocated to UNISK does not exceed the average proportion allocated to independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region. The percentage of revenue to be allocated to UNISK by the Group varies depending on the types of value-added service provided to the Group.
- (iii) CUCL and Unicom Group agreed to mutually lease properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes. For the year ended December 31, 2016, the rental charge paid by Unicom Group was approximately RMB0.48 million, which was negligible.

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39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) Recurring transactions (Continued)

- (iv) Unicom Group agreed to lease to CUCL certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) and certain other telecommunications facilities for its operations. The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and facilities provided that such charges would not be higher than market rates. For maintenance service to the telecommunications facilities aforementioned, unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL and determined with reference to market rates or a cost-plus basis if there are no market rates.
- (v) Unicom Group agreed to provide engineering design, construction and supervision services and IT services to CUCL. The charges payable by CUCL for the above services are determined with reference to the market price and are settled when the relevant services are provided.
- (vi) Unicom Group and CUCL agreed to provide shared services to each other and would share the costs related to the shared services proportionately in accordance with their respective total assets value with certain adjustments. For the year ended December 31, 2016, the services charges paid by Unicom Group to CUCL was negligible.
- (vii) Unicom Group agreed to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group has also agreed to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement. The charges payable by CUCL to Unicom Group are based on contract values, market rates, government guidance price or cost-plus basis where applicable.
- (viii) Unicom Group agreed to provide ancillary telecommunications services to CUCL. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency

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services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers service. The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

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39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) Recurring transactions (Continued)

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

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

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

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

Table of Contents**39. RELATED PARTY TRANSACTIONS (CONTINUED)**

39.2 Related party transactions with Tower Company

(a) Related party transactions

	Note	2014	2015	2016
Transactions with Tower Company:				
The Group's Tower Assets Disposal	(i)		54,658	
Interest income from Cash Consideration	(i)		120	809
Operating lease and other service charges	(ii)		2,926	14,887
Income from engineering design and construction services	(iii)		50	151

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

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

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

(b) Amounts due from and to Tower Company

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

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Amount due to Tower Company balance mainly included operating lease and other service charges payable, and payable balance in relation to power charges paid by Tower Company on behalf of the Group, of RMB4,377 million in total as of December 31, 2016 (2015: RMB3,029 million in total).

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

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Table of Contents**39. RELATED PARTY TRANSACTIONS (CONTINUED)**

39.3 Related party transactions with Unicom Group and its subsidiaries

	Note	2014	2015	2016
Net deposit placed with Finance Company by Unicom Group and its subsidiaries	(i)			2,397
Interest expense on the deposits	(i)			11

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

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

39.4 Operating lease and other commitments to related parties

As of December 31, 2015 and 2016, the Group had commitments to related parties in respect of total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments totalled RMB926 million and RMB49,038 million, respectively.

Table of Contents**40. CONTINGENCIES AND COMMITMENTS**

40.1 Capital commitments

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

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

40.2 Operating lease and other commitments

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

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

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

40.3 Contingent liabilities

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

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41. COMPARATIVE FIGURES

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

42. CHINA UNICOM (HONG KONG) LIMITED (PARENT COMPANY)

Relevant PRC statutory laws and regulation permit payments of dividends by the Company's subsidiaries in the PRC only out of their retained earnings, if any, as determined in accordance with the PRC accounting standards and regulations.

As of December 31, 2015 and 2016, RMB28,780 million and RMB28,827 million (US\$4,152 million) were appropriated from retained earnings and set aside for the statutory reserve by the Company's PRC subsidiaries, respectively.

As a result of these PRC laws and regulations, the Company's subsidiaries in the PRC are restricted in its ability to transfer a portion of its net assets to either in the form of dividends, loans or advances, which consisted of registered capital and statutory reserves that amounted to RMB188,231 million and RMB196,644million (US\$28,323 million) as of December 31, 2015 and 2016, respectively.

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The following presents condensed unconsolidated financial information of the parent company only.

Condensed Statement of financial position

	As of December 31		
	2015	2016	2016
	RMB	RMB	US\$
ASSETS			
Non-current assets			
Property, plant and equipment	13	10	1
Investments in subsidiaries	160,308	159,815	23,019
Loan to a subsidiary	34,461	32,602	4,696
Financial assets at fair value through other comprehensive income	4,665	4,138	596
	199,447	196,565	28,312
Current assets			
Loan to subsidiaries	113	2,467	355
Amounts due from subsidiaries	3,418	5,729	825
Dividend receivable	19,947	16,158	2,327
Prepayments and other current assets	9	6	1
Cash and cash equivalents	657	1,443	208
	24,144	25,803	3,716
Total assets	223,591	222,368	32,028
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	179,102	179,102	25,796
Reserves	(5,917)	(6,448)	(929)
Retained profits			
- Proposed final dividend	4,071		
- Others	5,999	7,869	1,134
Total equity	183,255	180,523	26,001
LIABILITIES			
Non-current liabilities			
Promissory notes	3,995		
	3,995		
Current liabilities			
Short-term bank loans	25,828	29,331	4,225
Accounts payable and accrued liabilities	316	211	29

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Loans from subsidiaries	171	970	140
Amounts due to subsidiaries	6,385	6,385	920
Taxes payable	222	29	4
Dividend payable	920	920	133
Current portion of promissory notes	2,499	3,999	576
	36,341	41,845	6,027
Total liabilities	40,336	41,845	6,027
Total equity and liabilities	223,591	222,368	32,028
Net current liabilities	(12,197)	(16,042)	(2,311)
Total assets less current liabilities	187,250	180,523	26,001

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Table of Contents**Condensed Statements of Comprehensive Income**

	Year ended December 31			
	2014 RMB	2015 RMB	2016 RMB	2016 US\$
Revenue			6	1
Dividend income	12,120	7,226	371	53
General and administrative expenses	(52)	(52)	(63)	(9)
Interest income	937	1,387	1,250	180
Finance costs	(1,272)	(2,980)	(718)	(103)
Other income-net	(6,222)	67	1,060	153
Income before income tax	5,511	5,648	1,906	275
Income tax expenses	(47)	(36)	(36)	(5)
Net income	5,464	5,612	1,870	270
Other comprehensive income:				
Change in fair value of financial assets through other comprehensive income-net	(520)	(2,172)	(531)	(76)
Total comprehensive income for the year	4,944	3,440	1,339	194

Condensed Statements of Cash Flows

	Year ended December 31			
	2014 RMB	2015 RMB	2016 RMB	2016 US\$
Net cash outflow from operating activities	(194)	(56)	(85)	(12)
Net cash inflow from investing activities	423	24,613	537	77
Net cash inflow/(outflow) from financing activities	542	(25,829)	266	38
- Dividend paid to equity shareholders of the Company	(3,584)	(4,643)	(1,005)	(145)
Net increase/(decrease) in cash and cash equivalents	771	(1,272)	718	103
Cash and cash equivalents at beginning of year	966	1,852	657	95
Effect of changes in foreign exchange rate	115	77	68	10
Cash and cash equivalents at end of year	1,852	657	1,443	208

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses.

43. APPROVAL OF FINANCIAL STATEMENTS

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

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