China unicom 中国联通

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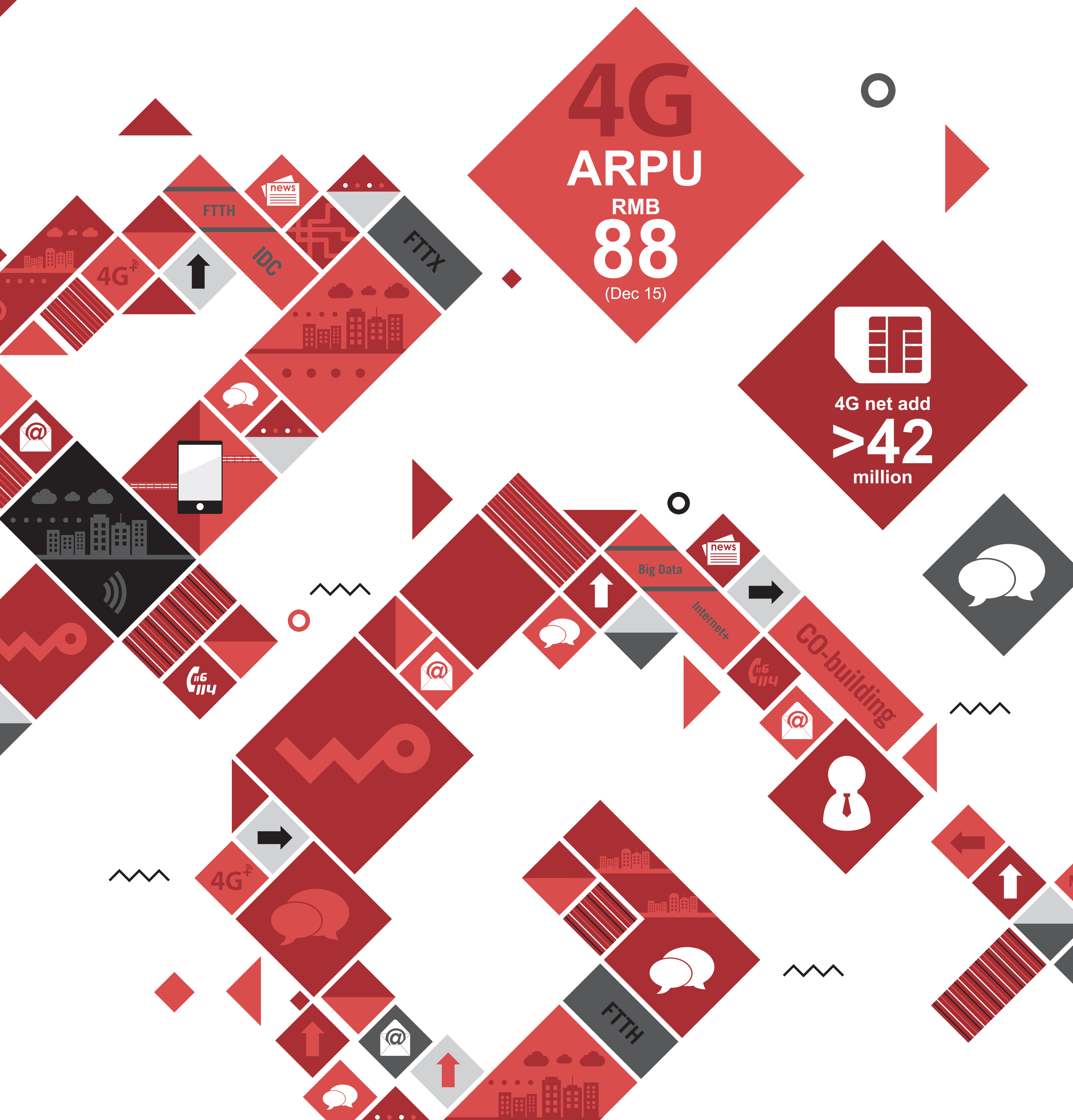
ANNUAL REPORT

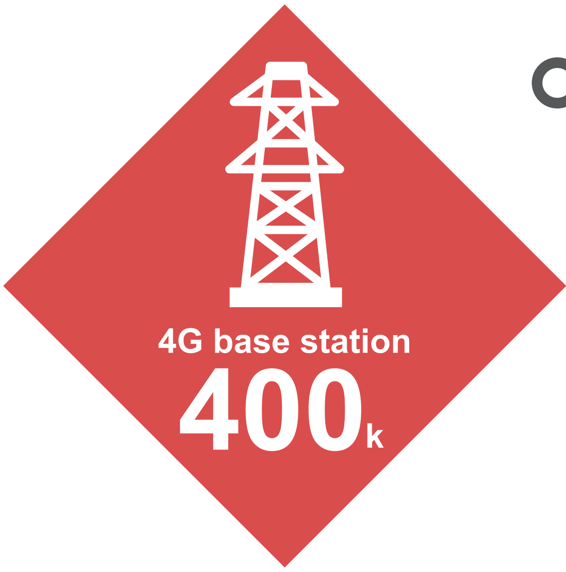
2015

CHINA UNICOM (HONG KONG) LIMITED

HKEx : 0762 | NYSE : CHU

# PROMPTLY FOCUSED RESOURCES ON 4G TO FUEL MOBILE BUSINESS MOMENTUM



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## 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 filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.

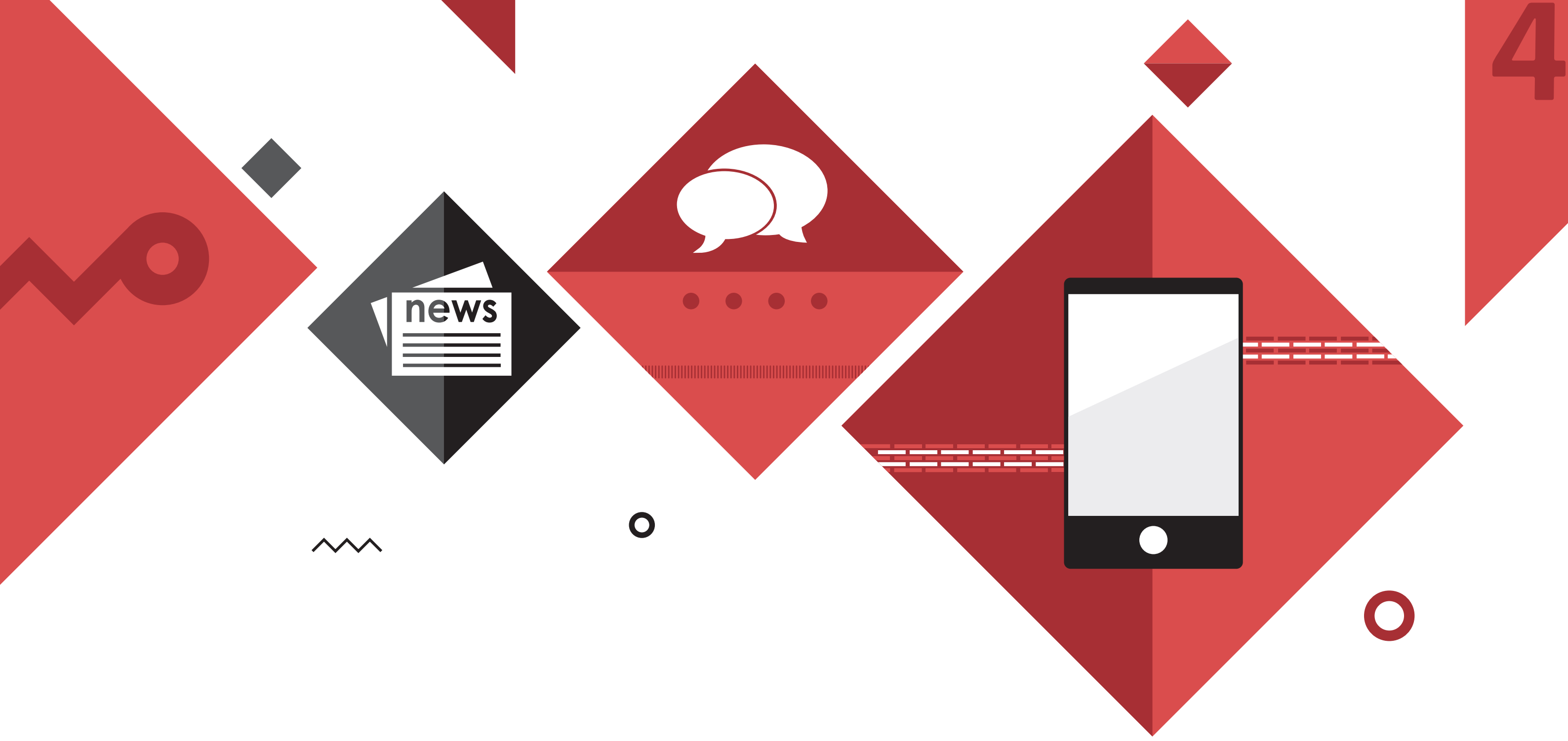
# COMPANY PROFILE

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.

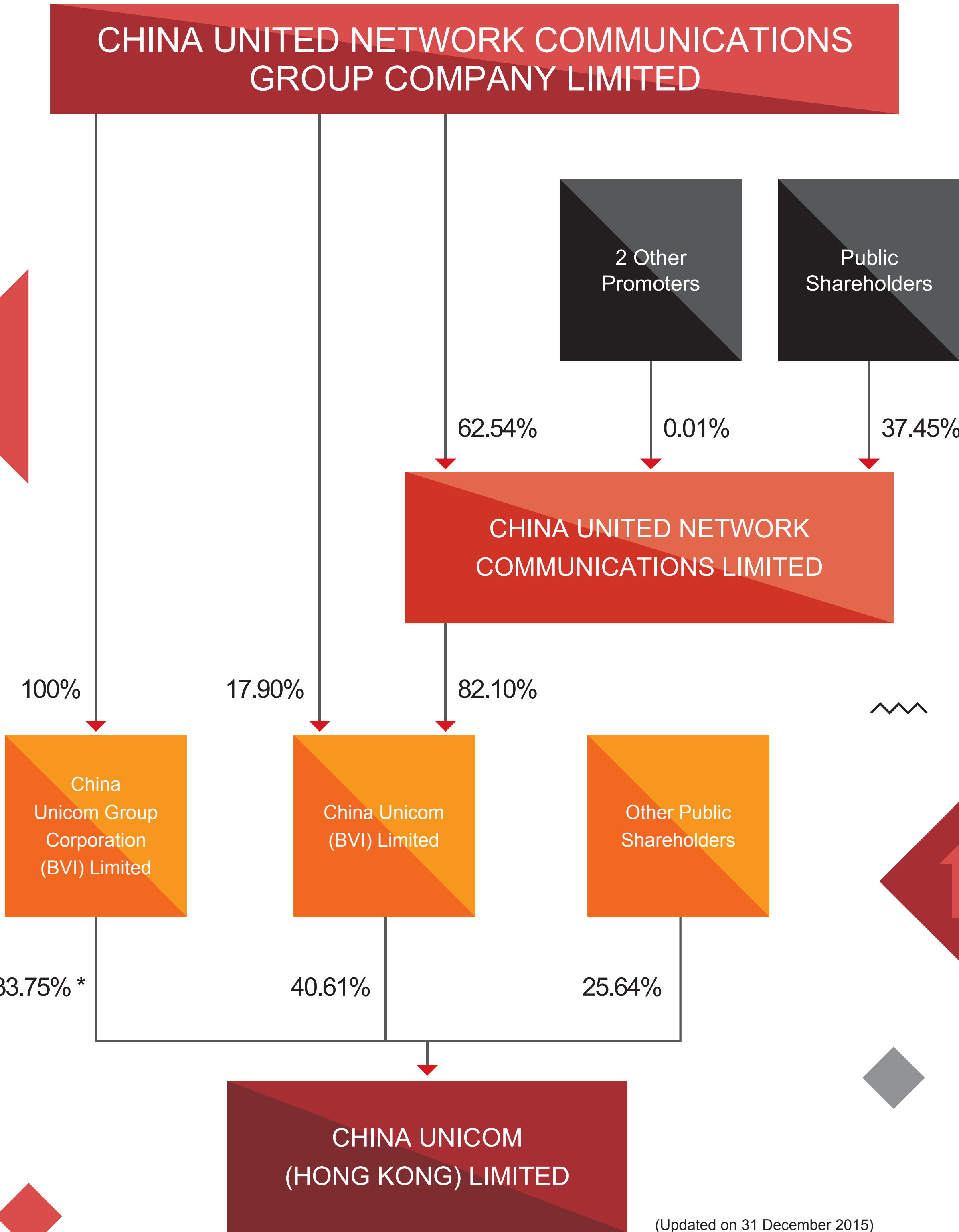
The Company merged with China Netcom Group Corporation (Hong Kong) Limited on 15 October 2008. The ultimate parent company of the Company, China United Network Communications Group Company Limited ("Unicom Group") also gained approval and officially merged with China Network Communications Group Corporation ("Netcom Group") on 6 January 2009.

As at 31 December 2015, Unicom Group held 61.87% 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 public investors of the A Share Company held 12.49% of the shares in the Company through A Share Company's shareholding in China Unicom (BVI) Limited. The remaining 25.64% of the shares in the Company are held by public investors at The Stock Exchange of Hong Kong Limited and New York Stock Exchange.

At present, the Company provides a full range of telecommunications services in China, 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 2015, the Company has fixed-line local access subscribers of about 74 million, fixed-line broadband subscribers of about 72 million, and mobile billing subscribers of about 252 million.



# SHAREHOLDING STRUCTURE




(Updated on 31 December 2015)

* excluded the interest in 225,722,791 shares of the Company held by China Unicom Group Corporation (BVI) Limited as trustee on behalf of a PRC shareholder.

# PERFORMANCE HIGHLIGHTS

## CHALLENGING BUSINESS ENVIRONMENT PUT REVENUE AND PROFIT UNDER CONSIDERABLE PRESSURE

**Operating Revenue**
RMB **277.05** BILLION

**Service Revenue**
RMB **235.28** BILLION

**EBITDA Margin**
**37.2%**

**EBITDA**
RMB **87.50** BILLION

**Net Profit**
RMB **10.56** BILLION

**Mobile Subscribers**
**286.7** MILLION

**Fixed-line Broadband Sub-scribers**
**72.3** MILLION

**Fixed-line Local Access Subscribers**
**73.9** MILLION

# PERFORMANCE HIGHLIGHTS

| KEY FINANCIAL DATA | 2015 | 2014 |
|---|---|---|
| **Operating Revenue** (RMB billions) | 277.05 | 284.68 |
| **Service Revenue**[1] (RMB billions) | 235.28 | 244.88 |
| Of which: Mobile service | 142.62 | 155.10 |
| Fixed-line service | 91.26 | 88.48 |
| **EBITDA**[2] (RMB billions) | 87.50 | 92.77 |
| EBITDA as % of service revenue | 37.2% | 37.9% |
| **Net Profit** (RMB billions) | 10.56 | 12.06 |
| **Basic Earnings per Share** (RMB) | 0.441 | 0.505 |
| **Dividend per Share** (RMB) | 0.17 | 0.20 |

| KEY OPERATING DATA | 2015 | 2014 |
|---|---|---|
| **Mobile Subscribers** (millions) | 286.7 | 299.1 |
| Mobile Billing Subscribers[3] (millions) | 252.3 | 266.6 |
| **Mobile ARPU** (RMB) | 40.8 | 44.1 |
| Mobile Billing Subscribers ARPU[3] (RMB) | 46.3 | 47.8 |
| **Fixed-line Broadband Subscribers** (millions) | 72.3 | 68.8 |
| **Fixed-line Broadband ARPU** (RMB) | 63.6 | 62.2 |
| **Fixed-line Local Access Subscribers** (millions) | 73.9 | 82.1 |

Note 1: Due to the existence of unallocated items, service revenue is not equal to the sum of service revenue from mobile service and fixed-line service.

Note 2: EBITDA represents profit for the year before finance costs, interest income, share of loss of associates, share of loss of joint venture, 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 Group.

Note 3: 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 will 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) in 2016. From January 2016 onwards, the aggregate number and net addition of mobile billing subscribers and 4G subscribers will be disclosed. On the other hand, the aggregate number of mobile broadband subscribers will no longer be disclosed. The adjustment in the disclosure of subscriber statistics will not affect the Company's revenue and profit recognition.

# MAJOR EVENTS

## JANUARY

China Unicom's 3G network successfully covered Zhongshan Station in Antarctica.

## FEBRUARY

China Unicom was granted the license to operate "LTE/4G digital cellular mobile service (LTE FDD)" by the Ministry of Industry and Information Technology.

## APRIL

China Unicom officially launched the first NFC handset with all-in-one SIM.

## OCTOBER

China Unicom launched an unused mobile data carry-over policy for all its 2G/3G/4G subscribers, which allowed the unused monthly data to be carried over for use till the end of the following month to enhance the data consumption experience of customers, accelerate the subscriber and service upgrade, and promote the strategic transformation of the Company.

China Unicom entered into agreement with China Tower Corporation Limited for the disposal and transfer of telecommunications towers and related assets.

## DECEMBER

China Unicom officially launched “WO 4G+”, a new 4G brand image for China Unicom – not only faster, but more pleasant experience, more relieved consumption, and better service”, enhancing the competitiveness and the development confidence of 4G.


China Unicom was awarded two grand prizes in 3rd Chinese Enterprises New Media Annual Conference, being The Most Influential New Media Accounts 2015 of Chinese Enterprises and The Most Influential New Media Accounts 2015 of State–Owned Enterprises.


China Unicom held 2016 Work Conference, at which full implementation of “Focus Strategies” was put forward, driving a new chapter for the works of China Unicom.

# CHAIRMAN'S STATEMENT

WANG XIAOCHU
*Chairman and Chief Executive Officer*

## DEAR SHAREHOLDERS,

In 2015, facing the complex changes of the business environment and the stiff challenges including, among others, "Speed Upgrade and Tariff Reduction[1]", "One-month Mobile Data Carry-over[2]", the replacement of business tax with value-added tax[3] ("VAT Reform") and intensifying competition, the Company took proactive steps to address the challenges by adjusting its strategic thinking, leading to clearer strategic direction and business focuses. The Company has nurtured progressive positive changes in its operations, laying a solid foundation for its long-term transformation and sustainable growth.

## OVERALL RESULTS

In 2015, both the revenue and profit of the Company were under considerable pressure. The service revenue for the year amounted to RMB235.28 billion, down by 3.9% compared with the previous year, while revenues from non-voice service accounted for 69.1% of the service revenue, representing a year-on-year increase of 7.2 percentage points.

The Company's EBITDA declined by 5.7% year-on-year to RMB87.50 billion. EBITDA as a percentage of service revenue was 37.2%, down by 0.7 percentage points year-on-year. Including the gain on disposal of certain telecommunications towers and related assets, net profit was RMB10.56 billion, down 12.4% year-on-year. Committed to delivering leading network experience for customers, the Company made investments for future growth with capital expenditure reaching RMB133.88 billion in 2015.

During the year, the Group disposed of certain telecommunications towers and related assets to China Tower Corporation Limited (the "Tower Company") and realised a gain on disposal before taxes of RMB9.25 billion. The disposal of the towers assets will facilitate the sharing of telecommunications towers among operators, thus promoting a quick and efficient 4G network roll-out while saving capital expenditures of the Company. Meanwhile, the Company, as one of the major shareholders of the Tower Company, expects to benefit from the future earnings and value enhancement of the Tower Company. The Company and the Tower Company are in the process of negotiation on the fee of using telecommunications towers. The tower usage fee is expected to bring short-term pressure on the profit of the Company.

Based on the Company's overall financial position in 2015 and taking into account the shareholder returns, profitability, debt obligations and cash flows of the Company, and the capital required for future development, the Board of Directors recommended a final dividend payout of RMB0.17 per share for the fiscal year ended 31 December 2015.

## BUSINESS DEVELOPMENT

### Promptly adjusting operating priority to focus resources on 4G to fuel mobile business momentum

The overall development of the Company's mobile service was under pressure in 2015. Mobile service revenue was RMB142.62 billion, representing a year-on-year decrease of 8.0%. The number of its mobile billing subscribers declined by 14.26 million to 252.32 million. During the year, our competitor made a strong push in promoting 4G service, the Company's competitive advantages on 3G had been fading out fast. Leveraging the opportunity of sharing of towers, the Company accelerated mobile network deployment, fully opened its 4G network to all the subscribers, promoted 4G terminals penetration and optimised its product portfolio to expedite the subscriber migration to 4G network. Promptly refining strategy in the fourth quarter, the Company fully focused on 4G, launched "WO 4G+", and comprehensively enhanced customer experience by improving its network, products, terminals, channels and operations capabilities, undergoing a 4G-led service transformation and development. As at the end of 2015, the total 4G subscribers of the Company reached 44.16 million, accounting for 17.5% of mobile billing subscribers, accelerating the optimisation of the mobile subscriber structure and fueling the mobile business momentum.

### Expanding broadband and informatisation services to sustain steady growth of fixed-line services

The Company actively leveraged its advantages in fiber network and informatisation to accelerate the development of its growth services such as Internet access, video and integrated information services. The Company continued to strengthen its integrated services and packages including fixed-line, mobile and informatisation, and launched "Smart WO Family" products to promote the synergetic developments across various services. In 2015, the Company's fixed-line broadband service revenue grew by 7.5% year-on-year to RMB53.96 billion, and its fixed-line broadband subscribers increased by 5.1% year-on-year to 72.33 million, with Fiber-to-the-home (FTTH) subscribers accounting for more than 50% of fixed-line broadband subscribers. "Smart WO Family" subscribers reached 9.59 million. In the future, while promoting the expansion of FTTH subscriber scale, the Company will strengthen the investment efficiency management in broadband terminals, reducing the impact on the profit for the period. Driven by its fixed-line broadband service growth, the fixed-line service revenue for 2015 increased by 3.1% year-on-year to RMB91.26 billion, of which 83.6% was from fixed-line non-voice revenue, up by 4.7 percentage points year-on-year, resulting in a further optimised fixed-line business structure.

### Exploring new development areas and accelerating deployment in innovative services

Facing ample room for development in industrial Internet, the Company focused on key areas in its innovative services such as the Internet of Things, Internet Data Centre (IDC), cloud computing, Big Data, Information and Communications Technology (ICT) and smart city and so on, fully optimised the overall business deployment, centralised the planning of platform construction, and streamlined its operations system to create new driver for sustainable growth. It focused on differentiated markets such as healthcare, education, manufacturing, environmental protection, transportation and logistics to promote a breakthrough in scale in key industry applications. In 2015, the Company's IDC and cloud computing revenue reached RMB7.07 billion, up 37.5% year-on-year. ICT revenue reached RMB4.33 billion, up 24.9% year-on-year.

The Company continued to deepen data traffic operation and focused on enhancing subscribers' data consumption experience via various measures, including consistent upgrade of network speed, optimisation of products and services and roll-out of "One-month Mobile Data Carry-over" initiative, to promote and accelerate the transformation and upgrade of subscriber and consumption pattern. The Company actively explored open cooperation with Internet companies in dedicated and backward data traffic monetisation, enhanced WO+ open platforms capability integrating content applications and innovating products to promote the fast growth of data traffic scale. In 2015, the mobile data usage of handset subscribers of the Company increased 60.1% year-on-year. Mobile data traffic revenue accounted for 42.9% of mobile service revenue. In December 2015, the monthly average mobile data usage per 4G subscriber reached 1.2GB.

## NETWORK DEPLOYMENT

In 2015, the Company accelerated the deployment of high-speed broadband network with a focus on 4G and fiber broadband. During the year, the Company added 306,000 4G base stations, making a total number of 399,000 4G base stations. The 4G network basically achieved continuous coverage in urban area, county cities and developed towns and villages. The Company expedited the upgrade towards "4G+", and started carrier aggregation pilot schemes, increasing its network peak downlink speed to 300Mbps. The Company accelerated the construction and upgrade of its fiber broadband network and completed the construction of six fully fiber-connected provinces and over 100 fully fiber-connected cities. The number of broadband access ports increased by 22.2% year-on-year to 165 million, of which 93% are FTTX. The Company continued to improve its basic network capabilities including the transmission and carrying networks, leading to enhanced overall network capabilities. The Company launched an in-depth cooperation with China Telecom to accelerate the improvement on network service qualities and operating efficiency of assets.

## STRATEGIC TRANSFORMATION

In 2015, the Company, leveraging its own resources and advantages, formulated the strategy of "implementing Focus Strategies, fostering innovation and cooperation". The Company aimed to drive the future development and strategic transformation by focusing on the key areas, capitalising on innovation and deepening cooperation. Efforts were made to push forward appropriate delegation and empowerment in fundamental business areas to boost flexibility in marketing. Themed around efficiency enhancement and lifting vibrancy, the Company accelerated the innovation and transformation of corporate management, and established decision committees on procurement, product and branding, and remuneration distribution to promote democratic and highly effective decision-making process. To promote organisational and institutional reform which better adapt to the development of mobile Internet, the Company further adjusted and optimised its subsidiary companies by deregistering a company which focused on the network business and establishing an e-commerce department and a subsidiary focusing on international business. Aiming at sustainably lifting the organisation internal vibrancy, the Company pushed forward the reform to vitalise the accountability of frontline service units while optimising and perfecting staff promotion and incentive mechanism.

## SOCIAL RESPONSIBILITY

The Company has long been integrating social responsibility into its own development, striving to create shared value for all interested parties. Supporting the country's efforts in advancing informatisation and transformation and upgrade of traditional industries, the Company actively supported the build-out of smart cities and developed information technologies that improve the livelihood of the general public and implemented the "Speed Upgrade and Tariff Reduction" initiative. To provide customers with assured, convenient and efficient services, the Company innovated its service offerings, strengthened the management of real-name registration and created a network environment that is environmentally-friendly and secure. The Company also developed itself as a resource-conserving and environment-friendly enterprise by promoting energy-saving and emission-reduction initiatives, joint construction and co-sharing of telecommunications infrastructure and in-depth value chain cooperation. In addition, the Company not only promoted a culture of fairness and harmony and focused on employees' career development and personal well-being, but also carried out activities to alleviate poverty and support education with donation on a continued basis, so as to return to society and encourage the sustainable development of the Company.

## OUTLOOK

Currently, the Company is facing difficulties and challenges as well as numerous opportunities and growth potential. While the global economy has been undergoing in-depth adjustment, the Chinese economy has entered a "new normal" of adjusting pace, optimising structure and switching momentum. While the ever-changing information technologies continue to drive production transformation in society, innovation has become the first and leading powerhouse for development. Globally, the core value of the telecommunications industry continues to shift from telecommunication services to information services. Factors such as the saturation of the traditional market, the competition shifting to capturing existing customers, adjustment of regulatory policies in the industry and the evolvement of competition landscape are all influencing the Company's development in new ways. Benefitting from the aggressive implementation by the State of its Internet-superpower strategy, the Big Data strategy as well as the "Internet+" action plan, the data traffic and information consumption are developing comprehensively, while Internet of Things, cloud computing, Big Data and internet finance have all entered a period of rapid growth, unlocking ample business opportunities for the Company.

The new year marks the beginning of the all-round implementation of the "Focus Strategies" and the fostering of innovation and cooperation. Looking forward, we are fully confident. With "focus, innovation, cooperation" as the core, the Company will strengthen the driving effect of corporate strategy to accelerate the resolution of development hurdles, thereby contributing to a gradual turnaround of its operating results. On the one hand, the Company will focus on key businesses and key regions to improve the value of fundamental business. On the other hand, the focus will lie on 4G and acceleration of network roll-out, re-shaping our brand image, upgrade of our product offering, stepping up terminal-led effect, enhancing channel capability, deepening effort in customer retention and data traffic operation, in order to achieve breakthrough in key differentiated markets and an overall stabilisation and rebound of the mobile service. Driven by applications, the Company will strive to enhance the value of broadband service. Committed to leveraging high quality services, such as, TV and video to push fiber broadband adoption, and innovate family Internet services, the Company aims to maintain steady growth in fixed-line service. Another area of focus will be the platform-based service and industrial Internet. By effectively expanding capacity and enhancing capability, the Company will vigorously expand the services of Internet of Things, cloud computing/IDC, Big Data, data traffic operation, industry applications, payment/finance and international business, in an effort to cultivate new growth engines for innovative service. In addition, the Company will focus on the reform in both systems and structure and develop market-oriented management system, with an aim to lift the corporate vibrancy and improve operational efficiency. The Company actively leverages on complementary edges and in-depth cooperation among operators in the industry in the areas, such as resources and innovative service, seeking to reduce network investment and operating cost whilst enhancing the quality of customer service and the operating efficiency of assets, charting a sustainable way to create greater value for 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 society for their support of the Company, and to every employee for their dedication and contribution along the way!

Wang Xiaochu
Chairman and Chief Executive Officer
16 March 2016

*Note 1: According to "Guiding Opinions on Accelerating the construction of high-speed broadband network to promote the network speed and lowering the data tariffs" issued by General Office of the State Council of the PRC in 2015, telecommunication industry should accelerate the construction of high-speed broadband network and further promote the network speed and lower the data tariffs in order to improve the service.*

*Note 2: The Company launched the promotion plan which allowed the unused monthly data under the monthly package to be carried over for use till the end of the following month effective from 1 October 2015.*

*Note 3: The replacement of business tax with value-added tax implemented nationwide for the telecommunications industry from 1 June 2014 (hereinafter referred to as "VAT Reform").*

# FIXED-LINE SERVICE MAINTAINED STEADY AND HEALTHY GROWTH

# BUSINESS OVERVIEW

In 2015, the Company's focus shifted towards 4G service development, accelerated the network construction and upgrade of fibre broadband network and the development of "Smart WO Family" service, and commenced specialised and market-oriented operation in innovative service. New progress was made in various aspects.

**LU YIMIN**
Executive Director and President

## MOBILE SERVICE

In 2015, the Company's mobile service faced sheer challenges from "Speed Upgrade and Tariff Reduction", "One-month Mobile Data Carry-over", "VAT Reform" and intensifying competition, etc. Mobile billing subscribers decreased by 14.26 million to 252.32 million during the year. Mobile billing subscriber average revenue per user (ARPU) was RMB46.3. The Company's competitive edge in 3G service had been quickly dissipating as competitors stepped up 4G promotion during the year. The Company has accelerated 4G+ service deployment, launched a carrier aggregation pilot programme, optimised 4G product offerings and fully opened up its 4G network. By continuing to optimise its cBSS-based mobile pricing and promotion system and accelerating development of various market sub-segments such as families, town and villages, campuses, etc., the Company strengthened business development in grouped context and integrated operations. Leveraging its industry-leading Woego platform to support integrated channel and terminal operations, the Company has gained differentiated edges in terminal supply and channel service support. The Company's customer experience-oriented customer relationship management system was enhanced. Through targeted initiatives integrating terminal, network and business development, the Company promoted subscribers to upgrade their terminals and packages, driving subscriber migration towards 4G as well as enhancing customer value and accelerating customer development. Based on operator capabilities on network, data and information service platforms and so on, the Company continued to develop its WO+ open system. According to the characteristics of customer groups in different businesses, it developed online marketing eco-system for different groups. Targeted products for different customer groups were launched with partners from various verticals such as travel, music & videos, etc. Total mobile handset data traffic reached 695.83 billion MB, up by 60.1% year-on-year. Nearly 2,200 partner companies joined WO+ open platform, with a total of 790 million connection times during the year.

## FIXED-LINE SERVICE

In 2015, the Company accelerated fibre network marketing and fixed-line broadband access speed upgrade, and continued to push forward the building of specialised maintenance and service systems. The Company launched "Smart WO Family" products, gradually bundling various value-added services such as TV, cloud storage, etc., to enrich family Internet applications. It drove shift of product-based marketing into experience-based and scenario-based marketing, realised innovative transformation from products sale to creating customer value under full-service operation, and achieved stable growth of fixed-line service. Net addition of broadband subscribers was 3.54 million, bringing the total number of broadband subscribers to 72.33 million. Broadband ARPU was RMB63.6. FTTH broadband subscriber was 53.1% of broadband subscribers, up by 23.6 percentage points year-on-year. With the advancement in Internet related new technology and intensifying mobile substitution, local access subscribers decreased by 8.20 million to 73.86 million.

## NETWORK CAPABILITY

In 2015, the Company focused on 4G and fixed-line broadband development, and steadily expanded 4G network coverage. During the year, 306,000 4G base stations were built, bringing the total to 399,000. The Company undertook large-scale fibre broadband network deployment and all-fibre network upgrade, with the total number of fixed-line broadband ports reaching 165 million, of which 93% were FTTX ports.

The Company continued to expand international network capacity, and optimised international network deployment. As at the end of 2015, its international outbound Internet bandwidth reached 1,278G, international submarine cable capacity reached 5,511G and international terrestrial cable capacity reached 2,802G. The Company had 83 overseas network nodes, with international roaming covering 593 operators in 251 countries and regions.

## SALES AND MARKETING

### Branding

In 2015, the Company fully leveraged on its own resources, value chain resources and major presentation and exhibition opportunities to continue to promote its core businesses with a clear focus and at an appropriate momentum. Leveraging on its brand name, the Company actively advocated marketing initiatives focusing on network, business, and services experience improvement to shape a differentiated image of its WO 4G+ service, being not only faster, but more pleasant experience, more relieved consumption and better service. The Company started new cooperation with “Smart WO Family” value chain partners, employed creative “crowd-purchase” marketing, and advertised the business edges of the Company in an interactive and easy-to-understand way with the help of the mobile Internet tactics, so as to deliver the “Wonderful WO” brand concept in an all-round manner and to further enhance the brand influence of “WO”.

## Marketing strategies

In 2015, in face of the profound changes in the market environment, the Company built up differentiated competitive advantages through business transformation. Leveraging its 4G services, the Company saw effective development with an emphasis on both new and existing customers. The Company accelerated fibre network upgrade and seized the leading position in full-service family customers with “Smart WO Family”. The Company also achieved integrated operations of terminals, channels and business development with its Woego platform.

Eying on the mobile Internet, the Company developed an Internet partnership model featuring mutual channels, cooperation in data traffic and joint operations with open capabilities as the foundation. It achieved in-depth cooperation in the areas of risk control, market intelligence, and credit assessment with leading companies in automobile, financial, and fast-moving consumer goods industries, which effectively facilitated development of innovative service.

The Company started specialised operations in IDC and cloud computing, ICT and Internet of Things, etc. It actively participated in and undertook nationwide “Internet+” projects and informatisation deployment in related areas, focusing on key areas such as manufacturing, education and healthcare, etc. It also developed the ecosystem in key industries and explored business opportunities in related application products markets. As a result, revenue from corporate customers maintained continuous growth.

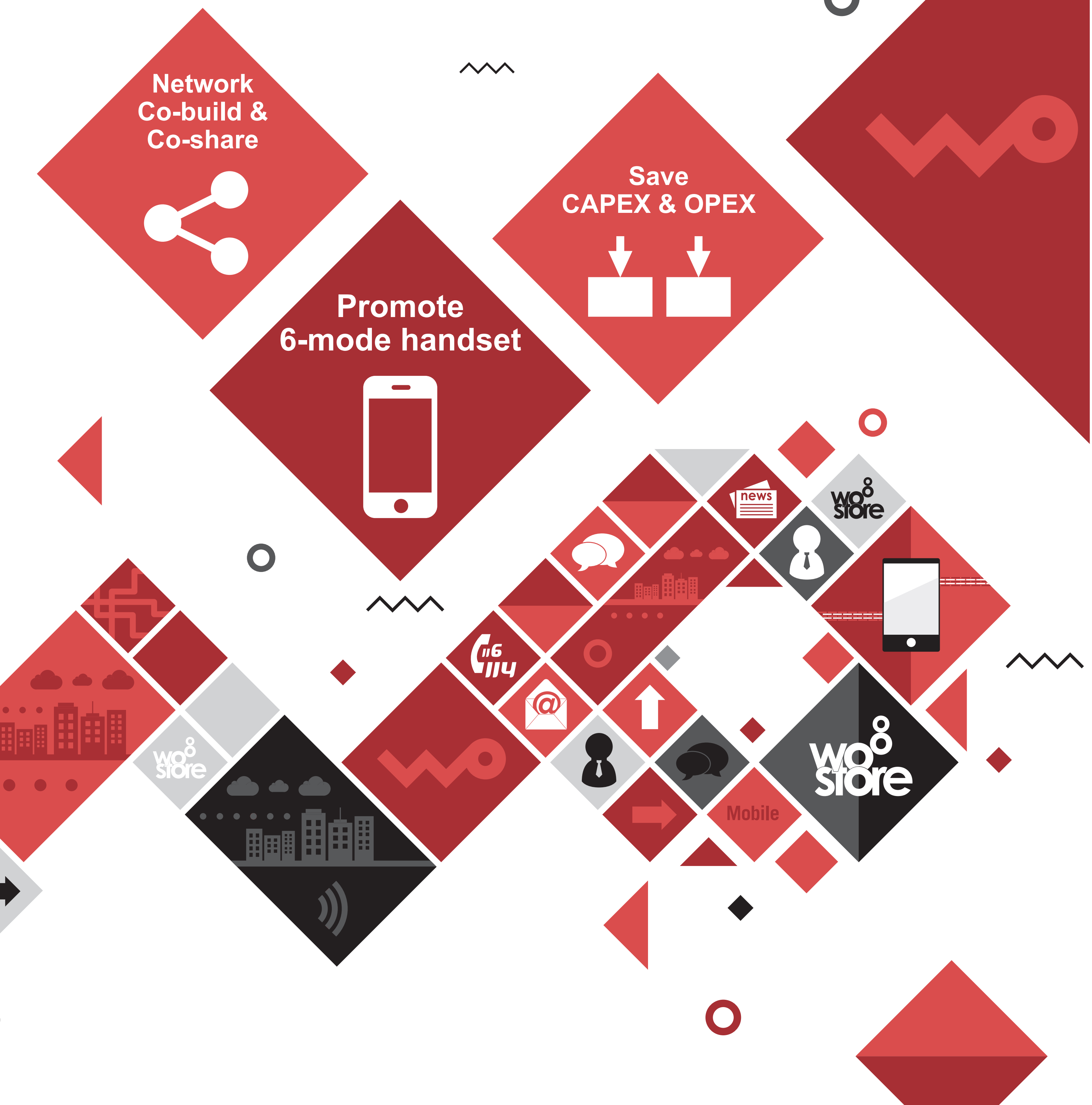

## Distribution channels

In 2015, the Company integrated channel and terminal operations by leveraging its Woego platform, capturing synergy between the two. The Company fully embraced the "Internet+" trend, and further expanded e-commerce into various areas such as operations and development, customer services, and corporate management, with an aim to drive customer value. The Company's self-owned chain stores exceeded 5,000 in the year, with the annual e-commerce gross merchandise value exceeding RMB92 billion.

## Customer Care

In 2015, the Company dedicated itself to building a customer-oriented system which was integrating customer services, sales and marketing, and maintenance operation, fully realised the value of service channels, continued to improve customer service in key areas, and promoted important customer service operations based on work orders. The Company further accelerated the development of its Internet services, and engaged in customers' word-of-mouth and customer experience management to proactively rectify service weakness and improve customer perception. During the year, the Company continued to record the least number of customer complaints in the industry.

# DEEPEN OPEN COOPERATION TO ACCELERATE BUSINESS DEVELOPMENT



# FINANCIAL OVERVIEW

## I. OVERVIEW

Under the influence of various factors including "Speed Upgrade and Tariff Reduction[1]", the "One-month Mobile Data Carry-over[2]", the replacement of business tax with value-added tax[3] ("VAT Reform"), the increased competition and the exchange loss incurred during the year etc., the Company's revenue was RMB277.05 billion in 2015, down by 2.7% compared with last year. Profit for the year was RMB10.56 billion, down by 12.4% compared with last year. Basic earnings per share was RMB0.441, down by 12.7% compared with last year.

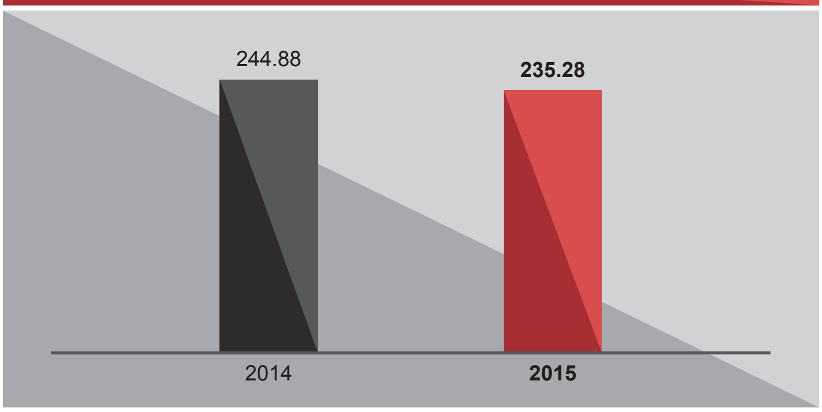
In 2015, net cash flow from operating activities was RMB84.30 billion. Capital expenditure was RMB133.88 billion. Liabilities-to-assets ratio was 62.1% as at 31 December 2015.

## II. REVENUE

In 2015, the Company's revenue was RMB277.05 billion, down by 2.7% compared with last year, of which, service revenue accounted for RMB235.28 billion, down by 3.9% compared with last year. Revenue from sales of telecommunications products was RMB41.77 billion, up by 4.9% 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 2015 and 2014:

SERVICE REVENUE
*(RMB in billions)*

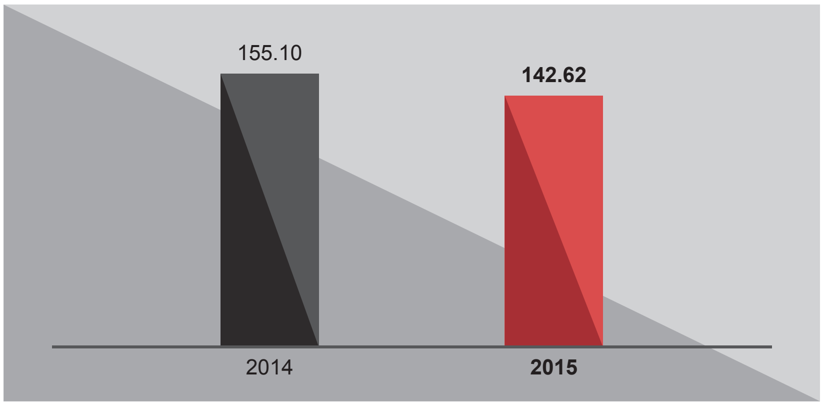



| (RMB in billions) | 2015 Total amount | 2015 As a percentage of service revenue | 2014 Total amount | 2014 As a percentage of service revenue |
|---|---|---|---|---|
| **Service revenue** | **235.28** | **100.0%** | 244.88 | 100.0% |
| **Include: Mobile service** | **142.62** | **60.6%** | 155.10 | 63.3% |
| **Fixed-line service** | **91.26** | **38.8%** | 88.48 | 36.1% |
| Include: Fixed-line broadband | **53.96** | **22.9%** | 50.20 | 20.5% |

## 1. Mobile Service

In 2015, the market environment for expanding the Company's mobile service was challenging. Service revenue from the mobile service was RMB142.62 billion and decreased RMB12.48 billion compared with last year, down by 8.0% compared with last year.

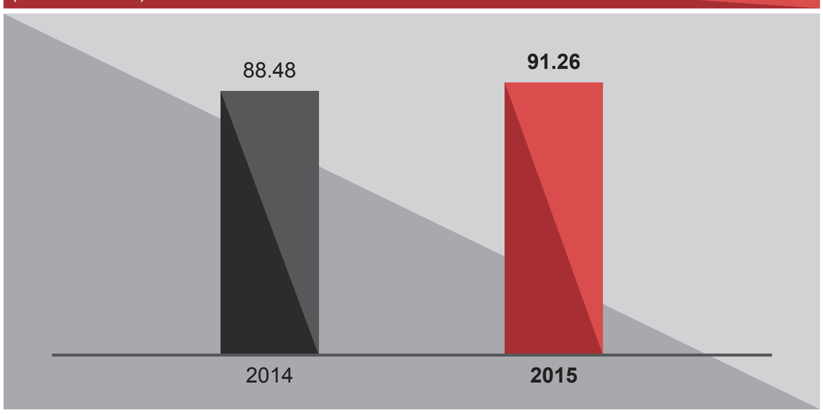
SERVICE REVENUE FROM MOBILE SERVICE
*(RMB in billions)*




## 2. Fixed-line Service

In 2015, service revenue from the fixed-line service was RMB91.26 billion, up by 3.1% compared with last year. The growth of service revenue from the fixed-line service was significantly driven by the service revenue from fixed-line broadband service. Service revenue from fixed-line broadband service was RMB53.96 billion, up by 7.5% compared with last year and, as a percentage of service revenue from the fixed-line service, increased from 56.7% in 2014 to 59.1% in 2015.

SERVICE REVENUE FROM FIXED-LINE SERVICE
*(RMB in billions)*



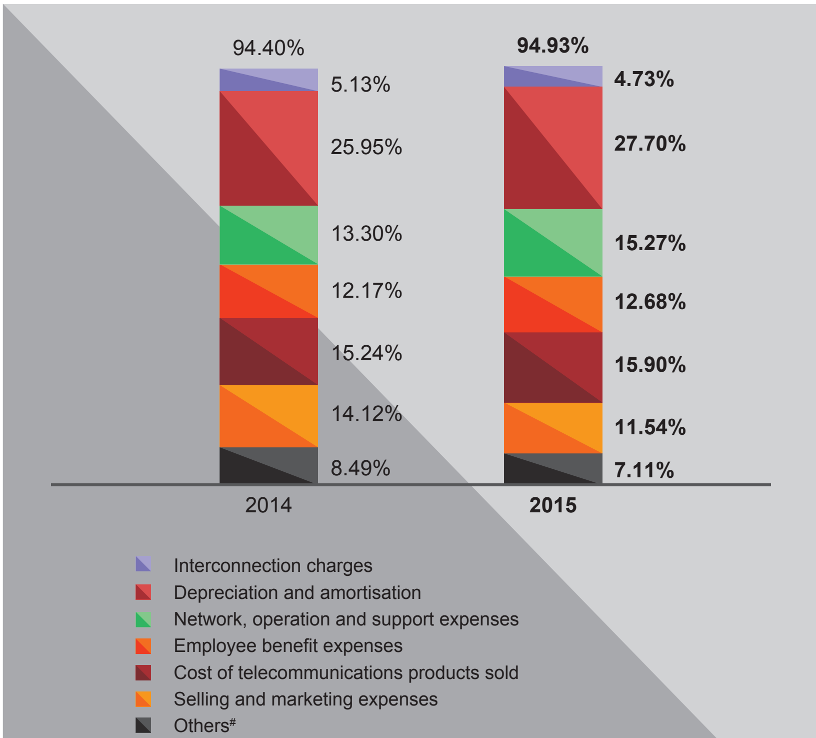
## III. COSTS AND EXPENSES

In 2015, the Company continued to optimise resources allocation and strengthen delicacy management. Total costs and expenses amounted to RMB263.01 billion, down by 2.1% compared with last year. Out of total costs and expenses, operating costs was RMB266.28 billion, up by 0.2% 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 2015 and 2014:

ANALYSIS OF TOTAL COSTS AND EXPENSES

*Percentage of total costs and expenses to revenue*




# Including general, administrative and other expenses, finance costs, net of interest income, share of loss of associates, share of loss of joint venture and other income-net

| (RMB in billions) | 2015 Total amount | 2015 As a percentage of revenue | 2014 Total amount | 2014 As a percentage of revenue |
|---|---|---|---|---|
| **Total costs and expenses** | 263.01 | 94.93% | 268.75 | 94.40% |
| Operating costs | 266.28 | 96.11% | 265.78 | 93.36% |
| Include: Interconnection charges | 13.09 | 4.73% | 14.60 | 5.13% |
| Depreciation and amortisation | 76.74 | 27.70% | 73.87 | 25.95% |
| Network, operation and support expenses | 42.31 | 15.27% | 37.85 | 13.30% |
| Employee benefit expenses | 35.14 | 12.68% | 34.65 | 12.17% |
| Costs of telecommunications products sold | 44.05 | 15.90% | 43.40 | 15.24% |
| Selling and marketing expenses | 31.97 | 11.54% | 40.19 | 14.12% |
| General, administrative and other expenses | 22.98 | 8.29% | 21.22 | 7.45% |
| Finance costs, net of interest income | 6.50 | 2.34% | 4.33 | 1.52% |
| Share of loss of associates[4] | 0.76 | 0.27% | – | – |
| Share of loss of joint venture | 0.04 | 0.02% | – | – |
| Other income-net | -10.57 | -3.81% | -1.36 | -0.48% |

## 1. Interconnection charges

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB13.09 billion in 2015, down by 10.3% compared with last year and, as a percentage of revenue, decreased from 5.13% in 2014 to 4.73% in 2015.

## 2. Depreciation and amortisation

The Company accelerated the network construction for 4G and fixed-line broadband. Depreciation and amortisation charges in 2015 were RMB76.74 billion, up by 3.9% compared with last year and, as a percentage of revenue, changed from 25.95% in 2014 to 27.70% in 2015.

## 3. Network, operation and support expenses

Started from 2015, the operation model regarding the use of telecommunications towers changed from self-operation to payment of usage fee to the Tower Company[5] led to an increase in expenses. At the same time, the Company expanded its network scale which led to the increase in utilities charges and properties rental expenses etc. As a result, the Company incurred network, operation and support expenses of RMB42.31 billion in 2015, up by 11.8% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 13.30% in 2014 to 15.27% in 2015.

## 4. Employee benefit expenses

The Company continued to deepen the reform in recruitment and remuneration as well as resources allocation. The Company's employee benefit expenses amounted to RMB35.14 billion in 2015, up by 1.4% compared with last year and, as a percentage of revenue, changed from 12.17% in 2014 to 12.68% in 2015.

### 5. Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB44.05 billion and revenue from the sales of telecommunications products amounted to RMB41.77 billion in 2015. Loss on the sales of telecommunications products was RMB2.28 billion, of which terminal subsidy cost accounted to RMB2.85 billion in 2015, down by 38.7% compared with last year. The Company continued to optimise the terminal contract product mix and enhanced effectiveness on application of the terminal subsidy cost and, as a percentage of revenue, decreased from 1.6% in 2014 to 1.0% in 2015.

### 6. Selling and marketing expenses

The Company implemented costs control measures, focused on strengthening management of the selling and marketing expenses, proactively promoted the transformation of its sales and marketing model, optimised contract products and channel mix and further improved the quality of its subscribers. In 2015, selling and marketing expenses were RMB31.97 billion, down by 20.5% compared with last year and, as a percentage of revenue, decreased from 14.12% in 2014 to 11.54% in 2015.

### 7. General, administrative and other expenses

General, administrative and other expenses were RMB22.98 billion in 2015, up by 8.4% compared with last year and, as a percentage of revenue, changed from 7.45% in 2014 to 8.29% in 2015.

### 8. Finance costs, net of interest income

In 2015, finance costs, net of interest income, was RMB6.50 billion, up by RMB2.17 billion compared with last year as a result of change in exchange rate of Renminbi against other currencies, and the exchange loss incurred was RMB2.10 billion in 2015.

### 9. Other income-net

Due to the net gain on disposal of telecommunication towers amounted to RMB9.25 billion, other income-net was RMB10.57 billion in 2015, increased by RMB9.21 billion compared with last year.

## IV. EARNINGS

### 1. Profit before income tax

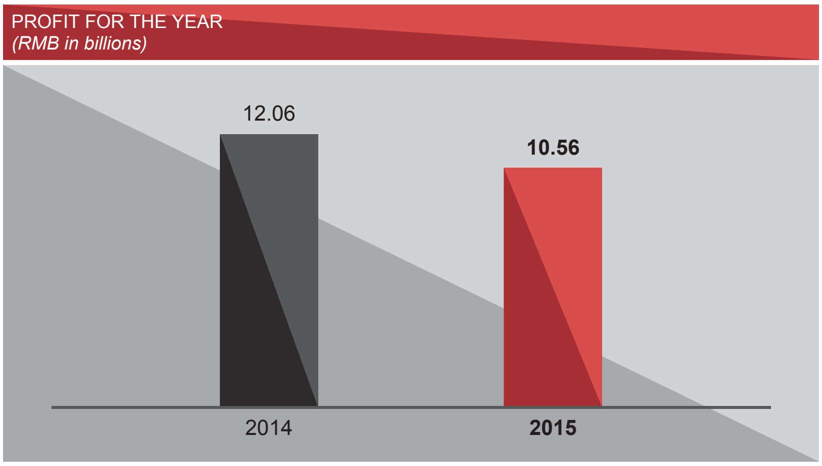
Under the influence of various factors including the initiative of Speed Upgrade and Tariff Reduction, the One-month Mobile Data Carry-over, the VAT Reform, the increased competition and the exchange loss incurred during the year etc., the Company's profit before income tax was RMB14.04 billion in 2015, down by 11.9% compared with last year. Net off the net gain on disposal of telecommunication towers of RMB9.25 billion, profit before income tax was RMB4.79 billion, down by 69.9% compared with last year.

### 2. Income tax

In 2015, the Company's income tax was RMB3.47 billion and the effective tax rate was 24.7%.

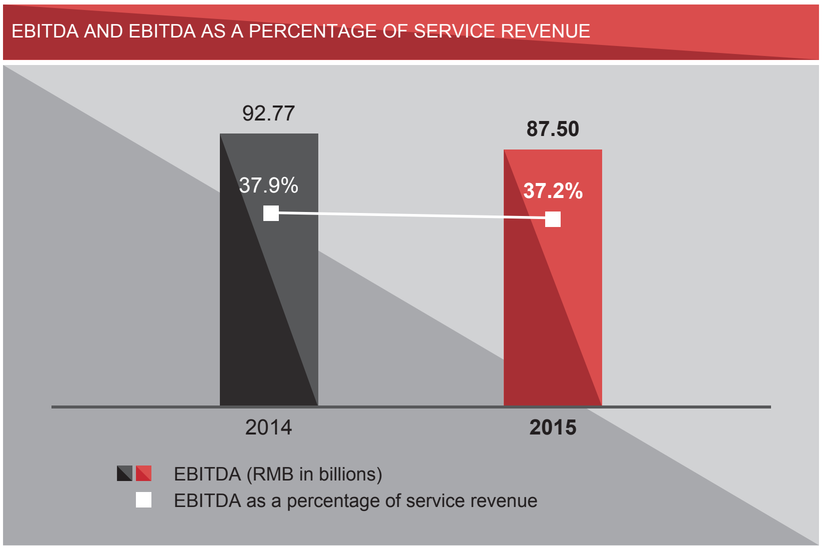
### 3. Profit for the year

In 2015, the Company's profit for the year was RMB10.56 billion, down by 12.4% compared with last year. Basic earnings per share was RMB0.441, down by 12.7% compared with last year.




## V. EBITDA[6]

In 2015, the Company's EBITDA was RMB87.50 billion, down by 5.7% compared with last year. EBITDA as a percentage of service revenue was 37.2%, down by 0.7 percentage points compared with last year.



## VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2015, capital expenditure of the Company totaled RMB133.88 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network. Out of the total capital expenditure, capital expenditure attributable to mobile network was RMB61.02 billion; capital expenditure attributable to broadband and data service was RMB33.76 billion; and capital expenditure attributable to infrastructure and transmission network was RMB31.16 billion.

In 2015, the Company's net cash inflow from operating activities was RMB84.30 billion. Free cash flow was –RMB49.58 billion after the deduction of the capital expenditure in 2015.

The table below sets forth the major items of the capital expenditure in 2015.

| RMB (in billions) | 2015<br>Total amount | As percentage |
|---|---|---|
| **Total** | **133.88** | **100.0%** |
| Include: Mobile network | 61.02 | 45.6% |
| Broadband and data | 33.76 | 25.2% |
| Infrastructure and transmission network | 31.16 | 23.3% |
| Others | 7.94 | 5.9% |

## VII. STATEMENT OF FINANCIAL POSITION

The Company's total assets increased from RMB545.07 billion as at 31 December 2014 to RMB610.35 billion as at 31 December 2015. Total liabilities changed from RMB317.53 billion as at 31 December 2014 to RMB379.13 billion as at 31 December 2015. The liabilities-to-assets ratio changed from 58.3% as at 31 December 2014 to 62.1% as at 31 December 2015. The debt-to-capitalisation ratio changed from 37.9% as at 31 December 2014 to 39.2% as at 31 December 2015. The net debt-to-capitalisation ratio was 33.5% as at 31 December 2015.

The Company's net current liabilities (i.e. current liabilities minus current assets) changed from RMB235.35 billion as at 31 December 2014 to RMB279.40 billion as at 31 December 2015. Taking into consideration the Company's stable net cash inflows from its operating activities and good credit records, the Company believes that it should have sufficient funds to meet its needs for working capital.

*Note 1: According to "Guiding Opinions on Accelerating the construction of high-speed broadband network to promote the network speed and lowering the data tariffs" issued by General Office of the State Council of the PRC in 2015, telecommunication industry should accelerate the construction of high-speed broadband network and further promote the network speed and lower the data tariffs in order to improve the service.*

*Note 2: The Company launched the promotion plan which allowed the unused monthly data under the monthly package to be carried over for use till the end of the following month effective from 1 October 2015.*

*Note 3: The replacement of business tax with value-added tax implemented nationwide for the telecommunications industry from 1 June 2014 (hereinafter referred to as "VAT Reform").*

*Note 4: Due to the share of loss of China Tower Corporation Limited (hereinafter referred to as "Tower Company").*

*Note 5: Following the establishment of Tower Company in 2014, the Company sold certain telecommunications towers and related assets to Tower Company in 2015. Therefore, the operation model regarding the use of telecommunications towers changed from self-construction and self-maintenance to payment of usage fee to Tower Company.*

*Note 6: EBITDA represents profit for the year before finance costs, interest income, share of loss of associates, share of loss of joint venture, 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 Group.*

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**WANG XIAOCHU**
*(Chairman and Chief Executive Officer)*

Aged 57, 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; President and Chairman 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. ("Telefónica", 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 52, 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 with a bachelor's degree in computer science in 1985 and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University. 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 and the Deputy Chairman of PCCW since November 2011. Mr. Lu has served as 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, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005. Mr. Lu is Vice Chairman and President of Unicom Group. Mr. Lu is also a Director and President of A Share Company, and 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 53, was appointed in March 2011 as an Executive Director and Chief Financial Officer of the Company. Mr. Li graduated from the Jilin Engineering Institute with a degree in engineering management in 1988, and from the Australian National University with a master's degree in management in 2004. From November 2001 to October 2003, Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. From October 2003 to August 2005, Mr. Li served as General Manager of the Finance Department of Netcom Group. Since October 2005, he has served as the Chief Accountant of Netcom Group. He has served as Chief Financial Officer of China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") since September 2005 and has served as Executive Director of China Netcom since January 2007. From December 2006 to March 2008, Mr. Li served as Joint Company Secretary of China Netcom. From February 2009 to March 2011, Mr. Li served as a 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, and 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 Director, Vice President and Chief Accountant of Unicom Group, a Director of A Share Company, as well as 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.

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**ZHANG JUNAN**

*(Executive Director and Senior Vice President)*

Aged 59, was appointed in August 2014 as an Executive Director. Mr. Zhang was appointed as Vice President of the Company in April 2006 and Senior Vice President of the Company in February 2009. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982. He received a master's degree in business administration from the Australian National University in 2002 and a doctor's degree in business administration from the Hong Kong Polytechnic University in 2008. He previously served as a Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company and the Chairman and General Manager of the Anhui Provincial Telecommunications Co., Limited. Mr. Zhang joined the China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). From April 2006 to October 2008, Mr. Zhang served as the Executive Director of the Company. Mr. Zhang 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 August 2014. In addition, Mr. Zhang serves as a Non-Executive Director of China Communications Services Corporation Limited (listed on the Hong Kong Stock Exchange). Mr. Zhang also serves as Director and Vice President of Unicom Group, a Director of A Share Company, as well as Director and Senior Vice President of CUCL. Mr. Zhang has worked in the telecommunications industry for a long period of time and has extensive management experience.

**CESAREO ALIERTA IZUEL**
*(Non-Executive Director)*

Aged 70, was appointed in October 2008 as a Non-Executive Director of the Company. Mr. Alierta has been a member of the Board of Directors of Telefónica (listed on various stock exchanges including Madrid, New York and London) from January 1997 and has been Chairman of Telefónica S.A. ("Telefónica") since July 2000. Mr. Alierta is a member of the Board of Directors of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London) and a member of the Board of trustees of the Caixa d'Estalvis i Pensions de Barcelona "la Caixa" Banking Foundation. He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University), the Chairman of the Consejo Empresarial para la Competitividad (Business Competitiveness Council), and a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts' Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. 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. 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 at the University of Columbia (New York) in 1970.

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**CHEUNG WING LAM LINUS**
*(Independent Non-Executive Director)*

Aged 67, was appointed in May 2004 as an Independent Non-Executive Director of the Company. Mr. Cheung is Chairman of the Council of Centennial College of the University of Hong Kong and an Independent Non-Executive Director of HKR International Limited (listed on the Hong Kong Stock Exchange). Mr. Cheung was Chairman 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 Cable & Wireless HKT Limited, or Hongkong Telecom, Mr. Cheung was the Chief Executive of Hongkong Telecom and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung worked at Cathay Pacific Airways for 23 years, before departing 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 58, 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 and an Executive Director of Linmark Group Limited (currently known as Daohe Global Group Limited and listed on the Hong Kong Stock Exchange). Mr. Wong served as a Non-Executive Director of Linmark Group 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 64, 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 12th Chinese People's Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. 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, Henderson Land Development Company Limited, China Construction Bank Corporation, Jinmao Investments and Jinmao (China) Investments Holdings Limited (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an Independent Director of China State Construction Eng. Corp. Ltd. (listed on the Shanghai 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 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 Nine Dragons Paper (Holdings) Limited, an Independent Director of China Everbright Bank Company Limited 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 63, 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 Deputy of the Hong Kong Special Administrative Region ("HKSAR") to the National People's Congress of the People's Republic of China, a Member of the Executive Council of the Government of 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") (both listed on the Hong Kong Stock Exchange) and an Independent Non-Executive Director of Nameson Holdings Ltd. 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.

JIANG ZHENGXIN
*(Senior Vice President)*

Aged 58, was appointed as Senior Vice President of the Company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor's degree in radio engineering from Beijing University of Posts and Telecommunications in 1982, a master's degree in business administration from Jilin University in 2001, and a PhD in political economy from Jilin University in 2006. Mr. Jiang served as Deputy Director of the Bureau of Telecommunications Administration in Changchun of Jilin Province from February 1998 to July 1999. He was the Deputy General Manager of Jilin Mobile Communication Company from July 1999 to March 2004. He served as the Deputy General Manager of South Communication Co. Limited of Netcom Group from March 2004 to June 2004, and he was the General Manager of Zhejiang Branch of Netcom Group from June 2004 to September 2007. He has served as Deputy General Manager of Netcom Group since September 2007. Mr. Jiang is a Vice President of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.

**SHAO GUANGLU**
*(Senior Vice President)*

Aged 51, was appointed as Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, 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 China United Telecommunications Corporation in February 1995. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). Mr. Shao was 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. Mr. Shao also serves as a Vice President of Unicom Group, and 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.

**XIONG YU**
*(Senior Vice President)*

Aged 46, was appointed as Senior Vice President of the Company in October 2014. Mr. Xiong is a senior engineer. He received a bachelor's degree in radio technology from Southeast University in 1991 and a master's degree in business administration from Central South University in 2009. Mr. Xiong joined China United Telecommunications Corporation in January 2003. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). Mr. Xiong was General Manager of Chenzhou Branch, General Manager of Changsha Branch, General Manager of Nanjing Branch, General Manager of Hubei Branch, as well as General Manager of Marketing and Sales Department of Unicom Group. Mr. Xiong also serves as a Vice President of Unicom Group. Mr. Xiong has worked in the telecommunications industry for a long period of time and has extensive management experience.

# TO DRIVE GRADUAL TURNAROUND LEVERAGING OPPORTUNITIES AND "FOCUS STRATEGIES"

# CORPORATE GOVERNANCE REPORT


## CORPORATE GOVERNANCE PRACTICES

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.

The Board is responsible for performing overall corporate governance duties, in which the Chairman has the primary responsibility for ensuring that good corporate governance practices and procedures are established. The Company has adopted a Corporate Governance Policy 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.

Other than the disclosures made in the section headed "(1) Board of Directors" below, the Company confirms that for the year ended 31 December 2015, it complied with all the Code Provisions.

## (1) 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 internal control, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities.

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 2015, the Board comprises 9 directors, including four executive directors, one non-executive director and four independent non-executive directors. One of the Board members is female. The Board is well diversified and its composition reflects 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. Particulars of the Directors are set out on pages 28 to 32 of this annual report. The Board has a policy concerning diversity of board members. Further information on the board diversity policy is set out on page 42 of this annual report.

Mr. Wang Xiaochu serves as Chairman and Chief Executive Officer (the "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 business development, strategy and operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company.

Under Code Provision A.2.1, the roles and responsibilities of the chairman and the chief executive should be separate and should not be performed by the same individual. The Board acknowledges that the principle of Code Provision A.2.1 is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority. The Board believes that at the present stage, Mr. Wang Xiaochu and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities. 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(s) 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 comments. They have kept close contact with management and often actively express different opinions on matters relating to shareholders and the capital market at board meetings. These views and opinions facilitate the Board in their consideration of 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(s) 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 directors, to consider the qualifications of the candidates. Under Code Provision A.4.1, non-executive directors shall be appointed for a specific term, subject to re-election. The Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation at general meetings and re-election by shareholders pursuant to the Company's articles of association (the "Articles of Association"). All Directors of the Company are subject to retirement by rotation 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 any 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 statute and 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 2015, the Directors as at 31 December 2015 have participated in training and continuous professional development activities and the summary is as follows:

| | Types of training |
|---|---|
| **Executive Director** | |
| Wang Xiaochu (Chairman) | A, B |
| Lu Yimin | A, B |
| Li Fushen | A, B |
| Zhang Junan | 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 schemes for the purpose of providing long term incentives to eligible participants, including Directors (details of such share option schemes are set out in the paragraph headed “Share Option Schemes of the Company” on pages 54 to 57 of this annual report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 147 to 149 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 issues 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 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 2015.

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. Senior management holds formal and informal meetings with all Directors from time to time to provide sufficient and timely information so that the Directors can make informed decisions. Besides formal board meetings, the Chairman also meets annually with non-executive Directors and independent non-executive Directors, without the presence of the executive Directors, which further promotes the exchange of different 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 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 2015, the Board held six full board meetings for, amongst other things, discussion and approval of important matters such as the 2014 annual results, the 2014 Form 20-F, the 2015 annual budget, the 2015 interim results, the first and third quarter results for 2015, reports on risk management and internal control, the appointment of executive director of the Company as well as the disposal of assets to China Tower Corporation Limited.

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 | Shareholders Meeting |
| **Executive Director** | | | | | |
| Wang Xiaochu (Chairman) [3] | 2/2 | N/A | N/A | 0/0 | 0/0 |
| Lu Yimin | 4/6 | N/A | N/A | N/A | 1/1 |
| Li Fushen | 5/6 | N/A | N/A | N/A | 1/1 |
| Zhang Junan | 5/6 | N/A | N/A | N/A | 1/1 |
| Chang Xiaobing [2] | 2/3 | N/A | N/A | 1/1 | 1/1 |
| **Non-Executive Director** | | | | | |
| Cesareo Alierta Izuel | 0/6 | N/A | N/A | N/A | 0/1 |
| **Independent Non-Executive Director** | | | | | |
| Cheung Wing Lam Linus | 6/6 | 4/4 | 1/1 | N/A | 1/1 |
| Wong Wai Ming | 5/6 | 4/4 | 1/1 | N/A | 0/1 |
| Chung Shui Ming Timpson | 6/6 | 4/4 | 1/1 | 2/2 | 1/1 |
| Law Fan Chiu Fun Fanny | 5/6 | 4/4 | N/A | N/A | 1/1 |
| John Lawson Thornton [1] | 0/1 | 0/1 | 0/1 | 0/1 | 0/0 |
| Cai Hongbin [4] | 4/6 | 3/4 | 1/1 | 2/2 | 1/1 |

Note 1: On 4 March 2015, Mr. John Lawson Thornton resigned as independent non-executive director of the Company.

Note 2: On 24 August 2015, Mr. Chang Xiaobing resigned as executive director of the Company.

Note 3: On 1 September 2015, Mr. Wang Xiaochu was appointed as executive director of the Company.

Note 4: On 25 November 2015, Mr. Cai Hongbin resigned as independent non-executive director of the Company.

Note 5: Certain directors (including independent non-executive directors) did not attend the Annual General Meeting and some of the meetings of the Board and committees due to other business commitments or being overseas.

All directors 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.

## (2) Committees under the Board

The Company has established three committees 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 The Stock Exchange of Hong Kong Limited ("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.

### (a) Audit Committee

*Composition*

As at 31 December 2015, the Audit Committee comprises 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 major 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.

*Work Completed in 2015*

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 2015 for, amongst other things, discussion and approval of the 2014 annual results, the 2014 Form 20-F, the 2015 interim results, and the first and third quarter results for 2015. In addition, the Audit Committee approved in the meetings the report on risk management, the report on internal audit and internal control; 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 2015.

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.

**(b) Remuneration Committee**

*Composition*

As at 31 December 2015, the Remuneration Committee comprises 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 major responsibilities of the Remuneration Committee include: considering and approving the remuneration policies and structure for Directors' and senior management's remuneration; considering and making recommendation to the Board on the remuneration packages of Directors and senior management; and considering and approving the Company's share option schemes. The Remuneration Committee conducts performance review of the CEO and determines the CEO's year-end bonus pursuant to the performance target contract entered into between the Board and the CEO. The CEO is responsible for the performance review and determination of performance-based year-end bonuses for the other members of the Company's management, which is subject to the review of the Remuneration Committee. In addition, the Remuneration Committee consults the Chairman on the remuneration proposals for other executive directors.

*Work Completed in 2015*

The Remuneration Committee meets at least once a year.

The Remuneration Committee held one meeting in 2015 for, amongst other things, discussion and approval of the 2014 appraisal report and the 2015 performance contract of the CEO and bonus for senior management for 2014.

The Remuneration Committee has performed its duties effectively on reviewing and approving the remuneration packages, especially the performance-based remunerations for the CEO, as well as making recommendations to the Board with regards to the remuneration packages for senior management.

**(c) Nomination Committee**

*Composition*

As of the date of this report, the Nomination Committee comprises 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 major 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 selecting or 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; giving its opinion 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 2015*

The Nomination Committee meets at least once a year.

The Nomination Committee held two meetings in 2015 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 giving option to the Board on appointment of executive director.

The Company has had 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 length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

## (3) Preparation of Financial Statements and Financial Reporting

The Directors understand that the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "New Companies Ordinance") provides that the Directors shall prepare financial statements for each year to give a true and fair view of the financial position of the Company as at the statement of financial position date and profits or losses and cash flows of the Company for the year ended the statement of financial position date.

In preparing financial statements, the Directors shall:

(a) select and consistently apply appropriate accounting policies and make fair and reasonable judgements and estimates in applying the selected accounting policies;

(b) state reasons for any serious deviation from the applicable accounting principles; and

(c) prepare financial statements on a going concern basis, unless it is inadvisable to assume that the Company itself or the Company and its subsidiaries will continue to operate in the foreseeable future.

The financial statements for the year ended 31 December 2015 are prepared under the going concern basis. In preparing the financial statements, appropriate accounting policies have been selected; fair and reasonable judgements and estimates have been made.

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 81 of this annual report.

In addition, the Directors are also responsible for keeping appropriate accounting records to safeguard the assets of the Company and taking appropriate procedures to prevent and investigate whether there are any fraud and other irregularities.

With respect to financial reporting, the management provides explanations and information to the Board so that the Board can evaluate the merits of the financial information and other information that need to be approved. The Board has also made a balanced, clear and understandable assessment of the financial position and performance of the Company in the communications to shareholders.

## (4) 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 internal control and risk management systems. The Board oversees management in the design, implementation and monitoring of the internal control and risk management systems, and management provides confirmation to the Board on the effectiveness of these systems.

Internal control and risk management 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, and to provide reasonable, but not absolute, assurance against fraud and errors.

The Company has continuously refined the policies and standards for the control environment based on the internal control framework and comprehensive risk management framework established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO"). In the past few years, the Company has: standardized control procedures for monitoring the financial reporting and period-end financial closing procedures at the branch and subsidiary level and upgraded the business performance review processes and controls; expanded accounting manuals and clearly document key controls and processes for preparing consolidated financial statements in accordance with applicable accounting standards; hired additional accounting professionals with experience in financial reporting and familiarity with international accounting practices and increased technical training for the finance and accounting personnel in respect of relevant accounting standards; established and implemented the code of ethics for senior officers and employees, company-wide anti-fraud policies and whistleblowing mechanisms; assessed the effectiveness of risk management and internal control at the company and branch-level and subsidiaries based on the Company's enterprise risk assessment results and took measures to improve risk management and internal control over the Company, branches and subsidiaries; and implemented the Policy on Risk Management.

The Company has an internal audit department with over 450 staff members, with officers stationed at various provincial branches. The internal audit department reports directly to the Audit Committee and is independent of the Company's daily operation and accounting functions. 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.

In addition, the Company has a legal and risk management department with over 611 full-time staff members. The Company has continued to improve its comprehensive risk management system for the purpose of "integrating management of day-to-day general risks and spontaneous critical risks". Based on the key risks that may be faced by the Company during the year, the Company has coordinated legal and risk management departments at all levels to conduct overall risk evaluation, special risk evaluation and internal self-testing etc. The Company 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. In the "Circular regarding the printing and distributing of the Summary Analysis Report of the Comprehensive Risk Management of the Central Enterprises in 2015 (Gai Ge Han [2015] No.29)" issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company's achievements in risk management have been fully recognised.

In December 2015, the Central Commission for Discipline Inspection of the Communist Party of China and the Ministry of Supervision of the People's Republic of China jointly announced that a former chairman and chief executive officer of the Company was under investigation for alleged serious violation of disciplinary rules. As of the date of this Annual Report, the relevant discipline inspection authorities have not notified the Company of the incidents underlying the investigation. The Company had high regards for this incident and strengthened education on employees' awareness of compliance. The Company had requested its internal audit department and other relevant departments to enhance their review of internal control and risk management systems.

The Board oversees the Company's internal control and risk management systems on an ongoing basis and the Board conducted an annual review of the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2015, which covered all material controls including financial, operational and compliance controls, as well as its risk management functions. After receiving the reports from the Internal Audit Department and the Legal and Risk Management 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 internal control system is effective. The review also confirmed, 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.

### (5) 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, the Company has adopted and implemented the Information Disclosure Control Policy. In an effort to standardize 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has established the "Code for Dealing of Securities by Directors" in accordance with the "Model Code for Securities Transactions by Directors of Listed Issuers", as set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries to Directors as to their respective compliance with the relevant code for securities transactions for the year ended 31 December 2015, and all of the Directors have confirmed such compliance.

## 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 2015. Management is currently in the process of finalizing 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 2015 to be filed with the United States Securities and Exchange Commission by 30 April 2016.

## 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 New 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.

## INDEPENDENT AUDITOR

KPMG is the independent auditor of the Company. Apart from audit services, it also provides non-audit services. The remuneration paid/payable to the independent auditor for provision of services in 2015 is as follows:

| Items | Note | 2015 (in RMB thousands) |
|---|---|---|
| Audit services | (i) | 63,821 |
| Non-audit services | (ii) | 2,273 |
| Total | | 66,094 |

Notes:

(i) Audit services in 2015 include the audit on the Company's internal control over financial reporting pursuant to Section 404 of the U.S. Sarbanes-Oxley Act of 2002.

(ii) Non-audit services include other assurance and related services that can be reasonably provided by the independent auditor. In 2015, the provisions of non-audit services mainly include professional services in relation to the issuance of circular regarding Tower Assets Disposal, tax and IT related services.

## SHAREHOLDERS' RIGHTS

### (1) 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 8 May 2015, 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 2014
- to declare a final dividend for the year ended 31 December 2014
- to re-elect Mr. Chang Xiaobing, Mr. Zhang Junan, Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson as Directors, and to authorise the Board to fix remuneration of the Directors for the year ending 31 December 2015
- to re-appoint auditor and authorise the Board to fix their remuneration for the year ending 31 December 2015
- to grant a general mandate to issue new shares
- to grant a general mandate for share buy-back
- to extend the general mandate to issue new shares
- to approve the adoption of the new articles of association of the Company

The next annual general meeting will be held on 12 May 2016. Please refer to the "Notice of Annual General Meeting" on pages 78 to 80 of this annual report for details.

**Putting Forward Resolutions at Annual General Meetings**

Pursuant to Section 615 of the New Companies Ordinance, 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.

## (2) Extraordinary General Meeting

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

### Convening Extraordinary General Meetings

Pursuant to Section 566 of the New 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.

## (3) Articles of Association

Rights of the shareholders are provided under the Articles of Association. In light of the New Companies Ordinance, the Board put forward to shareholders for approval, and the shareholders approved in the annual general meeting of the Company held on 8 May 2015, a special resolution to adopt new Articles of Association of the Company, in order to reflect certain changes and corporate governance measures under the New Companies Ordinance. The new Articles of Association of the Company is available on the websites of the Company and the Hong Kong Stock Exchange.

# CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

In addition to publishing annual reports and interim reports, the Company discloses major unaudited financial information 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 and press conferences. During such conferences, the management of the Company would interact directly with 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 and journalists. Archived webcast of the analyst conference 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 2015, the Company participated in the following investor conferences:

| Date | Event |
|---|---|
| Jan 2015 | UBS Greater China Conference 2015 |
| Jan 2015 | Deutsche Bank dbAccess China Conference 2015 |
| Mar 2015 | Morgan Stanley Third Annual Asia TMT & Internet Conference |
| Mar 2015 | Credit Suisse 18th Asian Investment Conference |
| May 2015 | Macquarie Greater China Conference |
| May 2015 | CLSA China Forum |
| May 2015 | Nomura China TMT Corporate Day |
| May 2015 | BNP Paribas 6th Asia Pacific TMT Conference |
| May 2015 | Goldman Sachs Telecom & Internet Corporate Day |
| May 2015 | Morgan Stanley China Summit |
| Jun 2015 | JP Morgan 11th Annual China Summit |
| Jun 2015 | Bank of America Merrill Lynch 2015 Global Telecom & Media Conference |
| Jun 2015 | UBS Pan-Asian Telco Conference |
| Sep 2015 | 22nd CLSA Investors' Forum |
| Nov 2015 | Bank of America Merrill Lynch 2015 China Conference |
| Nov 2015 | Credit Suisse China Investment Conference 2015 |
| Nov 2015 | CICC Investment Forum |
| Nov 2015 | Citi China Investor Conference 2015 |
| Nov 2015 | JP Morgan Global TMT Conference 2015 |
| Nov 2015 | Morgan Stanley 14th Annual Asia Pacific Summit |
| Dec 2015 | Barclays Asia TMT Conference |

In addition, through announcements and press releases, the Company disseminates the latest information regarding any significant business development in a timely and accurate manner. The website of the Company is also updated from time to time to provide investors and the public with information and news of the Company in various respects.

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.

## 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.

# 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 2015.

## 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 2015 are set out on pages 84 to 85 of this annual report.

Taking into account the return to shareholders, the Company's profitability, company debt, free cash flow and capital requirements for its future development, the Board of Directors has decided to recommend at the forthcoming shareholders' general meeting that the payment of a final dividend of RMB0.17 per ordinary share ("2015 Final Dividend"), totaling approximately RMB4,071 million for the year ended 31 December 2015. Going forward, the Company will strive to enhance future profit while paving the way for an increase in future dividends.

## FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 166 to 167 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2015.

Please refer to the financial statements on pages 82 to 165 for the operating results of the Group for the year ended 31 December 2015 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 2015 is set out in the sections headed "Chairman's Statement" on pages 8 to 13, "Business Overview" on pages 15 to 19, "Financial Overview" on pages 21 to 27, "Financial Statements" on pages 82 to 165, "Human Resources Development" on pages 72 to 73, "Corporate Social Responsibility" on pages 74 to 77, "Corporate Governance Report" on pages 35 to 51 and "Report of the Directors" on pages 52 to 71 respectively of this annual report.

## LOANS

Please refer to Notes 21, 26 and 40.1(b) to the financial statements for details of the borrowings of the Group.

## PROMISSORY NOTES

Please refer to Note 22 to the financial statements for details of the promissory notes of the Group.

## CONVERTIBLE BONDS

Please refer to Note 23 to the financial statements for details of the convertible bonds of the Group.

## CORPORATE BONDS

Please refer to Note 24 to the financial statements for details of the corporate bonds of the Group.

## COMMERCIAL PAPERS

Please refer to Note 27 to the financial statements for details of the commercial papers of the Group.

## CAPITALISED INTEREST

Please refer to Note 6 to the financial statements for details of the interest capitalised by the Group for the year.

## EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2015, the Group has not signed any equity-linked agreement.

## PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 6 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 2015, no property, plant and equipment was pledged to banks as loan security (31 December 2014: Nil).

## SHARE CAPITAL

Please refer to Note 19 to the financial statements for details of the share capital.

## RESERVES

Please refer to page 86 and page 138 of this annual report for the movements in the reserves of the Group and the Company during the year ended 31 December 2015 respectively. As at 31 December 2015, the distributable reserve of the Company amounted to approximately RMB4,153 million (2014: approximately RMB4,930 million).

## SUBSIDIARIES AND ASSOCIATES

Please refer to Notes 11 and 12 to the financial statements for details of the Company's subsidiaries and associates.

## CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 86 of this annual report for the Consolidated Statement of Changes in Equity and page 138 for the Statement of Changes in Equity.

## EMPLOYEE BENEFIT EXPENSES

Please refer to Note 31 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 (the "Articles of Association") 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 2015 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 2015 represented approximately 16.3% 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 2015 accounted for approximately 37.1% 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 2015.

## SHARE OPTION SCHEMES OF THE COMPANY

### 1. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme, which was amended on 13 May 2002, 11 May 2007 and 26 May 2009 (the "Share Option Scheme"). The purpose of the Share Option Scheme was to provide incentives and rewards to employees who have made contributions to the development of the Company. The Share Option Scheme was valid and effective for a period of 10 years commencing on 21 June 2000 and expired on 21 June 2010. Following the expiry of the Share Option Scheme, no further share option can be granted under the Share Option Scheme, but the provisions of the 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 Share Option Scheme. Under the Share Option Scheme:

(1) share options may be granted to employees including all directors (the "Directors") of the Company;

(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);

(3) the maximum number of shares in respect of which share options may be granted must not exceed 10% of the issued share capital of the Company as at 13 May 2002;

(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 nominal value of the shares (if applicable);

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

 (c) 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 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.

During the year ended 31 December 2015, 108,000 options were exercised and 3,432,000 options were lapsed, both at the exercise price of HKD6.35 for each option granted under the Share Option Scheme.

As at 31 December 2015, no share options had been granted and remained valid under the Share Option Scheme.

## 2. 2014 Share Option Scheme

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 pursuant to the 2014 Share Option Scheme 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 2015, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme, representing approximately 7.42% of issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.

## 3. Interest of Directors, Chief Executives and Employees under the Share Option Scheme

During the year ended and as at 31 December 2015, none of the Directors and the chief executive of the Company had any share option.

Details of interest of employees under the Share Option Scheme are as follows:

| | Date of Grant[3] | Exercise Price (HKD) | No. of Options Outstanding as at 1 January 2015[1] | Granted[1] | Exercised[1] | Lapsed[1] | No. of Options Outstanding as at 31 December 2015[1] |
|---|---|---|---|---|---|---|---|
| **Employees[2]** | 15 February 2006 | 6.35 | 3,540,000 | – | (108,000) | (3,432,000) | – |
| **Total** | | | **3,540,000** | | | | **–** |

Notes:

1. Each share option gives the holder the right to subscribe for one share.

2. Particulars of share options granted under the Share Option Scheme are as follows:

| Date of Grant | Exercise Price (HKD) | Exercise Period |
|---|---|---|
| 15 February 2006 | 6.35 | 15 February 2008 to 14 February 2015 (in respect of 50% of the options granted)<br>15 February 2009 to 14 February 2015 (in respect of the remaining 50% of the options granted) |

3. Details of share options exercised during the year ended 31 December 2015 are as follows:

| Grant date | Exercise price (HKD) | Weighted average closing price per share at respective dates immediately before dates of exercise of options (HKD) | Proceeds received (HKD) | Number of shares |
|---|---|---|---|---|
| 15 February 2006 | 6.35 | 12.88 | 685,800 | 108,000 |

# REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

## SUBSTANTIAL INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

The following table sets out the interests and short positions of each person, other than a director or a chief executive of the Company, in the shares or underlying shares of the Company as notified to the Company and recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) ("SFO") as at 31 December 2015:

| | | Ordinary Shares Held | | Percentage of Total Issued Shares |
|---|---|---|---|---|
| | | Directly | Indirectly | |
| (i) | China United Network Communications Group Company Limited ("Unicom Group")[1, 2] | – | 18,032,853,047 | 75.30% |
| (ii) | China United Network Communications Limited ("Unicom A Share Company")[1] | – | 9,725,000,020 | 40.61% |
| (iii) | China Unicom (BVI) Limited ("Unicom BVI")[1] | 9,725,000,020 | – | 40.61% |
| (iv) | China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI") [2, 3] | 8,082,130,236 | 225,722,791 | 34.69% |

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 33.75% 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 0.94% 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 2015, 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 19 to the consolidated financial statements for details of the share capital of the Company.

## COMPOSITION OF THE BOARD

The Directors during the year were:

### Executive Directors:

| | |
|---|---|
| Wang Xiaochu *(Chairman and Chief Executive Officer)* | (appointed on 1 September 2015) |
| Lu Yimin | |
| Li Fushen | |
| Zhang Junan | |
| Chang Xiaobing | (resigned on 24 August 2015) |

### 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 | |
| John Lawson Thornton | (resigned on 4 March 2015) |
| Cai Hongbin | (resigned on 25 November 2015) |

Pursuant to the Articles of Association, Mr. Wang Xiaochu, Mr. Lu Yimin, Mr. Li Fushen, and Mrs. Law Fan Chiu Fun Fanny (together, the "Directors for Re-Election") will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The personal biographies of the Directors for Re-Election are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 33 of this annual report. Save as disclosed in the section headed "Biographical Details of Directors and Senior Management", the Directors for Re-Election have not held any other directorship in any listed public companies in the last three years nor any post in an affiliated company of the Group. In addition, save as disclosed in the section headed "Biographical Details of Directors and Senior Management", the Directors for Re-Election do not have any other relationship with any Director, senior management or substantial or controlling shareholders of the Company. Save as disclosed in this section, the subsection headed "Share Option Schemes of the Company – 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme" and "Directors' Interests and Short Positions in Shares, Underlying Shares or Debentures", Directors for Re-Election do not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

Among the Directors for Re-election, Mrs. Law Fan Chiu Fun, Fanny is an independent non-executive director of the Company. Mrs. Law has confirmed to the Company that she is in compliance with the requirements of independence pursuant to Rule 3.13 of the Listing Rules. The Company has conducted assessment on her independence, and is of the view that she complies with the guidelines on independence as set out in Rule 3.13 of the Listing Rules and that she is considered as independent in accordance with the provisions of the guidelines.

The terms of services agreed between the Directors for Re-Election and the Company neither specify the length of service nor require the Company to give more than one year's advance notice or to make payments equivalent to more than one year's emoluments to terminate the service (other than statutory compensation). However, the Directors are subject to retirement by rotation at annual general meetings in accordance with the Articles of Association.

Please refer to Note 31 to the financial statements for details of the emoluments of the Directors.

The proposed remuneration package of each executive director and senior management of the Company will be determined by the Remuneration Committee, subject to approval by the Board and compliance with the applicable PRC laws, regulations and policies, and taking into account the duties of such person in the Company, his experience and performance as well as the prevailing market conditions. The proposed remuneration package of each executive director and senior management will include three components: basic annual salary, performance-linked annual bonus and performance-linked incentive bonus for the term of the position. The Company will disclose as and when appropriate once the proposed remuneration packages for such persons have been determined.

The proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny includes an annual fee of HKD300,000 for being independent non-executive director. Furthermore, the proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny includes an annual fee of HKD70,000 and HKD20,000 for being a member of the Audit Committee and Nomination Committee, respectively. The proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny has been determined with reference to her duties and the prevailing market conditions.

Save as disclosed in this annual report, each of the Directors for Re-Election has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company and that there is no other information to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

## 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in 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 Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" were as follows:

| Director | Capacity | Ordinary Shares Held | Percentage of Total Issued Shares |
|---|---|---|---|
| Cheung Wing Lam Linus | Beneficial owner (Personal) | 400,000 | 0.0017% |
| Chung Shui Ming Timpson | Beneficial owner (Personal) | 6,000 | 0.0000% |

As at 31 December 2015, none of the Directors nor the chief executive of the Company had any interests or rights to acquire shares under the share option schemes of the Company.

Apart from those disclosed herein, at no time during the year ended 31 December 2015 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of acquiring shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

Furthermore, apart from those disclosed herein, as at 31 December 2015, none of the Directors and the chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

## DIRECTORS' INTEREST IN CONTRACTS

Save for the service agreements between the Company and the executive directors, as at 31 December 2015, 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 "Biographical Details of Directors and Senior Management" on pages 28 to 33 of this annual report for further details.

In addition, Mr. Wang Xiaochu, Chairman and Chief Executive Officer of the Company, has served as a director of Telefónica since September 2015. Mr. Cesareo Alierta Izuel, a Non-Executive Director of the Company, is a director of Telefónica and has served as an Executive Chairman of Telefónica since July 2000.

Mr. Lu Yimin, an Executive Director and President of the Company, has served as a Non-Executive Director of PCCW Limited ("PCCW") since May 2008 and the Deputy Chairman of the Board of PCCW since November 2011. Mr. Lu 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 since July 2007 and as a Non-Executive Director of HKT Limited and HKT Management Limited since November 2011. Mr. Zhang Junan, an Executive Director of the Company, has served as a Non-Executive Director of PCCW since August 2014.

Each of Telefónica, PCCW, 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 2015 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 2015 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 2015, the Group had approximately 230,836 employees, 361 employees and 102 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 37,588 temporary staff in Mainland China. For the year ended 31 December 2015, employee benefit expenses were approximately RMB35.140 billion (for the year ended 31 December 2014: RMB34.652 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 TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

As at 31 December 2015, Unicom Group is the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

On 24 October 2013 and 21 August 2015, respectively, China United Network Communications Corporation Limited ("CUCL"), a wholly-owned subsidiary of the Company, and Unicom Group entered into a comprehensive services agreement and its supplemental agreement (the "Comprehensive Services Agreement") to renew certain continuing connected transactions and revise annual cap. Pursuant to the 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 Comprehensive Services Agreement is valid for a term of three years starting from 1 January 2014 and expiring on 31 December 2016.

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

| Agreement | Nature of Transactions | Consideration and Terms |
|---|---|---|
| (1) Telecommunications Resources Leasing | Unicom Group agrees to lease to CUCL:<br>(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<br>(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.<br><br>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 rates, or where there is no market rates, be agreed between the parties and determined on a cost-plus basis.<br><br>CUCL and Unicom Group agree to settle the net rental charges and service charges due to Unicom Group on a quarterly basis.<br><br>For the year ended 31 December 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB283 million. |

| Agreement | Nature of Transactions | Consideration and Terms |
|---|---|---|
| (2) Property Leasing | CUCL and Unicom Group agree to lease each other properties and ancillary facilities belonging to CUCL or Unicom Group (including their respective branch companies and subsidiaries). | The rental charges payable by CUCL and by Unicom Group are based on market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The rental charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year.<br><br>For the year ended 31 December 2015, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB929 million, and the rental charges paid by Unicom Group to CUCL was negligible. |
| (3) Provision of 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.<br><br>For the year ended 31 December 2015, the total revenue allocated to Unicom Group in relation to value-added telecommunications services amounted to approximately RMB62 million. |

| Agreement | Nature of Transactions | Consideration and Terms |
|---|---|---|
| (4) Provision of 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.<br><br>Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services.<br><br>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:<br>(a) up to 3% of the contract value of those procurement contracts in the case of domestic materials procurement; and<br>(b) up to 1% of the contract value of those procurement contracts in the case of imported materials procurement.<br><br>The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles (the "Pricing Principles"):<br>(a) the government fixed price;<br>(b) where there is no government fixed price but a government guidance price exists, the government guidance price;<br>(c) where there is neither a government fixed price nor a government guidance price, the market price; or<br>(d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.<br><br>The charges for the provision of storage and logistics services are determined by reference to the market price, which is determined by reference to the following:<br>(a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or<br>(b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.<br><br>The service charges due to Unicom Group will be settled on a monthly basis.<br><br>For the year ended 31 December 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB125 million. |

| Agreement | Nature of Transactions | Consideration and Terms |
|---|---|---|
| (5) Provision of 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 determined by reference to the market price, which is determined by reference to the following:<br>(a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or<br>(b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.<br><br>The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.<br><br>For the year ended 31 December 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB5,018 million. |
| (6) Provision of 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 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 are determined by reference to the Pricing Principles and are settled between CUCL and Unicom Group as and when the relevant services are provided.<br><br>For the year ended 31 December 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB2,504 million. |

| Agreement | Nature of Transactions | Consideration and Terms |
|---|---|---|
| (7) Provision of 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 payable are determined by reference to the Pricing Principles and are settled between CUCL and Unicom Group as and when the relevant services are provided.<br><br>For the year ended 31 December 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB1,455 million, and the total services charges paid by Unicom Group to CUCL amounted to approximately RMB12 million. |
| (8) Provision of Shared Services | Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following:<br>(a) CUCL will provide headquarter human resources services to Unicom Group;<br>(b) Unicom Group and CUCL will provide central business support services to each other;<br>(c) CUCL will provide trust services related to the services referred to in (a) and (b) above to Unicom Group; and<br>(d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters.<br><br>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.<br><br>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 shall 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.<br><br>For the year ended 31 December 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB107 million, and the services charges paid by Unicom Group to CUCL was negligible. |

For the financial year ended 31 December 2015, the above continuing connected transactions have not exceeded their respective annual caps. 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 63 to 67 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 annual caps for the financial year ended 31 December 2015 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 2015. Please refer to Note 40 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 2015.

## CORPORATE GOVERNANCE REPORT

Report on the Company's corporate governance is set out in "Corporate Governance Report" on pages 35 to 51.

## MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2015, 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 2015.

## 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 2015 and as at the date of this annual report.

## DONATIONS

For the year ended 31 December 2015, the Group made charitable and other donations in an aggregate amount of approximately RMB6.42 million.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(1) from 10 May 2016 to 12 May 2016, both days inclusive, for the purpose of ascertaining the shareholders' rights to attend and vote at the Annual General Meeting of the Company to be held on 12 May 2016 (and any adjournment thereof) (the "AGM"). In order to qualify for attendance and voting at the AGM, 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 4:30 p.m. of 9 May 2016; and

(2) on 19 May 2016, for the purpose of ascertaining the shareholders' entitlement to the 2015 Final Dividend. In order to qualify for the proposed 2015 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 4:30 p.m. of 18 May 2016. Subject to the approval by shareholders at the AGM, the 2015 Final Dividend is expected to be paid in Hong Kong dollars on or about 8 June 2016 to those members registered in the Company's register of members as at 19 May 2016 (the "Dividend Record Date").

## WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2015 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 2015 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 2015 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 (the Shanghai-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 2015 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 2015 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 18 May 2016, 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

At the close of the 2013 annual general meeting of the Company held on 21 May 2013, Pricewaterhouse Coopers retired as independent auditor of the Company upon expiration of its term of office. KPMG was then appointed as the independent auditor of the Company. KPMG has audited the accompanying financial statements.

A resolution will be submitted by the Board at the 2016 annual general meeting to appoint KPMG and KPMG Huazhen LLP as the independent auditors of the Group for the year ending 31 December 2016 for Hong Kong financial reporting and U.S. financial reporting purpose, respectively.

By Order of the Board
**Wang Xiaochu**
*Chairman and Chief Executive Officer*

Hong Kong, 16 March 2016

# HUMAN RESOURCES DEVELOPMENT

China Unicom makes it a principle to put its employees first and persists in mechanism innovation so that the Company and its employees can grow together hand in hand. In 2015, the Company's human resources work focused on spurring vitality and strengthening team-building efforts through adopting a liberal mindset, deepening reform measures, encouraging innovation and optimising organisational structure and staff allocation. As a result, the Company succeeded in securing robust human resources to support corporate reform and development.

Managing headcount and optimising human resources structure. By exercising headcount control in a rational manner, the Company further optimised its workforce and yielded improved efficiency, successfully boosting its labour productivity by about 7%. The Company continued to upgrade its staff structure, with the ratio of bachelor degree (or above) holders increased by 3.4 percentage points. More than 46.5% of newly-recruited fresh graduates were assigned to frontline positions. The Company also strengthened its compliance with labour rules and regulation by reducing the proportion of dispatched workers by 3.7 percentage points and enforcing the practice of equal pay for equal work.

Optimising compensation system to spur vitality. The Company further refined its staff compensation structure by linking the growth in staff cost to the Company's performance. In order to build an equitable and harmonious compensation system, the Company tested differentiated remuneration scheme, put in place a fair and transparent remuneration policy and strengthened the management and control of remuneration distribution among different staff groups. An incentive-based staff promotion system was set up to provide motivation for staff advancement and development.

Enhancing staff selection and building stronger teams. The Company refined the management system for management personnel by enforcing stringent selection and appointment procedures and establishing a regular mechanism for building talent pipeline. The Company upgraded the structure of its management team while nurturing and selecting talents according to its development needs. The Company also proactively improved the capabilities of its management and operation teams at different levels, holding 25 leadership training classes as well as 143 specialised training classes for different departments.

| Specialty Composition | | |
|---|---|---|
| Type of specialty | Number of employee by specialty | Percentage (%) |
| Sales and customer service personnel | 79,075 | 34.19% |
| Products and marketing personnel | 19,467 | 8.42% |
| Construction and maintenance personnel | 76,140 | 32.92% |
| Support personnel | 25,715 | 11.12% |
| Management personnel | 21,956 | 9.49% |
| Other | 8,946 | 3.87% |
| Total | 231,299 | 100.00% |

| Education Level | | |
|---|---|---|
| Education category | Number of employee | Percentage (%) |
| Master degree and above | 14,037 | 6.07% |
| Bachelor degree | 116,471 | 50.36% |
| College degree | 53,893 | 23.30% |
| Below college degree | 46,898 | 20.28% |
| Total | 231,299 | 100.00% |

In 2015, China Unicom established and implemented the development philosophy of "innovation, coordination, greenness, openness, and sharing", and defined a corporate strategy of "Implement Focus Strategies and Develop through Innovation and Cooperation". During the course of production and operation management, the Company held itself accountable to stakeholders. It placed more emphasis on innovation and transformation, quality and efficiency, synergetic operation and coordinated development, resource conservation and environmental friendliness, open cooperation and win-win, as well as staff development and harmonious sharing. The Company further enhanced its ability to fulfill responsibilities.

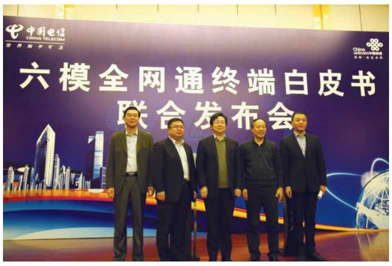
## 1. INNOVATIVE DEVELOPMENT AND QUALITY AND EFFICIENCY ENHANCEMENT

Innovation serves as the core propeller for society to develop, and China Unicom is dedicated to building an innovative company. In 2015, the Company fully expedited the construction of 4G and fully fibre-connected broadband network, launched "WO 4G+", and successfully built six provinces with full fibre connection. It reduced the average unit price of mobile data by 27%, and the average price per unit of bandwidth for fixed-line broadband by 50%. The Company developed capabilities in Internet of Things, cloud computing, Big Data and other key areas, innovated new industry applications, undertook a series of key projects to support the construction of smart cities, to bring people easier access to information, and to facilitate transformation and upgrade in various industries. The Company adopted new ways in service delivery, improved service capability and strengthened enforcement of the real-name policy and tariff management, making new progress in the improvement of its service quality. The Company upgraded its emergency support system and successfully provided emergency communications support for a number of critical, urgent and difficult missions. It also strengthened technological innovation to spur corporate growth.

## 2. COORDINATED DEVELOPMENT AND SYNERGETIC OPERATION

China Unicom is committed to promoting synchronous development of the whole society by advocating universal access of information services and integration of "industrialisation and informatisation". In an effort to align the development of its domestic and overseas businesses, the Company established a company focusing on international business to provide its customers with cross-border, integrated and end-to-end services. To drive coordinated regional development, the Company followed the national "Western Development" strategy, and introduced favourable policies and provided key support to western regions in terms of business development, network construction, financial support and customer service. The Company strived to bridge the digital divide between urban and rural areas by implementing the "Ten-Thousand Towns Plan" to boost fibre broadband network penetration in towns and villages. Through nurturing a green Internet environment and promoting online "charity and civilisation", the Company provided its customers with more reliable and convenient services and protected the rights of consumers.

## 3. GREEN DEVELOPMENT AND ENVIRONMENTAL FRIENDLINESS






China Unicom strives to be conscious in resources conservation and be a environmental friendly company. Through technical and managerial means, the Company continued to make progress in energy conservation and emission reduction. It engaged in promotion activities to raise the awareness of energy conservation and emission reduction among employees, cultivating an environmental friendly corporate culture with strong self-awareness. A total of 587,400 tonnes of coal equivalent was saved during the year. Specific environmental measures include continuing to promote green procurement system, expediting fibre network upgrade and the retirement of obsolete equipment, promoting the applications of technical energy conservation, strengthening the benchmarking management of energy consumption, enhancing recycling of resources, promoting e-procurement and paperless operations, reinforcing the management of electromagnetic radiation and saving resources in building communications facilities, etc. In 2015, due to the optimisation of wireless network deployment and conduct of environmental impact assessment of electromagnetic radiation, the electromagnetic radiation level of the Company's operation was lower than national standards. In order to increase the level upon which telecommunications infrastructure facilities are being jointly constructed and shared, enhance investment efficiency, and promote resources conservation and environment protection, the Company strengthened the cooperation with Tower Company. During the year, Tower Company delivered approximately 164,000 towers to the Company.

## 4. OPEN DEVELOPMENT AND COOPERATION FOR WIN-WIN

China Unicom is committed to building an extensive cooperation platform and a win-win value chain. The Company started in-depth cooperation with China Telecom, and launched a "Customer Service Improvement Programme" with a theme of "Resources Co-building and Co-sharing and Customer Service Improvement". The Company actively promoted in-depth cooperation of various value chain partners in equipment, services, technologies, brands and businesses, leading to development synergies and a healthy industry ecosystem. The Company signed Internet+ related strategic agreements with the government and companies in various industries such as education, healthcare, transportation, logistics, finance, and manufacturing, etc. It also established Merchants Unicom Consumer Finance Co., Ltd. to offer "Internet+Finance" services. The Company opened up platform resources, enriched its business model and provided support services to create more room for cooperation with its partners, leading to synergetic development and mutual growth.


## 5. SHARED ACHIEVEMENT, FAIRNESS AND HARMONY

China Unicom is committed to sharing corporate achievements with its staff and the society at large. The Company put in place a comprehensive promotion and incentive system covering every staff. During the year, 15% were promoted and 24% were given a raise in pay ranking. The Company cares about the career development of its staff. It organised leadership trainings, professional skill trainings and various competitions to enhance the overall competencies of its staff. The Company values staff feedback and cares about their physical and mental health. It overhauled the support mechanism for staff in need. By continuing to support Tibet and rolling out targeted poverty support programmes, the Company kept giving back to the society in the past year. The Company also showed its care for the society through organising volunteering activities, providing student aids, and preserving the environment.

In 2016, China Unicom will tie the fulfillment of social responsibilities with its production and operation management. It will drive supply-side structural reforms in network, platform, and terminals, etc. The Company will join forces with related parties to spur growth potential, and strive for improvements in its innovation capability, global competitiveness, and value-creating capability, so as to drive sustainable, rapid and sound corporate development.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting (the "Meeting") of China Unicom (Hong Kong) Limited (the "Company") will be held on 12 May 2016 at 11:00 a.m. at Ballroom, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong for the following purposes:

**As Ordinary Business:**

1. To receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2015.

2. To declare a final dividend for the year ended 31 December 2015.

3. To re-elect Directors and to authorise the Board of Directors to fix the remuneration of the Directors for the year ending 31 December 2016.

4. To appoint KPMG and KPMG Huazhen LLP as the auditors of the Group for Hong Kong financial reporting and U.S. financial reporting purposes, respectively, and to authorise the Board of Directors to fix their remuneration for the year ending 31 December 2016.

And as Special Business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

## ORDINARY RESOLUTIONS

5. "**THAT**:

(A) subject to paragraphs (B) and (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares in the capital of the Company including any form of depositary receipts representing the right to receive such shares ("Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange in accordance with all applicable laws including the Code on Share Buy-backs and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as amended from time to time be and is hereby generally and unconditionally approved;

(B) the aggregate number of Shares which may be purchased or agreed conditionally or unconditionally to be purchased by the Directors pursuant to the approval in paragraph (A) above shall not exceed 10 per cent of the total number of the Shares in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;

(C) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiry of the period within which the next annual general meeting of the Company is required by the Company's articles of association (the "Articles of Association") or the Companies Ordinance to be held; and

(iii) the revocation or variation of the authority given to the Directors under this Resolution by ordinary resolution of the Company's shareholders in general meeting."

6. "**THAT**:

(A) subject to paragraph (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional Shares and to make or grant offers, agreements and options which might require the exercise of such powers be and are hereby generally and unconditionally approved;

(B) the approval in paragraph (A) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(C) the aggregate number of Shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (A), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) the exercise of options granted under any share option scheme adopted by the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, shall not exceed the aggregate of (aa) 20 per cent of the total number of Shares in issue at the date of passing this Resolution, plus (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate number of Shares bought back by the Company subsequent to the passing of this Resolution (up to a maximum number equivalent to 10 per cent of the total number of Shares in issue at the date of passing this Resolution), and the said approval shall be limited accordingly; and

(D) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiry of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance to be held; and

(iii) the revocation or variation of the authority given to the Directors under this Resolution by ordinary resolution of the Company's shareholders in general meeting; and

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares on such record date (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company) and an offer, allotment or issue of shares by way of rights shall be construed accordingly."

7. "**THAT** the Directors be and are hereby authorised to exercise the powers of the Company referred to in paragraph (A) of Resolution 6 in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (C) of such resolution."

By Order of the Board of
**China Unicom (Hong Kong) Limited**
**Yung Shun Loy Jacky**
*Company Secretary*

Hong Kong, 8 April 2016

Notes:

1. Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. The proxy needs not be a member of the Company.

2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's registered office at 75th Floor, The Center, 99 Queen's Road Central, Hong Kong, at least 24 hours before the time for holding the Meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person if he/she is subsequently able to be present.

3. The Directors have recommended a final dividend for the year ended 31 December 2015 of RMB0.17 per share (the "2015 Final Dividend") and subject to the passing of the Resolution 2 above, the 2015 Final Dividend is expected to be paid in Hong Kong dollars on or about 8 June 2016 to those shareholders whose names appear on the Company's register of shareholders on 19 May 2016.

4. The register of members of the Company will be closed during the following periods:

    (1) from 10 May 2016 to 12 May 2016, both days inclusive, for the purpose of ascertaining the shareholders' rights to attend and vote at the Meeting (and any adjournment thereof). In order to qualify for attendance and voting at the Meeting, 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 4:30 p.m. of 9 May 2016; and

    (2) on 19 May 2016, for the purpose of ascertaining the shareholders' entitlement to the 2015 Final Dividend. In order to qualify the proposed 2015 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 4:30 p.m. of 18 May 2016.

5. In relation to the Ordinary Resolution set out in item 3 of the Notice, Mr. Wang Xiaochu, Mr. Lu Yimin, Mr. Li Fushen and Mrs. Law Fan Chiu Fun Fanny will retire by rotation at the Meeting and, being eligible, offer themselves for re-election. Personal particulars of the Directors for re-election and their proposed remuneration are set out in the 2015 annual report of the Company.

6. In relation to the Ordinary Resolution set out in item 5 of the Notice, the Directors wish to state that they will exercise the powers conferred thereby to buy back Shares in circumstances which they deem appropriate or for the benefit of the shareholders. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the buy-back by the Company of its own Shares, as required by the Listing Rules, will be set out in a separate circular from the Company to be enclosed with the 2015 annual report (the "Circular").

7. The votes to be taken at the Meeting will be taken by poll, the results of which will be published on the Company's and the Stock Exchange's websites after the Meeting.

8. Shareholders are suggested to telephone the Company's hotline on (852) 2126 2018 for arrangements of the Meeting in the event that a No. 8 (or above) typhoon or black rainstorm warning is hoisted on the day of the Meeting.

# INDEPENDENT AUDITOR'S REPORT

KPMG

## TO THE SHAREHOLDERS OF CHINA UNICOM (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 82 to 165, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

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

16 March 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Renminbi ("RMB") millions)

| | Note | As at 31 December 2015 | 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **454,631** | 438,321 |
| Lease prepayments | 7 | **9,148** | 9,211 |
| Goodwill | 8 | **2,771** | 2,771 |
| Interest in associates | 12 | **31,997** | 3,037 |
| Interest in joint venture | | **978** | – |
| Amounts due from related parties | 40 | **18,322** | – |
| Deferred income tax assets | 9 | **5,642** | 6,215 |
| Financial assets at fair value through other comprehensive income | 10 | **4,852** | 5,902 |
| Other assets | 13 | **25,335** | 23,041 |
| | | **553,676** | 488,498 |
| **Current assets** | | | |
| Inventories and consumables | 14 | **3,946** | 4,378 |
| Accounts receivable | 15 | **14,957** | 14,671 |
| Prepayments and other current assets | 16 | **10,864** | 10,029 |
| Amounts due from related parties | 40 | **2,846** | 12 |
| Amounts due from domestic carriers | | **1,994** | 2,120 |
| Financial assets at fair value through profit and loss | | **106** | – |
| Short-term bank deposits | 17 | **202** | 56 |
| Cash and cash equivalents | 18 | **21,755** | 25,308 |
| | | **56,670** | 56,574 |
| **Total assets** | | **610,346** | 545,072 |
| **EQUITY** | | | |
| **Equity attributable to equity shareholders of the Company** | | | |
| Share capital | 19 | **179,102** | 179,101 |
| Reserves | 20 | **(20,734)** | (19,482) |
| Retained profits | | | |
| – Proposed final dividend | 38 | **4,071** | 4,789 |
| – Others | | **68,777** | 63,133 |
| **Total equity** | | **231,216** | 227,541 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Renminbi ("RMB") millions)

| | | As at 31 December | |
|---|---|---|---|
| | Note | 2015 | 2014 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term bank loans | 21 | 1,748 | 420 |
| Promissory notes | 22 | 36,928 | 21,460 |
| Corporate bonds | 24 | 2,000 | 2,000 |
| Deferred income tax liabilities | 9 | 18 | 17 |
| Deferred revenue | | 2,005 | 1,497 |
| Other obligations | 25 | 357 | 217 |
| | | 43,056 | 25,611 |
| **Current liabilities** | | | |
| Short-term bank loans | 26 | 83,852 | 91,503 |
| Commercial papers | 27 | 19,945 | 9,979 |
| Current portion of long-term bank loans | 21 | 84 | 45 |
| Current portion of promissory notes | 22 | 2,499 | – |
| Convertible bonds | 23 | – | 11,167 |
| Accounts payable and accrued liabilities | 28 | 167,396 | 120,371 |
| Taxes payable | | 3,163 | 1,466 |
| Amounts due to ultimate holding company | 40 | 1,437 | 1,622 |
| Amounts due to related parties | 40 | 3,930 | 3,542 |
| Amounts due to domestic carriers | | 1,300 | 1,402 |
| Dividend payable | | 920 | 771 |
| Current portion of deferred revenue | | 394 | 462 |
| Current portion of other obligations | 25 | 2,797 | 2,698 |
| Advances from customers | | 48,357 | 46,892 |
| | | 336,074 | 291,920 |
| **Total liabilities** | | 379,130 | 317,531 |
| **Total equity and liabilities** | | 610,346 | 545,072 |
| **Net current liabilities** | | (279,404) | (235,346) |
| **Total assets less current liabilities** | | 274,272 | 253,152 |

The notes on pages 89 to 165 are an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 16 March 2016 and signed on behalf of the Board by:

**Wang Xiaochu**
*Director*

**Li Fushen**
*Director*

# CONSOLIDATED STATEMENT OF INCOME

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

| | | Year ended 31 December | |
|---|---|---|---|
| | Note | **2015** | 2014 |
| Revenue | 29 | **277,049** | 284,681 |
| Interconnection charges | | **(13,093)** | (14,599) |
| Depreciation and amortisation | | **(76,738)** | (73,868) |
| Network, operation and support expenses | 30 | **(42,308)** | (37,851) |
| Employee benefit expenses | 31 | **(35,140)** | (34,652) |
| Costs of telecommunications products sold | 32 | **(44,046)** | (43,397) |
| Other operating expenses | 33 | **(54,960)** | (61,411) |
| Finance costs | 34 | **(6,934)** | (4,617) |
| Interest income | | **438** | 283 |
| Share of loss of associates | | **(759)** | – |
| Share of loss of joint venture | | **(42)** | – |
| Other income – net | 36 | **10,568** | 1,362 |
| **Profit before income tax** | | **14,035** | 15,931 |
| Income tax expenses | 9 | **(3,473)** | (3,876) |
| **Profit for the year** | | **10,562** | 12,055 |
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | | **10,562** | 12,055 |
| **Earnings per share for profit attributable to equity shareholders of the Company during the year:** | | | |
| Basic earnings per share (RMB) | 39 | **0.44** | 0.51 |
| Diluted earnings per share (RMB) | 39 | **0.44** | 0.49 |

Details of dividends attributable to equity shareholders of the Company for the years ended 31 December 2015 and 2014 are set out in Note 38.

The notes on pages 89 to 165 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB millions)

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **Profit for the year** | **10,562** | 12,055 |
| **Other comprehensive income** | | |
| **Items that will not be reclassified to statement of income:** | | |
| Changes in fair value of financial assets through other comprehensive income | **(1,050)** | (619) |
| Tax effect on changes in fair value of financial assets through other comprehensive income | **(1,129)** | 155 |
| Changes in fair value of financial assets through other comprehensive income, net of tax | **(2,179)** | (464) |
| Remeasurement of net defined benefit liability, net of tax | **20** | (2) |
| | **(2,159)** | (466) |
| **Item that may be reclassified subsequently to statement of income:** | | |
| Currency translation differences | **60** | (12) |
| **Other comprehensive income for the year, net of tax** | **(2,099)** | (478) |
| **Total comprehensive income for the year** | **8,463** | 11,577 |
| **Total comprehensive income attributable to:** | | |
| Equity shareholders of the Company | **8,463** | 11,577 |

The notes on pages 89 to 165 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB millions)

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Employee share-based compensation reserve | Investment revaluation reserve | Statutory reserves | Convertible bonds reserve | Other reserve | Retained profits | Total Equity |
| Balance at 1 January 2014 | 2,328 | 175,204 | 79 | 338 | (3,763) | 26,740 | 572 | (43,416) | 60,817 | 218,899 |
| Total comprehensive income for the year | – | – | – | – | (464) | – | – | (14) | 12,055 | 11,577 |
| Appropriation to statutory reserves | – | – | – | – | – | 1,166 | – | – | (1,166) | – |
| Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance: | | | | | | | | | | |
| – Issuance of shares upon exercise of options | – | 19 | – | (4) | – | – | – | (3) | – | 12 |
| Transition to no-par value regime on 3 March 2014 (Note 19) | 175,302 | (175,223) | (79) | – | – | – | – | – | – | – |
| Equity-settled share option schemes under the new Hong Kong Companies Ordinance: | | | | | | | | | | |
| – Issuance of shares upon exercise of options | 1,471 | – | – | (283) | – | – | – | (329) | – | 859 |
| – Transfer between reserves upon lapsing of options | – | – | – | (22) | – | – | – | – | 22 | – |
| Dividends relating to 2013 (Note 38) | – | – | – | – | – | – | – | – | (3,806) | (3,806) |
| Balance at 31 December 2014 | 179,101 | – | – | 29 | (4,227) | 27,906 | 572 | (43,762) | 67,922 | 227,541 |
| Total comprehensive income for the year | – | – | – | – | (2,179) | – | – | 80 | 10,562 | 8,463 |
| Appropriation to statutory reserves | – | – | – | – | – | 874 | – | – | (874) | – |
| Appropriation to other reserve | – | – | – | – | – | – | – | 2 | (2) | – |
| Equity-settled share option schemes under the new Hong Kong Companies Ordinance: | | | | | | | | | | |
| – Issuance of shares upon exercise of options | 1 | – | – | – | – | – | – | – | – | 1 |
| – Transfer between reserves upon lapsing of options | – | – | – | (29) | – | – | – | – | 29 | – |
| Redemption of convertible bonds | – | – | – | – | – | – | (572) | 572 | – | – |
| Dividends relating to 2014 (Note 38) | – | – | – | – | – | – | – | – | (4,789) | (4,789) |
| Balance at 31 December 2015 | 179,102 | – | – | – | (6,406) | 28,780 | – | (43,108) | 72,848 | 231,216 |

The notes on pages 89 to 165 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB millions)

| | Note | Year ended 31 December 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | (a) | 91,169 | 97,062 |
| Interest received | | 319 | 283 |
| Interest paid | | (4,943) | (4,631) |
| Income tax paid | | (2,244) | (4,620) |
| Net cash inflow from operating activities | | 84,301 | 88,094 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (88,465) | (69,586) |
| Proceeds from disposal of property, plant and equipment and other assets | | 2,336 | 797 |
| Dividends received from financial assets at fair value through other comprehensive income | | 365 | 353 |
| Proceeds from disposal of financial assets at fair value through profit and loss | | 19 | – |
| Dividends received from associates | | 10 | – |
| Increase in short-term bank deposits | | (3) | (1) |
| Purchase of other assets | | (4,542) | (3,807) |
| Acquisition of financial assets at fair value through profit and loss | | (66) | – |
| Acquisition of interest in associates | | (8) | (3,075) |
| Acquisition of interest in joint venture | | (1,000) | – |
| Net cash outflow from investing activities | | (91,354) | (75,319) |
| **Cash flows from financing activities** | | | |
| Proceeds from exercise of share options | | 1 | 871 |
| Proceeds from commercial papers | | 30,000 | 19,885 |
| Proceeds from short-term bank loans | | 139,663 | 158,259 |
| Proceeds from long-term bank loans | | 1,920 | – |
| Proceeds from ultimate holding company loan | | 1,344 | – |
| Proceeds from related party loan | | – | 473 |
| Proceeds from promissory notes | | 17,957 | 21,430 |
| Repayment of commercial papers | | (20,000) | (45,000) |
| Repayment of short-term bank loans | | (149,072) | (161,007) |
| Repayment of long-term bank loans | | (45) | (46) |
| Repayment of related party loan | | (473) | – |
| Repayment of ultimate holding company | | (1,344) | – |
| Repayment of convertible bond | | (11,664) | – |
| Repayment of finance lease | | (217) | (161) |
| Dividends paid to equity shareholders of the Company | 38 | (4,643) | (3,677) |
| Net cash inflow/(outflow) from financing activities | | 3,427 | (8,973) |
| **Net (decrease)/increase in cash and cash equivalents** | | (3,626) | 3,802 |
| Cash and cash equivalents, beginning of year | | 25,308 | 21,506 |
| Effect of changes in foreign exchange rate | | 73 | – |
| **Cash and cash equivalents, end of year** | 18 | 21,755 | 25,308 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Cash balances | | 1 | 3 |
| Bank balances | | 21,754 | 25,305 |
| | | 21,755 | 25,308 |

The notes on pages 89 to 165 are an integral part of these consolidated financial statements.

(All amounts in RMB millions)

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Profit before income tax | **14,035** | 15,931 |
| Adjustments for: | | |
| Depreciation and amortisation | **76,738** | 73,868 |
| Interest income | **(120)** | (283) |
| Finance costs | **6,641** | 4,113 |
| (Gain)/Loss on disposal of property, plant and equipment and other assets | **(7,280)** | 1,064 |
| Impairment losses for doubtful debts and write-down of inventories | **4,054** | 3,958 |
| Impairment losses for property, plant and equipment | **29** | 65 |
| Dividends from financial assets at fair value through other comprehensive income | **(397)** | (353) |
| Share of loss of associates | **759** | – |
| Share of loss of joint venture | **42** | – |
| Other investment loss | **8** | 28 |
| Changes in working capital: | | |
| Increase in accounts receivable | **(3,666)** | (2,927) |
| (Increase)/Decrease in inventories and consumables | **(73)** | 675 |
| Increase in other assets | **(6,288)** | (1,897) |
| Increase in prepayments and other current assets | **(1,630)** | (211) |
| Decrease/(Increase) in amounts due from related parties | **2,905** | (1) |
| Decrease/(Increase) in amounts due from domestic carriers | **126** | (1,523) |
| (Decrease)/Increase in accounts payable and accrued liabilities | **(1,781)** | 5,451 |
| Increase in taxes payable | **5,126** | 2,068 |
| Increase/(Decrease) in advances from customers | **1,465** | (2,949) |
| (Decrease)/Increase in deferred revenue | **(81)** | 238 |
| (Decrease)/Increase in other obligations | **(17)** | 22 |
| Decrease in amounts due to ultimate holding company | **(185)** | (12) |
| Increase/(Decrease) in amounts due to related parties | **861** | (161) |
| Decrease in amounts due to domestic carriers | **(102)** | (102) |
| Cash generated from operations | **91,169** | 97,062 |

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

### Disposal of Telecommunications Towers and Related Assets

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

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

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

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

## 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, as modified by the revaluation of financial assets at fair value through other comprehensive income. 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;
- additional capitalisation of borrowing costs and corresponding impact on depreciation prior to the adoption of CAS on 1 January 2007; and
- adjustments for deferred taxation in relation to the above adjustments.

**(a) Disposal of Telecommunications Towers and Related Assets**

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

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

(All amounts in RMB millions unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Basis of Preparation (Continued)

#### (a) Disposal of Telecommunications Towers and Related Assets (Continued)

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

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

#### (b) Going Concern Assumption

As at 31 December 2015, current liabilities of the Group exceeded current assets by approximately RMB279.4 billion (2014: approximately RMB235.3 billion). Given the current global economic conditions and the Group's expected capital expenditure in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflows from operating activities;
- Approximately RMB346.4 billion of revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which approximately RMB227.2 billion was unutilised as at 31 December 2015; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2015 have been prepared on a going concern basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Basis of Preparation (Continued)

#### (c) Critical Accounting Estimates and Judgements

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.

#### (d) New Accounting Standards and Amendments

(i) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2015 and are applicable to the Group:

- Amendments to IAS/HKAS 19, "Defined benefit plans: Employee Contributions"

  The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

- Annual Improvements to IFRSs/HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

  These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS/HKAS 24, "Related party disclosures" has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

(All amounts in RMB millions unless otherwise stated)

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.2 Basis of Preparation (Continued)

### (d) New Accounting Standards and Amendments (Continued)

(ii) Up to the date of issue of these financial statements, the IASB and HKICPA issued certain amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements except IFRS/HKFRS 9, "Financial instruments" was early adopted by the Group on 1 January 2011. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Annual Improvements to IFRSs/HKFRSs 2012-2014 Cycle | 1 January 2016 |
| Amendments to IFRS/HKFRS 10 and IAS/HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture" | 1 January 2016 |
| Amendments to IFRS/HKFRS 11, "Accounting for acquisitions of interests in joint operations" | 1 January 2016 |
| Amendments to IAS/HKAS 1, "Disclosure initiative" | 1 January 2016 |
| Amendments to IAS/HKAS 16 and IAS/HKAS 38, "Clarification of acceptable methods of depreciation and amortisation" | 1 January 2016 |
| Amendments to IAS/HKAS 27, "Equity method in separate financial statements" | 1 January 2016 |
| Amendments to IFRS/HKFRS 10, IFRS/HKFRS 12, IAS/HKAS 28, "Investment entities: Applying the consolidation exception" | 1 January 2016 |
| IFRS/HKFRS 15, "Revenue from Contracts with Customer" | 1 January 2018 |

The Group will adopt the relevant amendments and new standards in the subsequent periods as required. The Group is in the process of making an assessment of what the impact of these amendments and new standards are expected to be in the period of initial application.

## 2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Consolidation (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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

### 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.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.4 Associates and joint ventures (Continued)

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.

## 2.5 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Foreign Currency Translation (Continued)

#### (c) Group companies

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the statement of financial position date;
- Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity into other reserve.

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

### 2.7 Property, Plant and Equipment

#### (a) Construction-in-progress

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

#### (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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Property, Plant and Equipment (Continued)

#### (b) Property, plant and equipment (Continued)

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

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

#### (c) Depreciation

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

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

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

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

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

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.8 Goodwill

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

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

## 2.9 Lease Prepayments

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

## 2.10 Other Assets

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Financial Assets

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

**Financial assets measured at amortised cost**

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

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

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

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

**Financial assets measured at fair value**

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 2.15 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 Convertible Bonds

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of convertible bonds is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the convertible bonds as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of convertible bonds is measured at amortised cost using the effective interest method. The equity component of a convertible bond is not re-measured subsequent to initial recognition except on conversion, expiry or redemption.

If the convertible bonds is converted, the equity component, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital as consideration for the shares issued. If the convertible bonds is redeemed, the equity component is released directly to other reserve.

### 2.19 Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

**(a) Deferred revenue**

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

**(b) Advances from customers**

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

**(c) Subscriber points reward program**

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 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.

### 2.21 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.

### 2.22 Employee Benefits

**(a) Retirement benefits**

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The 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)

## 2.22 Employee Benefits (Continued)

### (d) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. 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 2015, the amount of the liability was RMB91 million (2014: RMB105 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).

## 2.23 Accounts Payable

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

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

## 2.24 Provisions

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

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)

### 2.25 Revenue Recognition

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

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

**Sales of services and goods**

- Usage fees and monthly fees are recognised when the service is rendered;
- Revenue from the provision of broadband, data and other Internet-related services is recognised when the services are provided to customers;
- Lease income from leasing of lines and customer-end equipment is treated as operating leases with rental income recognised on a straight-line basis over the lease term;
- Interconnection fees represent revenue received or receivable from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, is recognised when service is rendered;
- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalised ring, caller number display and secretarial services to subscribers, is recognised when service is rendered;
- Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognised when title has been passed to the buyers;
- The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of the telecommunications service. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition;
- Revenue from information communications technology services is recognised when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognised only to the extent of recoverable costs incurred, and costs should be recognised as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognised as current expenses immediately and services revenue should not be recognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.26 Interest income

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

### 2.27 Dividend income

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

### 2.28 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.

### 2.29 Borrowing Costs

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

### 2.30 Taxation

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the 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 income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised as deferred income tax. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each statement of financial position date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each statement of financial position date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.31 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)

### 2.32 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.

### 2.33 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.

### 2.34 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.34 Related parties (Continued)

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

(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 finance department at its headquarter, following the overall direction determined by the Executive Directors of the Company. The Group's finance department 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 finance department 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 2015 and 2014, the Group had not entered into any forward exchange contracts or currency swap contracts.

(All amounts in RMB millions unless otherwise stated)

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

### 3.1 Financial risk factors (Continued)

#### (a) Market risk (Continued)

*(i) Foreign exchange risk (Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2015 and 2014.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Original currency millions | Exchange rate | RMB equivalent millions | Original currency millions | Exchange rate | RMB equivalent millions |
| **Cash and cash equivalents:** | | | | | | |
| – denominated in HK dollars | 278 | 0.84 | 233 | 1,286 | 0.79 | 1,016 |
| – denominated in US dollars | 146 | 6.49 | 948 | 107 | 6.12 | 657 |
| – denominated in Euro | 8 | 7.10 | 60 | 5 | 7.46 | 39 |
| – denominated in Japanese Yen | 119 | 0.05 | 6 | 44 | 0.05 | 2 |
| – denominated in GBP | 0.6 | 9.62 | 6 | 1.2 | 9.54 | 11 |
| Sub-total | | | 1,253 | | | 1,725 |
| **Financial assets at fair value through other comprehensive income:** | | | | | | |
| – denominated in Euro | 657 | 7.10 | 4,665 | 765 | 7.46 | 5,706 |
| Total | | | 5,918 | | | 7,431 |
| **Borrowings:** | | | | | | |
| – denominated in HK dollars | – | 0.84 | – | 62,686 | 0.79 | 49,452 |
| – denominated in US dollars | 50 | 6.49 | 325 | 54 | 6.12 | 329 |
| – denominated in Euro | 15 | 7.10 | 108 | 18 | 7.46 | 136 |
| Sub-total | | | 433 | | | 49,917 |
| **Convertible bonds:** | | | | | | |
| – denominated in US dollars | – | 6.49 | – | 1,825 | 6.12 | 11,167 |
| **Obligations under finance lease:** | | | | | | |
| – denominated in US dollars | 14 | 6.49 | 90 | 47 | 6.12 | 286 |
| Total | | | 523 | | | 61,370 |

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.

# 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)*

As at 31 December 2015, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB55 million (2014: approximately RMB4,473 million) for cash and cash equivalents, borrowings, convertible bonds and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income, net of tax impact, would be approximately RMB467 million (2014: approximately RMB428 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 2015, 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, net of tax impact, would be approximately RMB467 million (2014: approximately RMB428 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, convertible bonds, 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 2015 and 2014, 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 2015 and 2014.

# 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 2015, the Group had approximately RMB105,343 million (2014: approximately RMB103,586 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB43,599 million (2014: approximately RMB35,091 million) of long-term fixed rate borrowings.

For the year ended 31 December 2015, 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 RMB395 million (2014: approximately RMB388 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 extent of the Group's credit exposure is mainly attributable to accounts receivable for services (Note 15) and receivable for the sales of mobile handsets (Note 16). 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.

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(All amounts in RMB millions unless otherwise stated)

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

## 3.1 Financial risk factors (Continued)

### (c) Liquidity risk

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, corporate bonds and convertible bonds. Due to the dynamic nature of the underlying business, the Group's finance department 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 2015** | | | | | |
| Long-term bank loans | 109 | 114 | 387 | 1,964 | 1,832 |
| Corporate bonds | 90 | 2,039 | – | – | 2,000 |
| Promissory notes | 4,071 | 20,082 | 18,443 | – | 39,427 |
| Other obligations | 2,816 | 285 | 17 | 66 | 3,154 |
| Accounts payable and accrued liabilities | 167,396 | – | – | – | 167,396 |
| Amounts due to related parties | 3,930 | – | – | – | 3,930 |
| Amounts due to ultimate holding company | 1,470 | – | – | – | 1,437 |
| Amounts due to domestic carriers | 1,300 | – | – | – | 1,300 |
| Commercial papers | 20,482 | – | – | – | 19,945 |
| Short-term bank loans | 85,095 | – | – | – | 83,852 |
| | 286,759 | 22,520 | 18,847 | 2,030 | 324,273 |
| **At 31 December 2014** | | | | | |
| Long-term bank loans | 49 | 45 | 142 | 246 | 465 |
| Corporate bonds | 90 | 90 | 2,039 | – | 2,000 |
| Promissory notes | 975 | 3,433 | 19,445 | – | 21,460 |
| Other obligations | 2,706 | 89 | 69 | 65 | 2,915 |
| Accounts payable and accrued liabilities | 120,371 | – | – | – | 120,371 |
| Amounts due to related parties | 3,548 | – | – | – | 3,542 |
| Amounts due to ultimate holding company | 1,655 | – | – | – | 1,622 |
| Amounts due to domestic carriers | 1,402 | – | – | – | 1,402 |
| Convertible bonds | 11,319 | – | – | – | 11,167 |
| Commercial papers | 10,243 | – | – | – | 9,979 |
| Short-term bank loans | 92,889 | – | – | – | 91,503 |
| | 245,247 | 3,657 | 21,695 | 311 | 266,426 |

Regarding the Group's use of the going concern basis for the preparation of its financial statements, please refer to Note 2.2(b) 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, convertible bonds, 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. Total equity represents equity attributable to equity shareholders of the Company as shown in the consolidated statement of financial position.

(All amounts in RMB millions unless otherwise stated)

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

## 3.2 Capital risk management (Continued)

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

| | 2015 | 2014 |
|---|---|---|
| Interest-bearing debts: | | |
| – Commercial papers | 19,945 | 9,979 |
| – Short-term bank loans | 83,852 | 91,503 |
| – Long-term bank loans | 1,748 | 420 |
| – Promissory notes | 36,928 | 21,460 |
| – Convertible bonds | – | 11,167 |
| – Corporate bonds | 2,000 | 2,000 |
| – Obligations under finance lease included in other obligations | 268 | 118 |
| – Amounts due to related parties | – | 473 |
| – Amounts due to ultimate holding company | 1,344 | 1,344 |
| – Current portion of long-term bank loans | 84 | 45 |
| – Current portion of promissory notes | 2,499 | – |
| – Current portion of obligations under finance lease | 274 | 168 |
| | 148,942 | 138,677 |
| Total equity: | | |
| – Equity attributable to equity shareholders of the Company | 231,216 | 227,541 |
| Interest-bearing debts plus total equity | 380,158 | 366,218 |
| Debt-to-capitalisation ratio | 39.2% | 37.9% |

The increase in debt-to-capitalisation ratio during 2015 resulted primarily from the increase in interest-bearing debts.

(All amounts in RMB millions unless otherwise stated)

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

### 3.3 Fair value estimation

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, accounts receivable, receivable for the sales of mobile handsets, amounts due from related parties and domestic carriers. Financial liabilities of the Group mainly include accounts payable and accrued liabilities, short-term bank loans, commercial papers, corporate bonds, promissory notes, long-term bank loans, convertible bonds, 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 2015:

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

(All amounts in RMB millions unless otherwise stated)

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

## 3.3 Fair value estimation (Continued)

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

The following table presents the Group's assets that are measured at fair value at 31 December 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Recurring fair value measurement:** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| – Equity securities | | | | |
| – Listed | 5,879 | – | – | 5,879 |
| – Unlisted | – | – | 23 | 23 |
| | 5,879 | – | 23 | 5,902 |
| Prepayments and other current assets | | | | |
| – Equity securities | | | | |
| – Listed | 13 | – | – | 13 |
| Total | 5,892 | – | 23 | 5,915 |

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 2015 and 2014, 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.

(All amounts in RMB millions unless otherwise stated)

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

## 3.3 Fair value estimation (Continued)

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2015 and 2014. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

| | Carrying amount as at 31 December 2015 | Fair value as at 31 December 2015 | Fair value measurement as at 31 December 2015 categorised into | | | Carrying amount as at 31 December 2014 | Fair value as at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| | | | Level 1 | Level 2 | Level 3 | | |
| Non-current portion of long-term bank loans | 1,748 | 1,752 | – | – | 1,752 | 420 | 392 |
| Non-current portion of promissory notes | 36,928 | 38,141 | – | – | 38,141 | 21,460 | 21,924 |
| Corporate bonds | 2,000 | 2,111 | – | – | 2,111 | 2,000 | 2,045 |
| Convertible bonds | – | – | – | – | – | 11,167 | 11,183 |

The fair value of the non-current portion of long-term bank loans is based on cash flows discounted using rates based on the market rates ranging from 1.81% to 4.08% (2014: 2.34% to 3.23%) per annum.

The fair value of the Group's non-current portion of promissory notes is computed based on the expected cash flows of principal and interests payment discounted at market rates ranging from 2.84% to 5.62% (2014: 4.04% to 4.60%) per annum.

The fair value of the corporate bonds is based on cash flows discounted using rates based on the market rate of 2.35% (2014: 4.60%) 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 2015 and 2014 due to the nature or short maturity of those instruments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### 4.1 Depreciation on property, plant and equipment

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

### 4.2 Impairment of non-financial assets

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

### 4.3 Write-down of inventories

The net realisable value of inventories is under management's regular review, and as a result, write-down of inventories is recognised for the excess of inventories' carrying amounts over their net realisable value. When making estimates of net realisable value, the Group takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Group's historical operating costs. The actual selling price of the inventories, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product saleability, manufacturing technology and the actual use of the inventories, resulting in the changes in write-down of inventories. The net profit or loss may then be affected in the period when the write-down of inventories is adjusted.

### 4.4 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### 4.5 Subscriber points reward program

The fair value of subscriber points reward is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each statement of financial position date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

### 4.6 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 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 deferred tax assets amounting to approximately RMB5,642 million as at 31 December 2015 (2014: approximately RMB6,215 million). 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.

## 5. SEGMENT INFORMATION

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

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

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

(All amounts in RMB millions unless otherwise stated)

## 6. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2015 and 2014 are as follows:

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

(All amounts in RMB millions unless otherwise stated)

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

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Buildings | Tele-communications equipment | Office furniture, fixtures, motor vehicles and other equipment | Leasehold improvements | CIP | Total |
| Cost: | | | | | | |
| Beginning of year | 64,915 | 848,445 | 18,669 | 3,930 | 59,096 | 995,055 |
| Additions | 108 | 184 | 350 | 336 | 82,263 | 83,241 |
| Transfer from CIP | 3,848 | 72,445 | 1,004 | 614 | (77,911) | – |
| Transfer to other assets | – | – | – | – | (4,704) | (4,704) |
| Disposals | (103) | (38,240) | (915) | (451) | (5) | (39,714) |
| End of year | 68,768 | 882,834 | 19,108 | 4,429 | 58,739 | 1,033,878 |
| Accumulated depreciation and impairment: | | | | | | |
| Beginning of year | (24,241) | (524,392) | (12,704) | (1,969) | (124) | (563,430) |
| Charge for the year | (3,193) | (64,407) | (1,587) | (818) | – | (70,005) |
| Impairment loss | – | (10) | – | – | (55) | (65) |
| Disposals | 95 | 36,515 | 880 | 448 | 5 | 37,943 |
| End of year | (27,339) | (552,294) | (13,411) | (2,339) | (174) | (595,557) |
| Net book value: | | | | | | |
| End of year | 41,429 | 330,540 | 5,697 | 2,090 | 58,565 | 438,321 |
| Beginning of year | 40,674 | 324,053 | 5,965 | 1,961 | 58,972 | 431,625 |

As at 31 December 2015, the net book value of assets held under finance leases was approximately RMB532 million (2014: approximately RMB368 million).

For the year ended 31 December 2015, interest expense of approximately RMB936 million (2014: approximately RMB825 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.40% to 4.33% for the year ended 31 December 2015 (2014: 3.72% to 4.30%).

For the year ended 31 December 2015, the Group recognised a net gain on disposal of property, plant and equipment of approximately RMB7,280 million (2014: a loss of approximately RMB1,064 million), including the gain on the Group's Tower Assets Disposal of approximately RMB9,246 million.

(All amounts in RMB millions unless otherwise stated)

## 7. LEASE PREPAYMENTS

The Group's long-term prepayment for land use rights represents prepaid operating lease payments for land use rights. The movement of lease prepayments for the years ended 31 December 2015 and 2014 are as follows:

| | **2015** | 2014 |
|---|---|---|
| Beginning of the year | **9,211** | 8,038 |
| Addition | **296** | 1,472 |
| Amortisation | **(359)** | (299) |
| End of the year | **9,148** | 9,211 |

## 8. GOODWILL

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

Goodwill is allocated to the Group's cash-generating units ("CGU"). The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, including service revenue annual growth rate of 1.5% and the applicable discount rate of 10%. Management determined expected growth rates and operating results based on past performance and its expectations in relation to market developments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2015 and 2014 and no reasonable change to the assumptions would lead to an impairment charge.

(All amounts in RMB millions unless otherwise stated)

## 9. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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% (2014: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2014: 15%).

| | 2015 | 2014 |
|---|---|---|
| Provision for income tax on the estimated taxable profits for the year | | |
| – Hong Kong | 23 | 29 |
| – Mainland China and other countries | 3,990 | 3,201 |
| Adjustments to prior years' current tax for Mainland China | 16 | (19) |
| | 4,029 | 3,211 |
| Deferred taxation | (556) | 665 |
| Income tax expenses | 3,473 | 3,876 |

Reconciliation between applicable statutory tax rate and the effective tax rate:

| | 2015 | 2014 |
|---|---|---|
| Applicable PRC statutory tax rate | 25.0% | 25.0% |
| Non-deductible expenses | 1.2% | 0.6% |
| Effect of withholding income tax for interest receivable from inter-company loans | 0.2% | 0.2% |
| Deductible tax losses not recognised in prior years/adjustments to prior years' current tax | (0.4%) | (0.1%) |
| Impact of different tax rate | (0.8%) | (0.6%) |
| Others | (0.5%) | (0.8%) |
| Effective tax rate | 24.7% | 24.3% |

(All amounts in RMB millions unless otherwise stated)

## 9. TAXATION (Continued)

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

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred tax asset to be recovered after 12 months | 3,682 | 4,045 |
| – Deferred tax asset to be recovered within 12 months | 2,985 | 3,212 |
| | 6,667 | 7,257 |
| Deferred tax liabilities: | | |
| – Deferred tax liabilities to be settled after 12 months | (851) | (899) |
| – Deferred tax liabilities to be settled within 12 months | (174) | (143) |
| | (1,025) | (1,042) |
| Net deferred tax assets after offsetting | 5,642 | 6,215 |
| Deferred tax liabilities: | | |
| – Deferred tax liabilities to be settled after 12 months | (18) | (17) |
| – Deferred tax liabilities to be settled within 12 months | – | – |
| | (18) | (17) |
| Net deferred tax liabilities after offsetting | (18) | (17) |

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

| | 2015 | 2014 |
|---|---|---|
| Net deferred tax assets after offsetting: | | |
| – Beginning of year | 6,215 | 6,734 |
| – Deferred tax credited/(charged) to the statement of income | 557 | (674) |
| – Deferred tax (charged)/credited to other comprehensive income | (1,130) | 155 |
| – End of year | 5,642 | 6,215 |
| Net deferred tax liabilities after offsetting: | | |
| – Beginning of year | (17) | (26) |
| – Deferred tax (charged)/credited to the statement of income | (1) | 9 |
| – End of year | (18) | (17) |

(All amounts in RMB millions unless otherwise stated)

## 9. TAXATION (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| Deferred tax assets: | Allowance for doubtful debts | Payroll and contributions to defined contribution pension schemes accrued but not paid | Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations (Note (i)) | Accruals of expenses not yet deductible for tax purpose | Changes in fair value on financial assets through other comprehensive income | Unrealised profit from the transactions with Tower Company | Others | Total |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 1,167 | 432 | 1,619 | 1,087 | 1,267 | – | 1,510 | 7,082 |
| Credited/(charged) to the statement of income | 128 | 448 | (63) | (254) | – | – | (258) | 1 |
| Credited to other comprehensive income | – | – | – | – | 174 | – | – | 174 |
| At 31 December 2014 | 1,295 | 880 | 1,556 | 833 | 1,441 | – | 1,252 | 7,257 |
| Credited/(charged) to the statement of income | 136 | (678) | (52) | 388 | – | 877 | 181 | 852 |
| Charged to other comprehensive income | – | – | – | – | (1,441) | – | (1) | (1,442) |
| At 31 December 2015 | 1,431 | 202 | 1,504 | 1,221 | – | 877 | 1,432 | 6,667 |

| Deferred tax liabilities: | Capitalised interest already deducted for tax purpose | Realised gain on changes in fair value of derivative financial instrument in 2009 | Changes in fair value on financial assets through other comprehensive income | Accelerated depreciation of property, plant and equipment (Note (ii)) | Others | Total |
|---|---|---|---|---|---|---|
| At 1 January 2014 | (21) | (310) | (12) | – | (31) | (374) |
| Credit/(charged) to the statement of income | 21 | – | – | (696) | 9 | (666) |
| Charged to other comprehensive income | – | – | (19) | – | – | (19) |
| At 31 December 2014 | – | (310) | (31) | (696) | (22) | (1,059) |
| Charged to the statement of income | – | – | – | (296) | – | (296) |
| Credited to other comprehensive income | – | 310 | 2 | – | – | 312 |
| At 31 December 2015 | – | – | (29) | (992) | (22) | (1,043) |

(All amounts in RMB millions unless otherwise stated)

## 9. TAXATION (Continued)

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

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Net deferred tax assets after offsetting:** | | | |
| Deferred tax assets: | | | |
| Allowance for doubtful debts | | 1,431 | 1,295 |
| Impairment loss on property, plant and equipment | | 17 | 25 |
| Write-down of inventories | | 41 | 58 |
| Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations | (i) | 1,504 | 1,556 |
| Accruals of expenses not yet deductible for tax purpose | | 1,221 | 833 |
| Deferred revenue on subscriber points reward program | | 146 | 135 |
| Unrealised profit for the inter-company transactions | | 260 | 293 |
| Changes in fair value on financial assets through other comprehensive income | | – | 1,441 |
| Payroll and contributions to defined contribution pension schemes accrued but not paid | | 202 | 880 |
| Unrealised profit from the transactions with Tower Company | | 877 | – |
| Government grants related to assets | | 138 | 115 |
| Intangible assets amortisation difference | | 321 | 269 |
| Others | | 509 | 357 |
| | | 6,667 | 7,257 |
| Deferred tax liabilities: | | | |
| Realised gain on changes in fair value of derivative financial instrument in 2009 | | – | (310) |
| Changes in fair value on financial assets through other comprehensive income | | (29) | (31) |
| Accelerated depreciation of property, plant and equipment | (ii) | (992) | (696) |
| Others | | (4) | (5) |
| | | (1,025) | (1,042) |
| | | 5,642 | 6,215 |
| **Net deferred tax liabilities after offsetting:** | | | |
| Deferred tax liabilities: | | | |
| Accelerated depreciation for tax purpose | | (18) | (17) |
| | | (18) | (17) |

(All amounts in RMB millions unless otherwise stated)

## 9. TAXATION (Continued)

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

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

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

As at 31 December 2015, the Group did not recognise deferred tax assets in respect of tax losses of approximately RMB2,802 million (2014: approximately RMB2,741 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired by 2020. The Group did not recognise (i) deferred tax assets of RMB1,131 million that was previously recognised in prior year and (ii) deferred tax assets of RMB260 million for current year in respect of changes in fair value on financial assets through other comprehensive income, since it is no longer probable that the related tax benefit will be realised.

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

| | **2015** | 2014 |
|---|---|---|
| Listed in the PRC | **164** | 173 |
| Listed outside the PRC | **4,665** | 5,706 |
| Unlisted | **23** | 23 |
| | **4,852** | 5,902 |

For the year ended 31 December 2015, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB1,050 million (2014: decrease of approximately RMB619 million). The decrease, together with tax impact, of approximately RMB2,179 million (2014: decrease, net of tax impact, of approximately RMB464 million) has been recorded in the consolidated statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

## 11. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2015, the details of the Company's subsidiaries are as follows:

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

(All amounts in RMB millions unless otherwise stated)

## 11. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place and date of incorporation/ establishment and nature of legal entity | Percentage of equity interests held | | Particular of issued share capital/ paid up capital | Principal activities and place of operation |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| China Unicom (Hong Kong) Operations Limited | Hong Kong, 24 May 2000, limited company | – | 100% | 60,100,000 shares | Telecommunications service in Hong Kong |
| China Unicom (Americas) Operations Limited | USA, 24 May 2002, limited company | – | 100% | 5,000 shares, USD100 each | Telecommunications service in the USA |
| Unicom Vsens Telecommunications Company Limited | The PRC, 19 August 2008, limited liability company | – | 100% | RMB500,000,000 | Sales of handsets, telecommunications equipment and provision of technical services in the PRC |
| China Unicom System Integration Limited Corporation | The PRC, 30 April 2006, limited liability company | – | 100% | RMB550,000,000 | Provision of information communications technology services in the PRC |
| China Unicom Broadband Online Limited Corporation | The PRC, 29 March 2006, limited liability company | – | 100% | RMB100,000,000 | Provision of internet information services and value-added telecommunications services in the PRC |
| Beijing Telecommunications Planning and Designing Institute Corporation Limited | The PRC, 25 April 1996, limited liability company | – | 100% | RMB264,227,115 | Provision of telecommunications network construction, planning and technical consulting services in the PRC |
| China Information Technology Designing & Consulting Institute Company Limited | The PRC, 11 November 1991, limited liability company | – | 100% | RMB430,000,000 | Provision of consultancy, survey, design and contract services relating to information projects and construction projects in the telecommunications industry in the PRC |

(All amounts in RMB millions unless otherwise stated)

## 11. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place and date of incorporation/ establishment and nature of legal entity | Percentage of equity interests held | | Particular of issued share capital/ paid up capital | Principal activities and place of operation |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Unicom Xingye Communications Technology Company Limited | The PRC, 30 October 2000, limited liability company | – | 100% | RMB30,000,000 | Provision of technical support, manufacturing, research and design services for SIM/ USIM cards and other telecommunications cards in the PRC |
| China Unicom Information Navigation Company Limited | The PRC, 17 September 1998, limited liability company | – | 100% | RMB6,825,087,800 | Provision of customer services in the PRC |
| Huaxia P&T Project Consultation and Management Company Limited | The PRC, 5 March 1998, limited liability company | – | 100% | RMB30,000,000 | Provision of project consultation and management service in the PRC |
| Zhengzhou Kaicheng Industrial Company Limited | The PRC, 21 December 2005, limited liability company | – | 100% | RMB2,200,000 | Provision of property management services in the PRC |
| Unicompay Company Limited | The PRC, 11 April 2011, limited liability company | – | 100% | RMB250,000,000 | Provision of e-payment services in the PRC |
| China United Network Communications Beijing NewSpace Infinite Media Advertising Limited Corporation | The PRC, 21 July 2006, limited liability company | – | 100% | RMB100,000 | Provision of advertising design, production, agency and publication in the PRC |
| Designing Techniques of Posts and Telecommunications Magazine Office Company Limited | The PRC, 15 December 2011, limited liability company | – | 100% | RMB300,000 | Provision of magazine publishing services in the PRC |
| Unicom New Horizon Telecommunications Company Limited | The PRC, 14 February 2001, limited liability company | – | 100% | RMB40,233,739,557 | Provision of lease service of telecommunications networks in the PRC |

(All amounts in RMB millions unless otherwise stated)

## 11. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place and date of incorporation/ establishment and nature of legal entity | Percentage of equity interests held | | Particular of issued share capital/ paid up capital | Principal activities and place of operation |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Unicom Cloud Data Company Limited | The PRC, 4 June 2013, limited liability company | – | 100% | RMB2,132,023,616 | Provision of technology development, transfer and consulting service in the PRC |
| Unicom Innovation Investment Company Limited | The PRC, 29 April 2014, limited liability company | – | 100% | RMB200,000,000 | Venture capital investment business in the PRC |
| Wostore Technology Company Limited | The PRC, 24 October 2014, limited liability company | – | 100% | RMB200,000,000 | Communications technology development and promotion in the PRC |
| China Unicom Smart Connection Technology Company Limited | The PRC, 7 August 2015, limited liability company | – | 100% | RMB100,000,000 | Auto informatisation in the PRC |

## 12. INTEREST IN ASSOCIATES

| | 2015 | 2014 |
|---|---|---|
| Share of net assets | 31,997 | 3,037 |

(All amounts in RMB millions unless otherwise stated)

## 12. INTEREST IN ASSOCIATES (Continued)

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

| Name | Form of business structure | Place of incorporation and business | Proportion of ownership interest held by a subsidiary | Paid up capital | Principal activities |
|---|---|---|---|---|---|
| Tower Company | Incorporated | The PRC | 28.1% | RMB129,344,615,024 | Construction, maintenance and operation of communications towers in the PRC (Note 1) |
| Guang Lian Shi Tong New Media Limited | Incorporated | The PRC | 49% | RMB51,020,408 | Provision of mobile audio visual programs integrated broadcasting services in the PRC |
| China Unicom Innovation Investment Company (Shanghai) Limited ("Innovation Investment Company") | Incorporated | The PRC | 62.5% | RMB40,000,000 | Venture capital investment business in the PRC (Note i) |
| Shanghai Wo Huang Information Technology Company Limited | Incorporated | The PRC | 30% | RMB10,000,000 | Information technology development and consulting in the PRC |
| Shanghai Wo Orange Information Technology Company Limited | Incorporated | The PRC | 48% | RMB10,000,000 | Digital technology, computer systems technology development and consulting in the PRC |

(i) The Group has significant influence on Innovation Investment Company and not control over or joint control over its management, including participation in the financial and operating policy decisions. A subsidiary of the Company owns 40% of the voting rights of Innovation Investment Company.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

(All amounts in RMB millions unless otherwise stated)

## 12. INTEREST IN ASSOCIATES (Continued)

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

| | Tower Company | |
|---|---|---|
| | **2015** | 2014 |
| Current assets | **38,586** | 9,676 |
| Non-current assets | **231,793** | 454 |
| Current liabilities | **(47,717)** | (244) |
| Non-current liabilities | **(96,535)** | – |
| Equity | **(126,127)** | (9,886) |
| Revenue | **10,325** | – |
| Loss for the year | **(2,944)** | (114) |
| Total comprehensive income for the year | **(2,944)** | (114) |
| **Reconciled to the Group's interests in the associate:** | | |
| Net assets of the associate | **126,127** | 9,886 |
| Group's effective interest | **28.1%** | 30.1% |
| | **35,442** | 2,976 |
| Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal | **(3,506)** | – |
| Carrying amount in the consolidated financial statements | **31,936** | 2,976 |

## 13. OTHER ASSETS

| | Note | **2015** | 2014 |
|---|---|---|---|
| Purchased software | | **10,714** | 9,100 |
| Prepaid rental for premises, leased lines and electricity cables | | **4,071** | 6,927 |
| Installation costs | | **478** | 663 |
| Direct incremental costs for activating broadband subscribers | | **7,340** | 3,762 |
| Others | (i) | **2,732** | 2,589 |
| | | **25,335** | 23,041 |

(i) The amount includes the receivables from the sales of mobile handset 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 16(i)).

(All amounts in RMB millions unless otherwise stated)

## 14. INVENTORIES AND CONSUMABLES

| | 2015 | 2014 |
|---|---|---|
| Handsets and other customer end products | 3,453 | 3,656 |
| Telephone cards | 185 | 237 |
| Consumables | 188 | 350 |
| Others | 120 | 135 |
| | 3,946 | 4,378 |

## 15. ACCOUNTS RECEIVABLE

| | 2015 | 2014 |
|---|---|---|
| Accounts receivable | 19,867 | 19,135 |
| Less: Allowance for doubtful debts | (4,910) | (4,464) |
| | 14,957 | 14,671 |

The aging analysis of accounts receivable is based on the billing date as follows:

| | 2015 | 2014 |
|---|---|---|
| Current and within one month | 11,679 | 11,447 |
| More than one month to three months | 1,805 | 1,738 |
| More than three months to one year | 3,417 | 3,258 |
| More than one year | 2,966 | 2,692 |
| | 19,867 | 19,135 |

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

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

As at 31 December 2015, accounts receivable of approximately RMB3,278 million (2014: approximately RMB3,224 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 | 2014 |
|---|---|---|
| More than one month to three months | 1,805 | 1,738 |
| More than three months to one year | 655 | 754 |
| More than one year | 818 | 732 |
| | 3,278 | 3,224 |

(All amounts in RMB millions unless otherwise stated)

## 15. ACCOUNTS RECEIVABLE (Continued)

As at 31 December 2015, accounts receivable of approximately RMB4,910 million (2014: approximately RMB4,464 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 aging of these receivables is as follows:

| | 2015 | 2014 |
|---|---|---|
| More than three months to one year | 2,762 | 2,504 |
| More than one year | 2,148 | 1,960 |
| | 4,910 | 4,464 |

Allowance for doubtful debts is analysed as follows:

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

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

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

## 16. PREPAYMENTS AND OTHER CURRENT ASSETS

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

| | Note | 2015 | 2014 |
|---|---|---|---|
| Receivable for the sales of mobile handsets | (i) | 2,328 | 2,846 |
| Prepaid rental | | 2,098 | 2,639 |
| Deposits and prepayments | | 1,824 | 1,857 |
| Advances to employees | | 50 | 161 |
| Value-added tax recoverable | (ii) | 3,125 | 920 |
| Prepaid enterprise income tax | | 33 | 342 |
| Others | | 1,406 | 1,264 |
| | | 10,864 | 10,029 |

(All amounts in RMB millions unless otherwise stated)

## 16. PREPAYMENTS AND OTHER CURRENT ASSETS (Continued)

(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 with guarantees by third parties, the revenue relating to the sale of the handsets is recognised when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handsets. The receivable for the sales of mobile handsets is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered over one year amounted to RMB1,273 million (2014: RMB1,195 million), and are included in long-term other assets (see Note 13(i)).

(ii) Pursuant to the Cai Shui [2014] No. 43 issued by MOF and SAT of the PRC, pilot programme regarding the replacement of business tax with value-added tax ("VAT") implemented nationwide for the telecommunications industry from 1 June 2014 (see Note 29). VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

The aging analysis of prepayments and other current assets is as follows:

| | 2015 | 2014 |
|---|---|---|
| Within one year | 10,700 | 9,866 |
| More than one year | 164 | 163 |
| | 10,864 | 10,029 |

As at 31 December 2015, there was no significant impairment for the prepayments and other current assets.

## 17. SHORT-TERM BANK DEPOSITS

| | 2015 | 2014 |
|---|---|---|
| Bank deposits with maturity exceeding three months | 32 | 30 |
| Restricted bank deposits | 170 | 26 |
| | 202 | 56 |

As at 31 December 2015, restricted bank deposits primarily represented deposits that were subject to externally imposed restrictions as requested by contractors in relation to payables owed to the contractors.

## 18. CASH AND CASH EQUIVALENTS

| | 2015 | 2014 |
|---|---|---|
| Cash at bank and in hand | 21,460 | 23,791 |
| Bank deposits with original maturities of three months or less | 295 | 1,517 |
| | 21,755 | 25,308 |

(All amounts in RMB millions unless otherwise stated)

## 19. SHARE CAPITAL

| Issued and fully paid: | Number of shares millions | Share capital | Share premium | Capital redemption reserve | Total |
|---|---|---|---|---|---|
| **At 1 January 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 37) | 2 | – | 19 | – | 19 |
| Transition to no-par value regime on 3 March 2014 | – | 175,302 | (175,223) | (79) | – |
| Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37) | 163 | 1,471 | – | – | 1,471 |
| **At 31 December 2014** | 23,947 | 179,101 | – | – | 179,101 |
| Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37) | – | 1 | – | – | 1 |
| **At 31 December 2015** | **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 3 March 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.

(All amounts in RMB millions unless otherwise stated)

## 20. RESERVES

### (a) Movements in components of equity

**The Company**

| | Share capital | Share premium | Capital redemption reserve | Employee share-based compensation reserve | Investment revaluation reserve | Convertible bonds reserve | Other reserve | Retained profits | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | 2,328 | 175,204 | 79 | 670 | (3,797) | 572 | – | 7,537 | 182,593 |
| Total comprehensive income for the year | – | – | – | – | (520) | – | – | 5,465 | 4,945 |
| Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance: | | | | | | | | | |
| – Issuance of shares upon exercise of options | – | 19 | – | (7) | – | – | – | – | 12 |
| Transition to no-par value regime on 3 March 2014 | 175,302 | (175,223) | (79) | – | – | – | – | – | – |
| Equity-settled share option schemes under the new Hong Kong Companies Ordinance: | | | | | | | | | |
| – Issuance of shares upon exercise of options | 1,471 | – | – | (612) | – | – | – | – | 859 |
| – Transfer between reserves upon lapsing of options | – | – | – | (22) | – | – | – | 22 | – |
| Dividends relating to 2013 (Note 38) | – | – | – | – | – | – | – | (3,806) | (3,806) |
| Balance at 31 December 2014 | 179,101 | – | – | 29 | (4,317) | 572 | – | 9,218 | 184,603 |
| Total comprehensive income for the year | – | – | – | – | (2,172) | – | – | 5,612 | 3,440 |
| Equity-settled share option schemes under the new Hong Kong Companies Ordinance: | | | | | | | | | |
| – Issuance of shares upon exercise of options | 1 | – | – | – | – | – | – | – | 1 |
| – Transfer between reserves upon lapsing of options | – | – | – | (29) | – | – | – | 29 | – |
| Redemption of convertible bonds | – | – | – | – | – | (572) | 572 | – | – |
| Dividends relating to 2014 (Note 38) | – | – | – | – | – | – | – | (4,789) | (4,789) |
| Balance at 31 December 2015 | 179,102 | – | – | – | (6,489) | – | 572 | 10,070 | 183,255 |

## 20. RESERVES (Continued)

### (b) Nature and purpose

#### (i) Statutory reserves

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

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

Accordingly, CUCL appropriated approximately RMB874 million (2014: approximately RMB1,166 million) to the general reserve fund for the year ended 31 December 2015.

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRSs/HKFRSs, the appropriations to the staff bonus and welfare fund are charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2015 and 2014, 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 recognised in the retained profits had been transferred from retained profits to the statutory reserve. As at 31 December 2011, an accumulated appropriation of approximately RMB12,289 million was made to the statutory reserve and no more upfront connection fees are recognised afterwards.

#### (ii) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of share options granted to employees of the Group that are recognised in accordance with the accounting policy in Note 2.22(e).

## 20. RESERVES (Continued)

### (b) Nature and purpose (Continued)

#### (iii) Investment revaluation reserve

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

#### (iv) 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.

#### (v) Other reserve

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

### (c) Profit attributable to equity shareholders of the Company

For the year ended 31 December 2015, profit attributable to equity shareholders of the Company included a profit of approximately RMB5,612 million (2014: approximately RMB5,465 million), which has been dealt with in the financial statements of the Company. As at 31 December 2015, the amount of profit distributable to equity shareholders of the Company amounted to approximately RMB4,153 million (2014: approximately RMB4,930 million).

(All amounts in RMB millions unless otherwise stated)

## 21. LONG-TERM BANK LOANS

| | Interest rates and final maturity | 2015 | 2014 |
|---|---|---|---|
| RMB denominated bank loans | Fixed interest rates ranging from 4.22% to 4.67% (2014: Nil) per annum with maturity through 2030 (2014: Nil) | 1,399 | – |
| USD denominated bank loans | Fixed interest rates ranging from Nil to 5.00% (2014: Nil to 5.00%) per annum with maturity through 2039 (2014: maturity through 2039) | 325 | 330 |
| Euro denominated bank loans | Fixed interest rates ranging from 1.10% to 2.50% (2014: 1.10% to 2.50%) per annum with maturity through 2034 (2014: maturity through 2034) | 108 | 135 |
| Sub-total | | 1,832 | 465 |
| Less: Current portion | | (84) | (45) |
| | | 1,748 | 420 |

As at 31 December 2015, long-term bank loans of approximately RMB88 million (31 December 2014: approximately RMB90 million) were guaranteed by third parties.

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

| | 2015 | 2014 |
|---|---|---|
| Balances due: | | |
| – not later than one year | 84 | 45 |
| – later than one year and not later than two years | 88 | 41 |
| – later than two years and not later than five years | 302 | 136 |
| – later than five years | 1,358 | 243 |
| | 1,832 | 465 |
| Less: Portion classified as current liabilities | (84) | (45) |
| | 1,748 | 420 |

## 22. PROMISSORY NOTES

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

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

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

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

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

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

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

## 23. CONVERTIBLE BONDS

On 18 October 2010, Billion Express, a wholly-owned subsidiary of the Company, issued 0.75% guaranteed convertible bonds in an aggregate principal amount of USD1,838,800,000 (at the fixed exchange rate of USD1 equivalent to HKD7.7576) which are due in October 2015 at a redemption price of 100% of the principal amount. The bonds are guaranteed by the Company as to repayments, and are convertible into ordinary shares of the Company at an initial conversion price of HKD15.85 per share. The conversion price is subject to certain anti-dilution and change in control adjustments set out in the Trust Deed dated 18 October 2010. Adjustments have been made to the conversion price from HKD15.85 to HKD14.75 as a result of the dividends paid by the Company since the convertible bonds were issued. The bondholders may exercise conversion rights at any time on or after 28 November 2010 up to the close of business on 8 October 2015 or, if such convertible bonds shall have been called for redemption by the Company before 18 October 2015, then up to the close of business on a date no later than seven days prior to the date fixed for redemption thereof. Billion Express, would at the option of a bondholder, redeem all and not some only of such bondholder's convertible bonds on 18 October 2013, the date fixed for redemption, at their principal amount together with interest accrued and unpaid (the "Put Option"). The last day on which the bondholders may give notice to exercise the Put Option was 18 September 2013. As no bondholder gave notice to exercise the Put Option to require the redemption of their convertible bonds by 18 September 2013, such right expired on that date. In addition, on or at any time after 18 October 2013 and prior to 18 October 2015, Billion Express may redeem all and not some only of the convertible bonds for the time being outstanding at their principal amount together with interest accrued and unpaid to the date fixed for redemption.

On 18 October 2015, all convertible bonds were fully redeemed.

(All amounts in RMB millions unless otherwise stated)

## 23. CONVERTIBLE BONDS (Continued)

The fair value of the liability component, which was calculated using market interest rate for a bond with the same tenure but with no conversion features, was determined upon the issuance of the convertible bonds. The difference between the face value (net of direct issue costs) and the fair value of the liability component was credited to convertible bonds reserve under equity attributable to equity shareholders of the Company.

The convertible bonds recognised in the consolidated statement of financial position are calculated as follows:

| | 2015 | 2014 |
|---|---|---|
| Movement of liability component: | | |
| Beginning of year | **11,167** | 11,002 |
| Less: interest paid | **(86)** | (85) |
| Add: effect of exchange loss on liability component | **411** | 39 |
| Add: imputed finance cost | **172** | 211 |
| Less: redeemed during the year | **(11,664)** | – |
| End of year | **–** | 11,167 |

The liability component of the convertible bonds at 31 December 2014 amounted to approximately USD1,825 million (equivalent to RMB11,167 million) and was calculated using cash flows discounted at a rate based on the borrowing rate of 1.90% per annum taking into the effect of direct issue costs.

## 24. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds were secured by a corporate guarantee granted by Bank of China Limited.

## 25. OTHER OBLIGATIONS

| | Note | 2015 | 2014 |
|---|---|---|---|
| One-off cash housing subsidies | (a) | **2,496** | 2,496 |
| Obligations under finance lease | (b) | **542** | 286 |
| Others | | **116** | 133 |
| Sub-total | | **3,154** | 2,915 |
| Less: Current portion | | **(2,797)** | (2,698) |
| | | **357** | 217 |

(All amounts in RMB millions unless otherwise stated)

## 25. OTHER OBLIGATIONS (Continued)

### (a) One-off cash housing subsidies

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

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

In January 2009, through the absorption of China Netcom (Group) Company Limited ("CNC China") by CUCL and the absorption of China Network Communications Group Corporation ("Netcom Group") by Unicom Group, the rights and obligations formerly undertaken by CNC China and Netcom Group were taken over by CUCL and Unicom Group separately. As at 31 December 2015, the Group's unpaid one-off cash housing subsides amounted to approximately RMB2,496 million. If the actual payments required for these one-off housing subsidies differ from the amount provided, Unicom Group will bear any additional payments required. If the actual payments are lower than the amount provided, the difference will be paid to Unicom Group.

### (b) Obligations under finance lease

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

| | 2015 | 2014 |
|---|---|---|
| Total minimum lease payments under finance lease: | | |
| – not later than one year | 292 | 176 |
| – later than one year and not later than two years | 280 | 81 |
| – later than two years and not later than three years | – | 43 |
| | 572 | 300 |
| Less: Future finance charges | (30) | (14) |
| Present value of minimum obligations | 542 | 286 |
| Representing obligations under finance lease: | | |
| – current liabilities | 274 | 168 |
| – non-current liabilities | 268 | 118 |

(All amounts in RMB millions unless otherwise stated)

## 26. SHORT-TERM BANK LOANS

| | Interest rates and final maturity | 2015 | 2014 |
|---|---|---|---|
| RMB denominated bank loans | Fixed interest rates ranging from 2.35% to 3.92% (2014:3.62% to 5.32%) per annum with maturity through 2016 (2014: maturity through 2015) | **83,852** | 42,525 |
| HKD denominated bank loans | Floating interest rate of HIBOR plus interest ranging from 0.70% to 2.10% per annum with maturity through 2015 | **–** | 48,978 |
| Total | | **83,852** | 91,503 |

## 27. COMMERCIAL PAPERS

On 15 July 2014, CUCL issued tranche one of 2014 short term commercial papers in an amount of RMB10 billion, with a maturity period of 365 days from the date of issue and which carries interest at 4.60% per annum. The short term commercial papers were fully repaid in July 2015.

On 19 March 2015, CUCL issued tranche one of 2015 super and 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 4.40% per annum. The super and short term commercial papers were fully repaid in December 2015.

On 20 November 2015, CUCL issued tranche two of 2015 super and 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.

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

## 28. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2015 | 2014 |
|---|---|---|
| Payables to contractors and equipment suppliers | **131,202** | 85,699 |
| Payables to telecommunications products suppliers | **5,045** | 6,076 |
| Customer/contractor deposits | **4,564** | 4,129 |
| Repair and maintenance expense payables | **5,003** | 3,780 |
| Salary and welfare payables | **3,283** | 4,565 |
| Interest payable | **926** | 747 |
| Amounts due to services providers/content providers | **1,175** | 1,257 |
| Accrued expenses | **12,006** | 10,636 |
| Others | **4,192** | 3,482 |
| | **167,396** | 120,371 |

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

| | 2015 | 2014 |
|---|---|---|
| Less than six months | **146,336** | 104,334 |
| Six months to one year | **9,772** | 6,867 |
| More than one year | **11,288** | 9,170 |
| | **167,396** | 120,371 |

(All amounts in RMB millions unless otherwise stated)

## 29. REVENUE

Before 1 June 2014, service revenue and revenue from bundle sale of mobile handset were subject to a business tax rate of 3%-5% while standalone sales of telecommunications products was subject to VAT of 17%. Relevant tax was set off against revenue.

The MOF and SAT jointly issued a notice (the "Notice") dated 29 April 2014 pursuant to which the pilot programme regarding the replacement of business tax with VAT implemented nationwide for the telecommunications industry (the "VAT Reform") from 1 June 2014.

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

The major components of revenue are as follows:

| | 2015 | 2014 |
|---|---|---|
| Mobile service | | |
| – Usage and monthly fees | 45,901 | 62,152 |
| – Value-added services revenue | 83,529 | 79,814 |
| – Interconnection fees | 11,847 | 12,398 |
| – Other mobile service revenue | 1,343 | 731 |
| Total service revenue from mobile service | 142,620 | 155,095 |
| Fixed-line service | | |
| – Usage and monthly fees | 11,130 | 14,357 |
| – Broadband, data and other Internet-related services revenue | 56,629 | 52,579 |
| – Interconnection fees | 3,667 | 3,979 |
| – Value-added services revenue | 5,132 | 4,324 |
| – Leased line income | 9,404 | 8,879 |
| – Information communications technology services revenue | 4,334 | 3,469 |
| – Other fixed-line service revenue | 965 | 894 |
| Total service revenue from fixed-line service | 91,261 | 88,481 |
| Other service revenue | 1,397 | 1,302 |
| Total service revenue | 235,278 | 244,878 |
| Sales of telecommunications products | 41,771 | 39,803 |
| | 277,049 | 284,681 |

## 30. NETWORK, OPERATION AND SUPPORT EXPENSES

| | Note | 2015 | 2014 |
|---|---|---|---|
| Repairs and maintenance | | 13,178 | 13,619 |
| Power and water charges | | 12,878 | 12,642 |
| Operating lease charges for network, premises, equipment and facilities | | 11,867 | 10,274 |
| Charges for the use of telecommunications towers and related assets | 40.2(a)(ii) | 2,926 | – |
| Others | | 1,459 | 1,316 |
| | | 42,308 | 37,851 |

## 31. EMPLOYEE BENEFIT EXPENSES

| | 2015 | 2014 |
|---|---|---|
| Salaries and wages | 26,057 | 26,249 |
| Contributions to defined contribution pension schemes | 5,057 | 4,721 |
| Contributions to medical insurance | 1,678 | 1,526 |
| Contributions to housing fund | 2,307 | 2,125 |
| Other housing benefits | 41 | 31 |
| | 35,140 | 34,652 |

### 31.1 Directors' emoluments

The remuneration of each Director for the year ended 31 December 2015 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 | (a) | – | 64 | 134 | 34 | 232 |
| Chang Xiaobing | (b) | – | 127 | 267 | 63 | 457 |
| Lu Yimin | | – | 190 | 388 | 98 | 676 |
| Li Fushen | | – | 180 | 333 | 98 | 611 |
| Zhang Junan | (d) | – | 180 | 333 | 98 | 611 |
| Cesareo Alierta Izuel | | 242 | – | – | – | 242 |
| Cheung Wing Lam Linus | | 330 | – | – | – | 330 |
| Wong Wai Ming | | 338 | – | – | – | 338 |
| John Lawson Thornton | (e) | 56 | – | – | – | 56 |
| Chung Shui Ming Timpson | | 330 | – | – | – | 330 |
| Cai Hongbin | (f) | 311 | – | – | – | 311 |
| Law Fan Chiu Fun, Fanny | | 298 | – | – | – | 298 |
| Total | | 1,905 | 741 | 1,455 | 391 | 4,492 |

## 31. EMPLOYEE BENEFIT EXPENSES (Continued)

### 31.1 Directors' emoluments (Continued)

The remuneration of each Director for the year ended 31 December 2014 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) |
|---|---|---|---|---|---|---|
| Chang Xiaobing | (b) | – | 300 | 688 | 88 | 1,076 |
| Lu Yimin | | – | 300 | 625 | 88 | 1,013 |
| Tong Jilu | (c) | – | 151 | 309 | 53 | 513 |
| Li Fushen | | – | 250 | 564 | 88 | 902 |
| Zhang Junan | (d) | – | 100 | 226 | 35 | 361 |
| Cesareo Alierta Izuel | | 238 | – | – | – | 238 |
| Cheung Wing Lam Linus | | 325 | – | – | – | 325 |
| Wong Wai Ming | | 333 | – | – | – | 333 |
| John Lawson Thornton | (e) | 325 | – | – | – | 325 |
| Chung Shui Ming Timpson | | 325 | – | – | – | 325 |
| Cai Hongbin | (f) | 341 | – | – | – | 341 |
| Law Fan Chiu Fun, Fanny | | 293 | – | – | – | 293 |
| Total | | 2,180 | 1,101 | 2,412 | 352 | 6,045 |

Notes:

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

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

(c) Mr. Tong Jilu resigned as executive director on 8 August 2014.

(d) Mr. Zhang Junan was appointed as executive director on 8 August 2014.

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

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

During 2015 and 2014, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2015 and 2014.

During 2015 and 2014, 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.

## 31. EMPLOYEE BENEFIT EXPENSES (Continued)

### 31.2 Senior management's emoluments

Of the 8 senior management of the Company for the year ended 31 December 2015, 5 of them are directors of the Company and their remuneration has been disclosed in Note 31.1. For the remuneration of the 8 senior management, all fall within the band from RMB Nil to RMB1,000,000.

### 31.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2015, five of them are staffs and four fall within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB1,500,001 to RMB2,000,000. (2014: three of them are directors of the Company and their remuneration has been disclosed in Note 31.1, for the remuneration of the remaining two, one falls within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB1,500,001 to RMB2,000,000.)

The aggregate of the emoluments in respect of the five (2014: the remaining two) individuals are as follows:

| | **2015 (RMB'000)** | 2014 (RMB'000) |
|---|---|---|
| Salaries and allowances | **3,308** | 2,452 |
| Bonuses paid and payable | **3,242** | 397 |
| Contributions to pension schemes | **345** | 27 |
| | **6,895** | 2,876 |

## 32. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

| | **2015** | 2014 |
|---|---|---|
| Handsets and other customer end products | **43,554** | 42,707 |
| Telephone cards | **364** | 562 |
| Others | **128** | 128 |
| | **44,046** | 43,397 |

(All amounts in RMB millions unless otherwise stated)

## 33. OTHER OPERATING EXPENSES

| | Note | 2015 | 2014 |
|---|---|---|---|
| Impairment losses for doubtful debts and write-down of inventories | | 4,054 | 3,958 |
| Cost in relation to information communications technology services | | 3,920 | 3,119 |
| Commission expenses | | 21,327 | 26,357 |
| Customer acquisition cost and advertising and promotion expenses | | 3,524 | 5,228 |
| Customer installation cost | | 3,792 | 4,799 |
| Customer retention cost | | 3,321 | 3,809 |
| Auditors' remuneration | | 64 | 63 |
| Property management fee | | 2,238 | 2,282 |
| Office and administrative expenses | | 2,102 | 2,290 |
| Transportation expense | | 1,790 | 1,979 |
| Miscellaneous taxes and fees | | 964 | 880 |
| Technical support expenses | | 1,741 | 1,432 |
| Repairs and maintenance expenses | | 852 | 891 |
| Loss on disposal of property, plant and equipment | | 1,966 | 1,064 |
| VAT surcharges | (i) | 751 | 847 |
| Others | | 2,554 | 2,413 |
| | | 54,960 | 61,411 |

(i) After VAT reform (see Note 29), according to relevant administrative regulations, the Group should pay City Construction Tax and Education Surcharges calculated at prescribed percentages on the amounts of the VAT paid.

## 34. FINANCE COSTS

| | Note | 2015 | 2014 |
|---|---|---|---|
| Finance costs: | | | |
| – Interest on bank loans repayable within 5 years | | 3,301 | 3,299 |
| – Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years | | 1,928 | 1,583 |
| – Interest on convertible bonds repayable within 5 years | | 172 | 211 |
| – Interest on related parties loans repayable within 5 years | | 60 | 71 |
| – Interest on bank loans repayable over 5 years | | 8 | 2 |
| – Less: Amounts capitalised in CIP | 6 | (936) | (825) |
| Total interest expense | | 4,533 | 4,341 |
| – Exchange loss/(gain) | | 2,104 | (6) |
| – Others | | 297 | 282 |
| | | 6,934 | 4,617 |

(All amounts in RMB millions unless otherwise stated)

## 35. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA IN EACH OTHER

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

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

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

As at 31 December 2015, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,665 million (2014: approximately RMB5,706 million). For the year ended 31 December 2015, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB1,041 million (2014: decrease of approximately RMB694 million). The decrease, together with tax impact, of approximately RMB2,172 million (2014: decrease, net of tax impact, of approximately RMB520 million), has been recorded in the consolidated statement of comprehensive income.

## 36. OTHER INCOME – NET

| | 2015 | 2014 |
|---|---|---|
| Dividend income from financial assets at fair value through other comprehensive income | **397** | 392 |
| Gain on the Group's Tower Assets Disposal | **9,246** | – |
| Others | **925** | 970 |
| | **10,568** | 1,362 |

## 37. EQUITY-SETTLED SHARE OPTION SCHEMES

### 37.1 Share option scheme

On 1 June 2000, the Company adopted the share option scheme pursuant to which the Board of Directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up share options to subscribe for shares up to a maximum aggregate number of shares not exceeding 10% of the total issued share capital of the Company (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the nominal 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 nominal value of the share (if applicable); and

(ii) 80% of the average of the closing prices of shares on the SEHK on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the SEHK.

The period during which an option may be exercised will be determined by the Board of Directors at their discretion, except that no option may be exercised later than 10 years from 22 June 2000.

The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in Chapter 17 of the Listing Rules which came into effect on 1 September 2001 with the following major amendments:

(i) share options may be granted to employees including executive directors of the Group or any of the non-executive directors;

(ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and

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

- the nominal value of the shares (if applicable);
- the closing price of the shares on the SEHK as stated in the SEHK's quotation sheets on the offer date in respect of the share options; and
- the average closing price of the shares on the SEHK's quotation sheets for the five trading days immediately preceding the offer date.

On 11 May 2007, the Company further amended the Share Option Scheme with major amendments related to the exercise of options upon cessation of employment. These amendments are made in order to reduce the administrative burden on the Company to monitor outstanding options for grantees whose employment has been terminated.

On 26 May 2009, the Company further amended the Share Option Scheme with major amendments related to the exercise period. For details, please refer to Note (i) under 37.4 "Share option information" in this section.

As at 31 December 2015, no share option had been granted and remained valid under the Share Option Scheme.

## 37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

### 37.2 Special purpose share option scheme

Pursuant to the ordinary resolution passed by the shareholders on 16 September 2008, the Company adopted the special purpose share option scheme (the "Special Purpose Share Option Scheme") in connection with the merger of the Company and China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") by way of a scheme of arrangement of China Netcom under Section 166 of the then Hong Kong Companies Ordinance for the granting of options to holders of China Netcom options outstanding at 14 October 2008 ("Eligible Participants"). Pursuant to this scheme, no fractional options can be granted and the maximum number of shares which may be issued upon the exercise of all options granted under this scheme and any other share options schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of this scheme.

The number of options and exercise price of options granted under the Special Purpose Share Option Scheme are as follows:

(i) The exercise price of options under this scheme is equal to (a) the exercise price of an outstanding China Netcom option held by the Eligible Participants divided by (b) the share exchange ratio 1.508.

(ii) The total number of options granted by the Company to all Eligible Participants under this scheme shall be equal to the product of (a) the share exchange ratio and (b) the number of China Netcom options outstanding as at 14 October 2008.

The above formula ensures that the value of options granted under this scheme received by a holder of China Netcom options is equivalent to the "see-through" price of that holder's outstanding China Netcom options.

The period during which an option may be exercised were determined by the directors at their discretion.

On 26 May 2009, the Company amended the Special Purpose Share Option Scheme relating to the exercise period. For details, please refer to Note (i) under 37.4 "Share option information" in this section.

As at 31 December 2015, no share option had been granted and remained valid under the Special Purpose Share Option Scheme.

## 37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

### 37.3 2014 share option scheme

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Under the 2014 Share Option Scheme, the share options may be granted to employees including all directors; any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders. As at 31 December 2015, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme. Pursuant to the 2014 Share Option Scheme, the consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

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

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

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

(All amounts in RMB millions unless otherwise stated)

## 37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

### 37.4 Share option information

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Average exercise price in HKD per share** | **Number of share options involved** | Average exercise price in HKD per share | Number of share options involved |
| Balance, beginning of year | **6.35** | **3,540,000** | 6.61 | 174,498,077 |
| Lapsed | **6.35** | **(3,432,000)** | 6.00 | (5,759,994) |
| Exercised | **6.35** | **(108,000)** | 6.64 | (165,198,083) |
| 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 31 December 2015 resulted in 108,000 shares being issued (2014: 165,198,083 shares), with exercise proceeds of approximately RMB1 million (2014: RMB871 million).

As at statement of financial position date, information of outstanding share options is summarised as follows:

| **Date of options grant** | **Vesting period** | **Exercisable period (Note i)** | **The price per share to be paid on exercise of options** | **Number of share options outstanding as at 31 December 2015** | **Number of share options outstanding as at 31 December 2014** |
|---|---|---|---|---|---|
| **Share options granted under the Share Option Scheme:** | | | | | |
| 15 February 2006 | 15 February 2006 to 15 February 2009 | 15 February 2008 to 14 February 2015 | HKD6.35 | – | 3,540,000 |
| | | | | – | 3,540,000 |

No options outstanding as at 31 December 2015 and the options outstanding as at 31 December 2014 had a weighted average remaining contractual life of 0.12 years.

Note i: In each of March 2010, 2011, 2012 and 2013, the expiry dates for certain share options were extended by one year by the Board of Directors pursuant to the terms of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the terms of the Share Option Scheme and the Special Purpose Share Option Scheme.

(All amounts in RMB millions unless otherwise stated)

## 37. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

### 37.4 Share option information (Continued)

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

For the year ended 31 December 2015:

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

For the year ended 31 December 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 |
|---|---|---|---|---|
| 20 July 2004 | 5.92 | 11.94 | 80,464,640 | 13,592,000 |
| 21 December 2004 | 6.20 | 13.30 | 793,600 | 128,000 |
| 15 February 2006 | 6.35 | 11.85 | 433,882,800 | 68,328,000 |
| 15 October 2008 | 5.57 | 12.27 | 217,608,197 | 39,067,899 |
| 15 October 2008 | 8.26 | 12.41 | 364,118,840 | 44,082,184 |
| | | | 1,096,868,077 | 165,198,083 |

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

(All amounts in RMB millions unless otherwise stated)

## 38. DIVIDENDS

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

At a meeting held on 16 March 2016, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.17 per ordinary share to the shareholders for the year ended 31 December 2015 totaling approximately RMB4,071 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2015, but will be reflected in the financial statements for the year ending 31 December 2016.

| | **2015** | 2014 |
|---|---|---|
| Proposed final dividend: | | |
| RMB0.17 (2014: RMB0.20) per ordinary share by the Company | **4,071** | 4,789 |

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from SAT, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 31 December 2015, 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 Hong Kong Securities Clearing Company Limited), the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-PRC TRE enterprise shareholders thereon and reclassify the related dividend payable to withholding tax payable upon the declaration of such dividends. The requirement to withhold tax does not apply to the Company's shareholders appearing as individuals in its share register.

## 39. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2015 and 2014 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share for the years ended 31 December 2015 and 2014 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. No dilutive potential ordinary shares for the year ended 31 December 2015. All dilutive potential ordinary shares for the year ended 31 December 2014 arose from (i) share options granted under the amended Share Option Scheme and (ii) the convertible bonds.

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

| | 2015 | 2014 |
|---|---|---|
| Numerator (in RMB millions): | | |
| Profit attributable to equity shareholders of the Company used in computing basic earnings per share | 10,562 | 12,055 |
| Imputed finance cost on the liability component of convertible bonds | – | 211 |
| Profit attributable to equity shareholders of the Company used in computing diluted earnings per share | 10,562 | 12,266 |
| Denominator (in millions): | | |
| Weighted average number of ordinary shares outstanding used in computing basic earnings per share | 23,947 | 23,852 |
| Dilutive equivalent shares arising from share options | – | 2 |
| Dilutive equivalent shares arising from convertible bonds | – | 941 |
| Shares used in computing diluted earnings per share | 23,947 | 24,795 |
| Basic earnings per share (in RMB) | 0.44 | 0.51 |
| Diluted earnings per share (in RMB) | 0.44 | 0.49 |

## 40. 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.

(All amounts in RMB millions unless otherwise stated)

# 40. RELATED PARTY TRANSACTIONS (Continued)

## 40.1 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 | 2015 | 2014 |
|---|---|---|---|
| **Transactions with Unicom Group and its subsidiaries:** | | | |
| Charges for value-added telecommunications services | (i), (ii) | 62 | 51 |
| Rental charges for property leasing | (i), (iii) | 929 | 955 |
| Charges for lease of telecommunications resources | (i), (iv) | 283 | 271 |
| Charges for engineering design and construction services | (i), (v) | 5,018 | 3,138 |
| Charges for shared services | (i), (vi) | 107 | 119 |
| Charges for materials procurement services | (i), (vii) | 125 | 91 |
| Charges for ancillary telecommunications services | (i), (viii) | 2,504 | 2,111 |
| Charges for comprehensive support services | (i), (ix) | 1,455 | 840 |
| Income from comprehensive support services | (i), (ix) | 12 | 19 |

(i) The agreement governing the recurring related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries expired on 31 December 2013. Accordingly, on 24 October 2013, CUCL entered into the new agreement, "2013 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2013 Comprehensive Services Agreement has a term of three years commencing on 1 January 2014 and expiring on 31 December 2016, 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. On 21 August 2015, CUCL and Unicom Group entered into the Supplemental Agreement to revise the annual cap for the total charges payable by CUCL to Unicom Group for comprehensive support services under the 2013 Comprehensive Services Agreement for each of the two years of 2015 and 2016.

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

(iii) CUCL and Unicom Group agreed to mutually lease properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes. For the year ended 31 December 2015, the rental charge paid by Unicom Group was approximately RMB2.55 million, which was negligible.

# 40. RELATED PARTY TRANSACTIONS (Continued)

## 40.1 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 31 December 2015, 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 services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers' service. The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

(ix) Unicom Group and CUCL agreed to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities mentioned in (iv) above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services). The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

(All amounts in RMB millions unless otherwise stated)

## 40. RELATED PARTY TRANSACTIONS (Continued)

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

**(a) Recurring transactions (Continued)**

(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 at 31 December 2015 includes the unsecured entrusted loan from Unicom Group of RMB1,344 million with interest rate at 4.4% per annum.

Amount due to Unicom Group’s subsidiaries as at 31 December 2014 included the short-term unsecured loan from Unicom Group BVI of HKD600 million (equivalent to RMB473 million) with interest rate at HIBOR plus 2.3% per annum. The loan was fully repaid in May 2015.

Amount due to Unicom Group as at 31 December 2014 included the unsecured entrusted loan from Unicom Group of RMB1,344 million with interest rate at 5.4% per annum. The loan was fully repaid in June 2015.

Amounts due to Unicom Group as at 31 December 2014 included the consideration payable in connection with the acquisition of China Unicom NewSpace Limited in 2011 of approximately RMB158 million. The consideration was fully paid in January 2015.

Apart from the short-term loan and 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.

**(c) Commitments to Unicom Group and its subsidiaries**

As at 31 December 2015 and 2014, the Group had total future aggregate minimum operating lease payments to Unicom Group and its subsidiaries under non-cancellable operating leases as follows:

| | **2015** | 2014 |
|---|---|---|
| Unicom Group and its subsidiaries | **926** | 930 |

(All amounts in RMB millions unless otherwise stated)

# 40. RELATED PARTY TRANSACTIONS (Continued)

## 40.2 Related party transactions with Tower Company

### (a) Related party transactions

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Transactions with Tower Company:** | | | |
| The Group's Tower Assets Disposal | (i) | **54,658** | – |
| Charges for the use of telecommunications towers and related assets | (ii) | **2,926** | – |
| Income from engineering design and construction services | (iii) | **50** | – |

(i) As stated in Note 1 and Note 2.2(a), on 14 October 2015, CUCL and Unicom New Horizon entered into the Transfer Agreement, amongst China Mobile, China Telecom, CRHC and Tower Company, to sell the Tower Assets to Tower Company. The consideration on the Group's Tower Assets Disposal was approximately RMB54,658 million.

(ii) The Group is currently in a discussion with Tower Company on framework agreements to be formed on the usage of the telecommunications towers and related assets. The Group's management estimated that the related usage fee for 2015 is approximately RMB2,926 million, which is based on the current terms under negotiation, which may be subjected to changes upon finalisation of the agreements.

(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

According to Transfer Agreement, the first tranche of the Cash Consideration of RMB3,000 million payable by Tower Company was settled in February 2016. The remaining balance of the Cash Consideration will be settled before 31 December 2017. Interest on the outstanding Cash Consideration is accrued from the day following the Completion Date, at 90% of the one-year lending rate set by the People's Bank of China determined on the Completion Date, which is 3.92%.

Apart from the outstanding Cash Consideration as aforementioned, 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.

(All amounts in RMB millions unless otherwise stated)

## 41. CONTINGENCIES AND COMMITMENTS

### 41.1 Capital commitments

As at 31 December 2015 and 2014, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | Land and buildings | Equipment | Total | Total |
| Authorised and contracted for | 16 | 18,113 | 18,129 | 18,803 |
| Authorised but not contracted for | 18,893 | 2,958 | 21,851 | 33,202 |
| | 18,909 | 21,071 | 39,980 | 52,005 |

### 41.2 Operating lease commitments

As at 31 December 2015 and 2014, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | Land and buildings | Equipment | Total | Total |
| Leases expiring: | | | | |
| – not later than one year | 2,370 | 2,468 | 4,838 | 4,332 |
| – later than one year and not later than five years | 3,485 | 4,087 | 7,572 | 7,329 |
| – later than five years | 296 | 1,435 | 1,731 | 2,287 |
| | 6,151 | 7,990 | 14,141 | 13,948 |

### 41.3 Contingent liabilities

As at 31 December 2015, the Group had no material contingent liabilities and no material financial guarantees issued.

(All amounts in RMB millions unless otherwise stated)

## 42. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **13** | 16 |
| Investments in subsidiaries | **160,308** | 159,798 |
| Loan to subsidiary | **34,461** | 35,700 |
| Deferred income tax assets | **–** | 1,133 |
| Financial assets at fair value through other comprehensive income | **4,665** | 5,706 |
| | **199,447** | 202,353 |
| **Current assets** | | |
| Loan to subsidiary | **113** | 17,344 |
| Amounts due from subsidiaries | **3,418** | 4,716 |
| Dividend receivable | **19,947** | 37,773 |
| Prepayments and other current assets | **9** | 6 |
| Cash and cash equivalents | **657** | 1,852 |
| | **24,144** | 61,691 |
| **Total assets** | **223,591** | 264,044 |
| **EQUITY** | | |
| **Equity attributable to equity shareholders of the Company** | | |
| Share capital | **179,102** | 179,101 |
| Reserves | **(5,917)** | (3,716) |
| Retained profits | | |
| – Proposed final dividend | **4,071** | 4,789 |
| – Others | **5,999** | 4,429 |
| **Total equity** | **183,255** | 184,603 |

(All amounts in RMB millions unless otherwise stated)

## 42. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Promissory notes | **3,995** | 6,487 |
| | **3,995** | 6,487 |
| **Current liabilities** | | |
| Short-term bank loans | **25,828** | 52,978 |
| Accounts payable and accrued liabilities | **316** | 898 |
| Loans from subsidiaries | **171** | 11,201 |
| Amounts due to a related party | **–** | 481 |
| Amounts due to subsidiaries | **6,385** | 6,388 |
| Taxes payable | **222** | 235 |
| Dividend payable | **920** | 773 |
| Current portion of promissory notes | **2,499** | – |
| | **36,341** | 72,954 |
| **Total liabilities** | **40,336** | 79,441 |
| **Total equity and liabilities** | **223,591** | 264,044 |
| **Net current liabilities** | **(12,197)** | (11,263) |
| **Total assets less current liabilities** | **187,250** | 191,090 |

Approved and authorised for issue by the Board of Directors on 16 March 2016 and signed on behalf of the Board by:

**Wang Xiaochu**
*Director*

**Li Fushen**
*Director*

## 43. NON-ADJUSTING EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

### 43.1 Proposed dividend

After the statement of financial position date, the Board of Directors proposed a final dividend for 2015. For details, please refer to Note 38.

## 44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 16 March 2016.

# FINANCIAL SUMMARY

For the five-year ended 31 December 2015
(All amounts in RMB millions, except per share data)

Selected financial summary for 2011 to 2015, including selected consolidated statement of income data and consolidated statement of financial position data for 2011, 2012, 2013, 2014 and 2015 were prepared in accordance with IFRSs/HKFRSs.

## RESULTS

### Selected Statement of Income Data

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Revenue | **277,049** | 284,681 | 295,038 | 248,926 | 209,167 |
| Interconnection charges | **(13,093)** | (14,599) | (20,208) | (18,681) | (16,380) |
| Depreciation and amortisation | **(76,738)** | (73,868) | (68,196) | (61,057) | (58,021) |
| Network, operation and support expenses | **(42,308)** | (37,851) | (33,704) | (32,516) | (29,449) |
| Employee benefit expenses | **(35,140)** | (34,652) | (31,783) | (28,778) | (26,601) |
| Costs of telecommunications products sold | **(44,046)** | (43,397) | (63,416) | (45,040) | (29,739) |
| Other operating expenses | **(54,960)** | (61,411) | (61,964) | (51,252) | (43,586) |
| Finance costs | **(6,934)** | (4,617) | (3,113) | (3,664) | (1,474) |
| Interest income | **438** | 283 | 173 | 240 | 230 |
| Share of loss of associates | **(759)** | – | – | – | – |
| Share of loss of joint venture | **(42)** | – | – | – | – |
| Other income – net | **10,568** | 1,362 | 887 | 1,343 | 1,451 |
| **Profit before income tax** | **14,035** | 15,931 | 13,714 | 9,521 | 5,598 |
| Income tax expenses | **(3,473)** | (3,876) | (3,306) | (2,425) | (1,371) |
| **Profit for the year** | **10,562** | 12,055 | 10,408 | 7,096 | 4,227 |
| **Attributable to:** | | | | | |
| Equity shareholders of the Company | **10,562** | 12,055 | 10,408 | 7,096 | 4,227 |
| **Earnings per share for profit attributable to equity shareholders of the Company** | | | | | |
| – basic (RMB) | **0.44** | 0.51 | 0.44 | 0.30 | 0.18 |
| – diluted (RMB) | **0.44** | 0.49 | 0.43 | 0.30 | 0.18 |

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

## RESULTS (Continued)

### Selected Statement of Financial Position Data

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Property, plant and equipment | **454,631** | 438,321 | 431,625 | 430,997 | 381,859 |
| Financial assets at fair value through other comprehensive income | **4,852** | 5,902 | 6,497 | 5,567 | 6,951 |
| Current assets | **56,670** | 56,574 | 52,210 | 48,174 | 38,803 |
| Accounts receivable | **14,957** | 14,671 | 14,842 | 13,753 | 11,412 |
| Cash and cash equivalents | **21,755** | 25,308 | 21,506 | 18,250 | 15,106 |
| Total assets | **610,346** | 545,072 | 529,171 | 516,124 | 456,233 |
| Current liabilities | **336,074** | 291,920 | 295,239 | 302,320 | 213,927 |
| Accounts payable and accrued liabilities | **167,396** | 120,371 | 102,212 | 108,486 | 95,252 |
| Short-term bank loans | **83,852** | 91,503 | 94,470 | 70,025 | 32,372 |
| Commercial papers | **19,945** | 9,979 | 35,000 | 38,000 | 38,000 |
| Current portion of promissory notes | **2,499** | – | – | 15,000 | – |
| Current portion of corporate bonds | **–** | – | – | 5,000 | – |
| Convertible bonds | **–** | 11,167 | 11,002 | 11,215 | 11,118 |
| Long-term bank loans | **1,748** | 420 | 481 | 536 | 1,384 |
| Promissory notes | **36,928** | 21,460 | – | – | 15,000 |
| Corporate bonds | **2,000** | 2,000 | 2,000 | 2,000 | 7,000 |
| Total liabilities | **379,130** | 317,531 | 310,272 | 306,619 | 250,335 |
| Total equity | **231,216** | 227,541 | 218,899 | 209,505 | 205,898 |

# CORPORATE INFORMATION

## BOARD OF DIRECTORS (As At 16 March 2016)

**Executive Directors**

**Wang Xiaochu** *Executive Director, Chairman and Chief Executive Officer*
**Lu Yimin** *Executive Director and President*
**Li Fushen** *Executive Director and Chief Financial Officer*
**Zhang Junan** *Executive Director and Senior Vice President*

**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**

### Audit Committee

Wong Wai Ming *(Chairman)*
Cheung Wing Lam Linus
Chung Shui Ming Timpson
Law Fan Chiu Fun Fanny

### Remuneration Committee

Cheung Wing Lam Linus *(Chairman)*
Wong Wai Ming
Chung Shui Ming Timpson

### Nomination Committee

Chung Shui Ming Timpson *(Chairman)*
Wang Xiaochu
Law Fan Chiu Fun Fanny

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Yung Shun Loy Jacky

## AUDITOR

KPMG

## LEGAL ADVISORS

Freshfields Bruckhaus Deringer
Sullivan & Cromwell LLP

## REGISTERED OFFICE

75th Floor
The Center, 99 Queen's Road Central
Hong Kong
Tel: (852) 2126 2018

## MAJOR SUBSIDIARY

China United Network Communications Corporation Limited
No. 21 Financial Street
Xicheng District, Beijing 100033, P.R.C.
Tel: (86) 10 6625 9550

## SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
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Tel: (852) 2862 8555
Fax: (852) 2865 0990
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## AMERICAN DEPOSITARY RECEIPTS DEPOSITARY

The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 30170
College Station, TX 77842-3170
Tel: 1-888-269-2377 (toll free in USA)
1-201-680-6825 (international)
Email: shrrelations@cpushareownerservices.com

## PUBLICATIONS

Under the United States securities law, the Company is required to file an annual report on Form 20-F with the United States Securities and Exchange Commission by 30 April 2016. Copies of the annual report as well as the U.S. annual report on Form 20-F, once filed, will be available at:

**Hong Kong** China Unicom (Hong Kong) Limited
75th Floor, The Center
99 Queen's Road Central, Hong Kong

**United States** The Bank of New York Mellon
101 Barclay Street
New York, NY 10286, USA

## STOCK CODE

Hong Kong Stock Exchange: 0762
New York Stock Exchange: CHU

## COMPANY WEBSITE

www.chinaunicom.com.hk


http://www.chinaunicom.com.hk

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