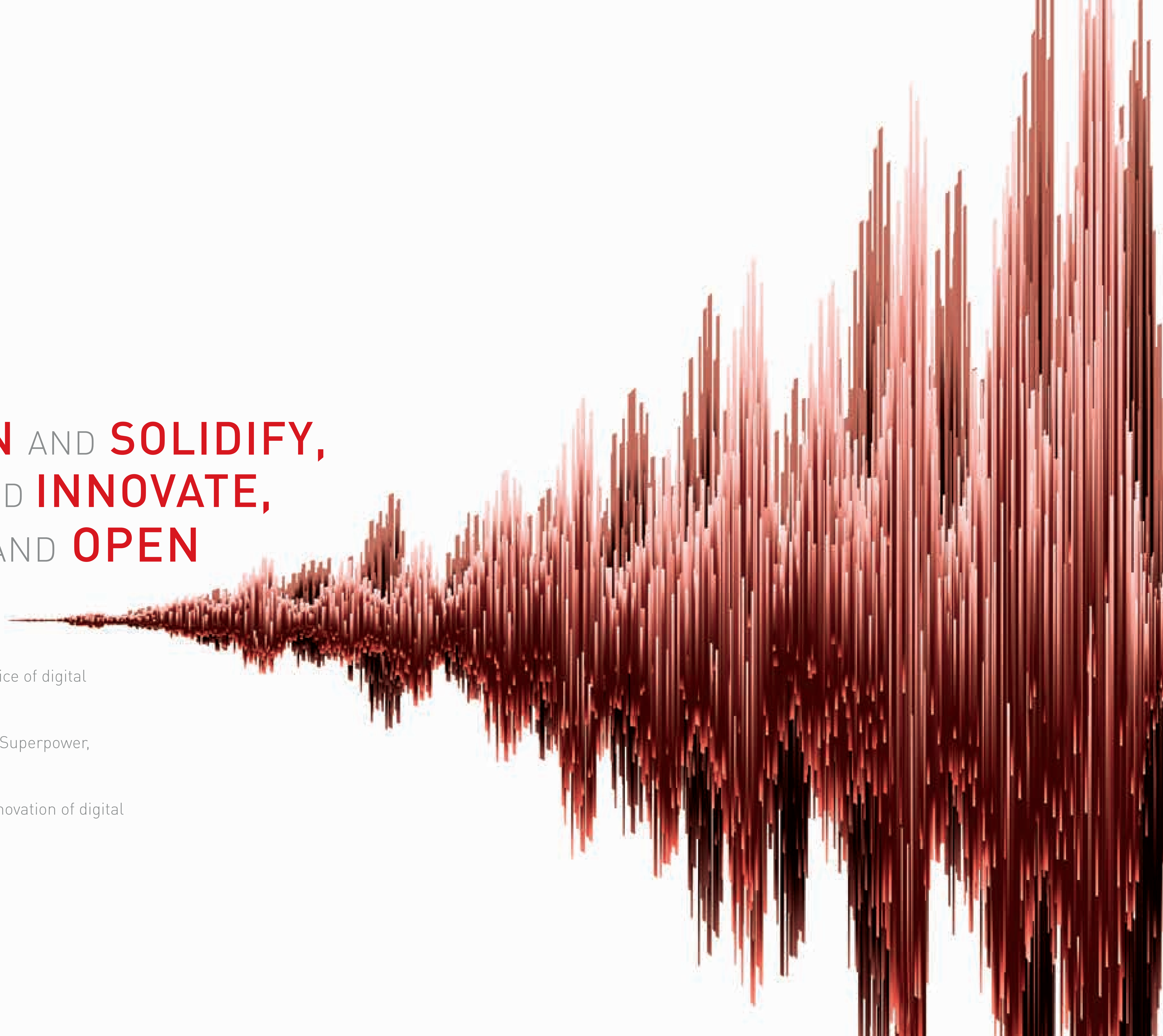
China unicom 中国联通

CHINA UNICOM (HONG KONG) LIMITED
Stock Code : 762

ANNUAL REPORT 2021

THINK ESG

STRENGTHEN AND SOLIDIFY, PRESERVE AND INNOVATE, INTEGRATE AND OPEN



National team in the operation and service of digital information infrastructure

Key force in the establishment of Cyber Superpower, Digital China and Smart Society

Frontline troop in the integration and innovation of digital technologies

DEEPEN

BIG CONNECTIVITY

TO SOLIDIFY GROWTH FOUNDATION

Premium 5G network: first co-built co-shared 5G SA network in the world

Premium gigabit broadband network: 10G PON high-speed fibre access network

Premium government and enterprise network: SDN OTN intelligent fibre network

Ubiquitous smart IoT network: total perception, ubiquitous connectivity, secure and trustworthy

STRENGTHEN BIG COMPUTING

TO FORGE GROWTH ENGINE

Green, centralised, secure and reliable computing infrastructure

Cutting-edge computing network that is nationally integrated, intelligent and agile

Unicom Cloud featuring cloud-network integration, security and reliability, tailored customisation and multi-cloud collaboration

Factorisation of data and digitisation of factors

Enhance Big Data, AI and blockchain capabilities

Upgrade data product system, and develop data platforms and applications

INVIGORATE BIG DATA TO UNLEASH THE VALUE OF DATA

ENHANCE

BIG APPLICATION

TO EMPOWER TRANSFORMATION AND UPGRADE

5G + industrial Internet, smart transportation, smart logistics, smart agriculture, smart water resources, smart education, smart healthcare, smart tourism, 5G messaging, converged media, digital government, smart city, smart ecology

SHARPEN

BIG SECURITY

TO SHAPE RESILIENT NETWORK

Enhance support capabilities for the secure operation of infrastructure

Upgrade information services defence system

Strengthen protection of personal information

Bolster service capabilities of integrated cloud-network-security products

CONTENTS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report may be viewed as "forward-looking statements". 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. Neither the Company nor the directors, employees or agents of the Company assume any liabilities in the event that any of the forward-looking statements does not materialise or turns out to be incorrect.

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

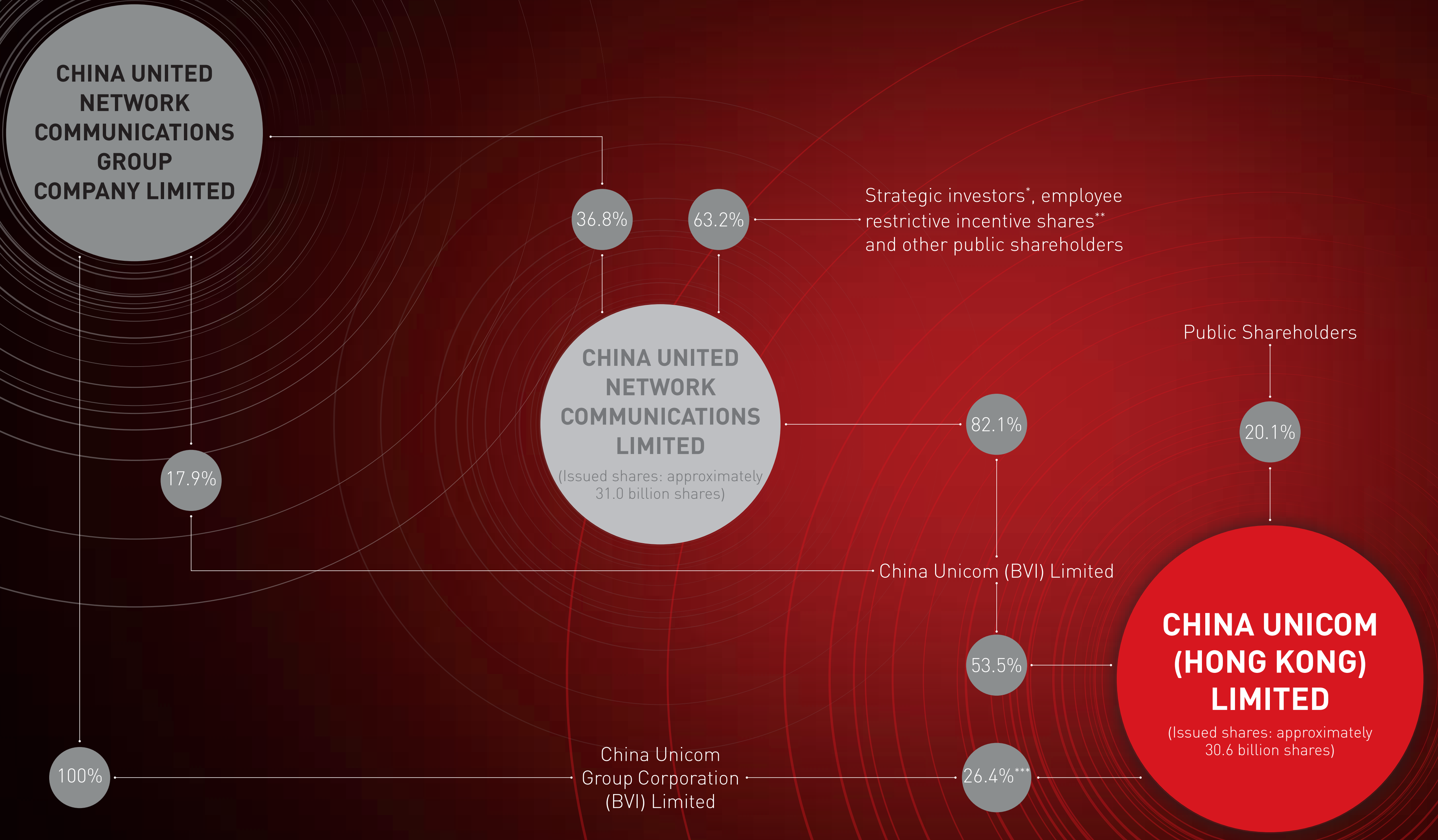
The Company has been one of the "Fortune Global 500" companies for consecutive years, and ranked 260th in "Fortune Global 500" for the year 2021. It was also voted as "Asia's No.1 Most Honored Telecom Company" in 2021 for the sixth consecutive year by Institutional Investor.

The Company positions as a national team in the operation and service of digital information infrastructure, a key force in the establishment of Cyber Superpower, Digital China and Smart Society as well as a frontline troop in the integration and innovation of digital technologies. The Company's corporate strategy is upgraded to "strengthen and solidify, preserve and innovate, integrate and open". The Company sails along the main channel of digital economy at full strength, and regards "Big Connectivity, Big Computing, Big Data, Big Application and Big Security" as its main responsibilities and businesses, seeking to achieve total upgrade in the momentum, path and means of its development. It strives to tap new growth opportunities, enhance customer value, and better serve and integrate into the new paradigm. The Company is committed to being a creator of smart living trusted by customers, connecting the world to innovate and share a good smart living, improving the quality of products and services continuously to fulfill customer needs. Future products and services will be developed in a "smart" way. Internet of Things, cloud computing, Big Data and other technologies will be used for the smart processing on data and information. The Company's telecommunication network covers China and connects to the world. It operates a wide range of services, including mobile broadband, fixed-line broadband, mobile voice, fixed-line voice, ICT, data communications and other related value-added services.

As at 31 December 2021, the ultimate parent company of the Company, China United Network Communications Group Company Limited had an effective interest of 52.1% of the shares in the Company through China United Network Communications Limited ("A Share Company"), China Unicom (BVI) Limited and China Unicom Group Corporation (BVI) Limited; the strategic investors, employee restrictive incentive shares and the public shareholders of A Share Company had an effective interest of 27.8% of the shares in the Company through A Share Company's shareholding in China Unicom (BVI) Limited. The remaining 20.1% of the shares in the Company were beneficially owned by public shareholders.

The Company's ADSs were delisted from the New York Stock Exchange on 18 May 2021. Please refer to the Company's announcement dated 23 July 2021 for details.

SHAREHOLDING STRUCTURE



* In 2017, approximately 10.9 billion shares of China United Network Communications Limited were acquired by the strategic investors introduced by the mixed ownership reform through non public share issuance and transfer of existing shares. These shares were no longer restricted from sale in November 2020.

** Pursuant to the initial grant of restrictive share incentive scheme, China United Network Communications Limited granted approximately 800 million restricted shares to the core employees, of which, approximately 500 million shares were unlocked as at April 2021.

*** Excluded the interest regarding the pre-emptive right owned by China Unicom Group Corporation (BVI) Limited in 225,722,791 shares of the Company.

As at 31 December 2021

PERFORMANCE HIGHLIGHTS

- Strengthening Economy of Scale: Steady Growth in Basic Businesses
- Stepping up Innovation-driven Development: Rapid Growth in Innovative Businesses

KEY FINANCIAL DATA	2021	2020	Change YoY
Operating Revenue (RMB billions)	327.85	303.84	7.9%
Of which: Service Revenue (RMB billions)	296.15	275.81	7.4%
EBITDA[1] (RMB billions)	96.32	94.14	2.3%
As % of Service Revenue	32.5%	34.1%	-1.6pp
Net Profit[2] (RMB billions)	14.37	12.49	15.0%
Basic EPS (RMB)	0.470	0.408	15.0%
Free Cash Flow[3] (RMB billions)	41.68	37.90	9.9%
Dividend per share[4] (RMB)	0.216	0.164	31.7%

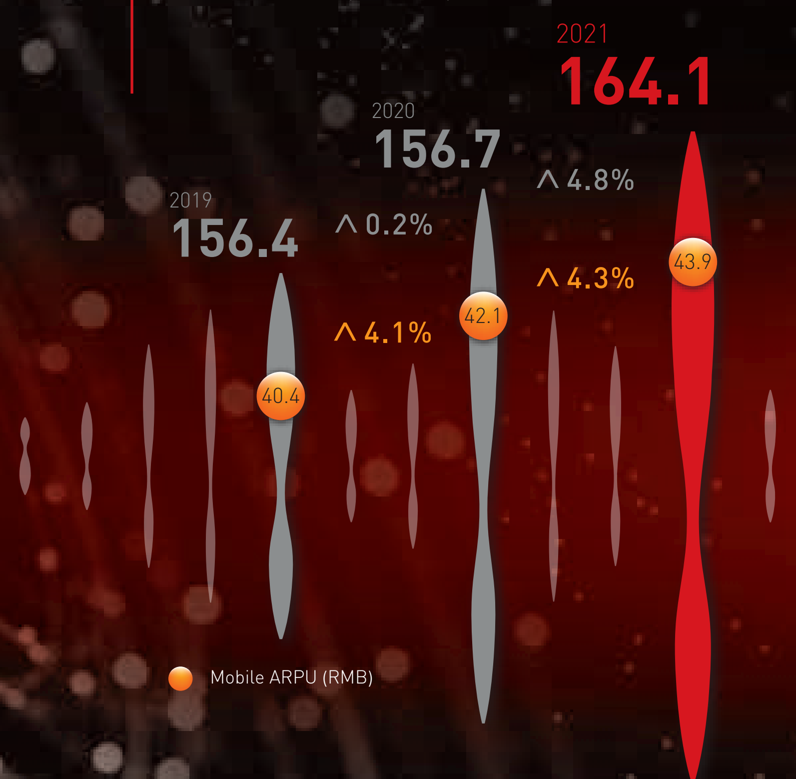
Note 1: EBITDA represents profit for the year before finance costs, interest income, share of net profit of associates, share of net profit of joint ventures, other income-net, income tax expenses, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Company. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 2: Net profit represented profit attributable to equity shareholders of the Company.

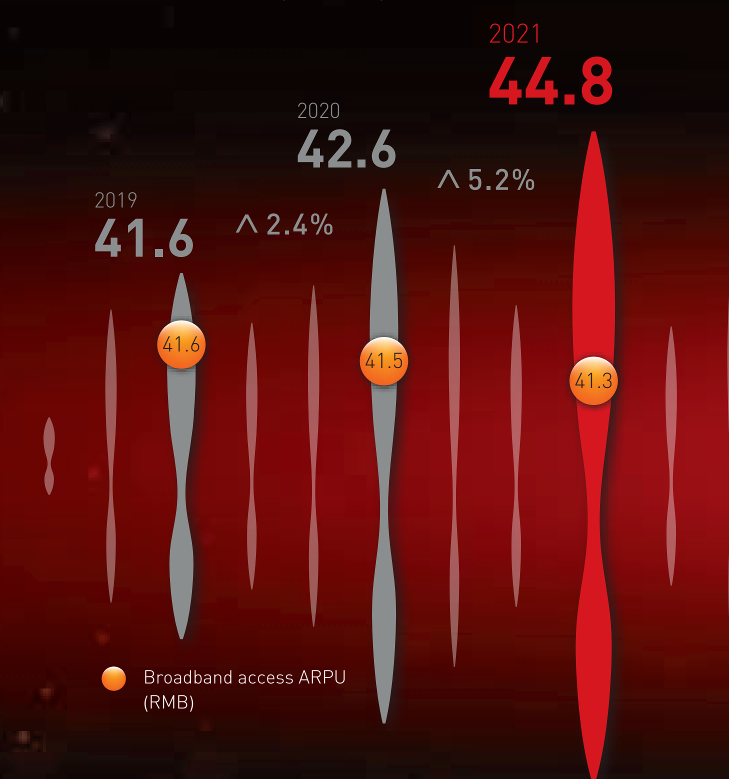
Note 3: Free cash flow = operating cash flow — CAPEX.

Note 4: The Board proposed a final dividend for the year 2021 of RMB0.096 per share. Together with the 2021 interim dividend of RMB0.120 per share already distributed, the total dividend for the year 2021 amounted to RMB0.216 per share.

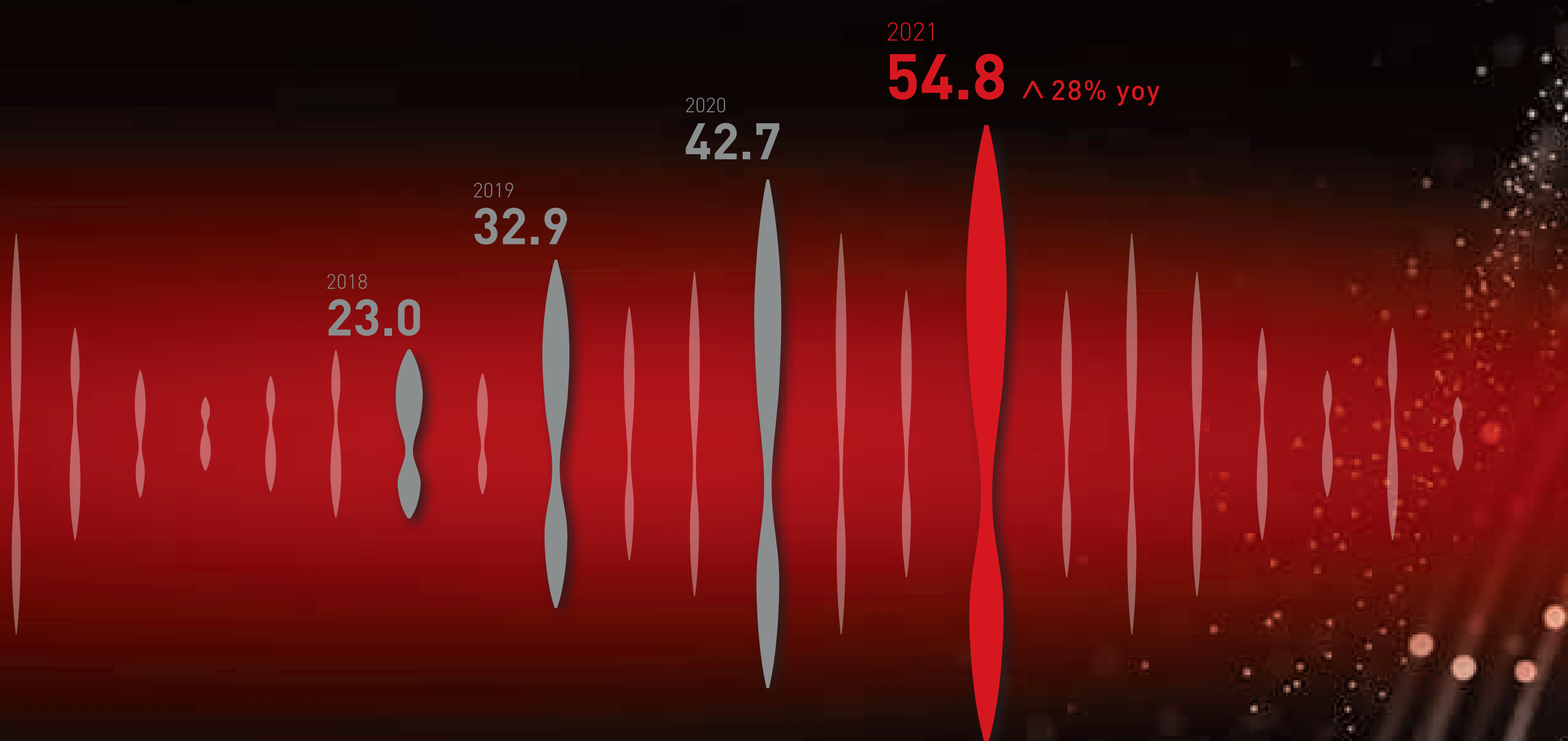
MOBILE SERVICE REVENUE (RMB BIL)



BROADBAND ACCESS REVENUE (RMB BIL)



INDUSTRY INTERNET BUSINESS REVENUE (RMB BIL)



MAJOR EVENTS

Feb 2021

- Unicom Digital Technology Co., Ltd. was established to facilitate the high-quality development of digital economy with technological innovation

Mar 2021

- China Unicom released the CUBE-Net 3.0 network innovation system to create a new generation of digital foundation and empower the intelligent upgrade of the industry

Jun 2021

- China Unicom announced its 14th Five-Year Plan on "Peak Carbon-emission & Carbon-neutrality" with the aim for green, low-carbon, and circular development to comprehensively, systematically and thoroughly push forward energy-saving and carbon-reduction work
- China Unicom officially launched the China Unicom's Digital Village cloud platform and China Unicom's Digital Village brand

Aug 2021

- China Unicom declared interim dividend for the first time

Nov 2021

- China Unicom kicked off the commercial trial of 5G Messaging

Dec 2021

- China Unicom announced a new strategy to position itself as "national team in the operation and service of digital information infrastructure, key force in the establishment of Cyber Superpower, Digital China and Smart Society and frontline troop in the integration and innovation of digital technologies", in line with its upgraded strategy to "Strengthen and Solidify, Preserve and Innovate, Integrate and Open", so as to fully develop digital economy as the main path, with "Big Connectivity, Big Computing, Big Data, Big Application and Big Security" as the major responsibility to achieve all-round transformation and upgrade of development momentum, path and mode
- China Unicom launched the new "China Unicom Cloud" brand and the new family service brand "China Unicom Smart Home"
- As the only official telecommunication service partner of the Beijing 2022 Winter Olympics and the Paralympic Winter Games, China Unicom announced that the construction of telecommunication network was broadly completed in different locations of the Beijing Winter Olympics

CHAIRMAN'S STATEMENT

LIU LIEHONG
Chairman and
Chief Executive Officer

Dear Shareholders,

In 2021, facing the complicated and tough internal and external environments, the Company rode on the trend of socio-economic digital transformation, grasped new opportunities, embraced new changes and achieved new development. With the upgraded corporate strategy of "Strengthen and Solidify, Preserve and Innovate, Integrate and Open" and its new positioning as "the national team in the operation and service of digital information infrastructure, the key force in the establishment of Cyber Superpower, Digital China and Smart Society, and the frontline troop in the integration and innovation of digital technologies", the Company focuses on five main responsibilities and main businesses, namely "Big Connectivity, Big Computing, Big Data, Big Application and Big Security", steering on the main course of digital economy at full strength. Over the past year, the Company's business momentum steadily improved, achieving breakthroughs in economies of scale and steady progress in key businesses. The Company enhanced its innovation capability, stimulated vitality through reform and significantly improved operational efficiency, reaching a new level of high-quality development.

OVERALL RESULTS

In 2021, the Company's operating results grew steadily with profitability improving rapidly. Total revenue amounted to RMB327.9 billion, representing an increase of 7.9% year-on-year. Service revenue reached RMB296.2 billion, representing an increase of 7.4% year-on-year, up by 3.1 percentage points compared to 2020. Profit before income tax amounted to RMB17.9 billion and profit attributable to equity holders of the Company amounted to RMB14.4 billion, representing a year-on-year increase of 15.0%, up by 4.7 percentage points compared to 2020. EBITDA[1] reached RMB96.3 billion, representing a year-on-year increase of 2.3%。

The Company actively practiced green and low-carbon development and achieved remarkable results in network co-build co-share. In 2021, the capital expenditure was RMB69.0 billion, lower than the initial budget of RMB70.0 billion, reflecting better investment efficiency. Free cash flow[2] continued to be strong during the year, reaching RMB41.7 billion. The Company further consolidated its financial strength.

The Company attaches great importance to shareholders' returns. After due consideration of the Company's sound business development and strong free cash flow, the Board proposed a final dividend for the year of RMB0.096 per share. Together with the interim dividend of RMB0.120 per share already distributed, the total dividend for the year amounted to RMB0.216 per share, representing a year-on-year increase of 31.7%. Going forward, the Company will continue to strive to enhance its profitability and shareholders' returns.

STRENGTHEN AND SOLIDIFY "THE BASICS"

The Company always adheres to the basic orientation of "scale-based value management" and drives the development of basic businesses in both quantity and quality terms. With a focus on building premium networks, the scale and coverage of the Company's 5G network was comparable to peers, while its network operation efficiency continued to improve. Over the past year, the Company's basic businesses stabilised and rebounded, with marked improvement in infrastructure capabilities. The foundation for high-quality development was further consolidated.

Quality-first scale development took mobile business to a new level

China Unicom regarded value operation as the top priority of business development. In line with increasingly digital, online and integrated 5G consumption, the Company continued to deepen the 5G-driven growth of mobile business value and scale. It insisted on refined operation, deepened precise customer segmentation and accelerated the 5G upgrade of existing users, especially medium and high-end users. It enhanced its digital operation system and drove centralised and platform-based smart operation through innovation. It continuously optimised its distribution channels leading to a more robust new channel system with online and offline integration. China Unicom APP was fully revamped and it pioneered "full-range services with a single click", with monthly active users exceeding 120 million. A new OMO channel system has been basically established. The Company accelerated the innovation and upgrade of basic business products. It adopted a "platform + network + X" basic innovative product strategy and strengthened cooperation on content and privileges. Video Ringtones and Communication Assistant had over 10 million users. It collaborated with industry peers and the industry chain to carry out pre-commercial trial of 5G messaging to explore the new blue ocean of 5G ecology.

CHAIRMAN'S STATEMENT

In 2021, mobile service revenue reached RMB164.1 billion, representing an increase of 4.8% year-on-year. The number of mobile billing subscribers recorded a net addition of 11.30 million, significantly better than the net loss of 12.66 million in 2020. Customer value continued to be enhanced, with mobile ARPU reaching RMB43.9, representing a year-on-year increase of 4.3%. Data traffic promotion achieved remarkable results. Total mobile handset data traffic volume grew by 32.2%, with the monthly average DOU per handset subscriber reaching approximately 12.7 GB. 5G business growth accelerated, with the number of 5G package subscribers reaching 155 million and the penetration rate of 5G package subscribers reaching 48.9%, outperforming the industry average.

"Three-Gigabit" integration led faster fixed-line broadband growth

Leveraging 5G-led "Three-Gigabit" integration, the Company promoted the development of broadband-mobile integration. In the face of the opportunities brought by 5G, broadband and Wi-Fi "Three-Gigabit" upgrade, the Company seized the technology upgrade window by adopting "full network integration" strategy encompassing connectivity, platform and applications. It consolidated the foundation of broadband and mobile integration to meet scenario-based, intelligent and diversified consumption demand, systematically promoting the development of broadband and smart home businesses. In Northern China, the Company continued to strengthen its broadband service to drive mobile growth, accelerate the promotion of fibre-to-the-room (FTTR) service and enrich core smart home applications, such as videos and surveillance, driving customer value enhancement. In Southern China, the Company seized new opportunities to accelerate scale breakthrough by driving broadband development with mobile and strengthening broadband-mobile synergy. The engineers of China Unicom Smart Home were connected with over 80 million broadband subscribers via a single click in the APP to enable swift response, further enhancing the Company's competitiveness with high-quality services.

In 2021, the Company's fixed-line broadband access revenue reached RMB44.8 billion, representing a year-on-year increase of 5.2%. Fixed-line broadband subscribers registered a record-high net addition of 8.95 million for the year, reaching a total of 95.05 million. Broadband access ARPU basically remained stable at RMB41.3. Scale-based value management achieved remarkable results. The penetration rate of integrated service among fixed-line broadband subscribers reached 71.5%, representing a year-on-year increase of 7.4 percentage points.

Consolidated digital foundation by accelerating the construction of premium networks

The Company regarded strengthening the construction of premium networks as a key part of the overall strategy. It strived to build new digital information infrastructure capabilities and technological competitive advantages, deepened network innovation and strengthened network support capabilities. The average latency of its backbone network remained industry-leading. It enhanced its multi-cloud ecosystem, enabling automatic connection of the China Unicom Industrial Internet with Unicom Cloud and MEC cloud network. It launched the CUBE-Net 3.0 network system to actively build next-generation digital infrastructure featuring "connectivity + sensing + computing + intelligence". Through multiple measures such as network streamlining, insourced operation, network co-build co-share, AI applications and refined management, etc., the efficiency of network operation continued to improve. Leveraging edges in cloud-network-data integration, the Company offered standardised products in network situation awareness and security island chain, forming active network security capabilities and "cloud, management, and terminal" information security capabilities. In 2022, the Company will continue to build premium 5G network, gigabit broadband network, government-enterprise network and computing power network, and promote intelligent network operation, further solidifying the cornerstone of its high-quality development.

PRESERVE AND INNOVATE FOR "MIXED GROWTH"

The Company always believes that innovation is key to corporate growth and promotes high-quality development driven by both market forces and innovation. In the past year, the Company accelerated the development of innovation capabilities, and its Industry Internet revenue continued to grow. The core capabilities of the "Five Middle Platforms" were basically established. The Company's data governance system was further enhanced, making new strides on the path of digital transformation.

Strengthened internal R&D capabilities to unleash new momentum of innovative business

The Company made persistent efforts in innovation and laid a solid foundation for the five main businesses with cloud, Big Data, IoT, AI, blockchain and security. In terms of Industry Internet, during the year, the Company seized the new opportunities brought by "Eastern Data and Western Computing" and devoted itself to offering integrated computing network service encompassing "connectivity + sensing + computing + intelligence". It built a national "5 + 4 + 31 + X" advanced IDC system which was integrated across cloud, network and edge, reasonably distributed, green and centralised. "Unicom Cloud" was fully upgraded to feature cloud native and virtualised dual engines and offer seven scenario-based cloud products including sensing IoT cloud, data storage cloud, smart video cloud, etc. Integrating "Unicom Chain" and AI, the daily processing capacity of the Company's Big Data platform exceeded 200TB. The number of IoT connections continued to grow as the Company accelerated the transition to

CHAIRMAN'S STATEMENT

integrated IoT "connectivity + non-connectivity" applications. The Company's IoT market share continued to increase. It actively expanded its presence in the security market and its security products were ready for scale replication. Adhering to innovation-driven development, the Company insisted on prioritising resources allocation to innovative talents and increased investment intensity to consolidate basic capability platform. It continued to strengthen the offerings of self-developed products in digital government, smart city, industrial internet, healthcare and environment, etc. Its own critical core capabilities were greatly improved while breakthroughs were made in integrated application. In terms of 5G industry applications, the Company integrated internal and external resources to deeply implement the "5G Applications Sailing" Action Plan and launch five special projects ("Strong Foundation Project, Growth Engine Project, Escort Project, Co-Innovation Project and Blooming Project"), facilitating the digital transformation and intelligent upgrade of thousands of industries with new products, new business formats and new models of 5G applications. It continuously developed and upgraded standardised solutions for 5G industrial Internet, smart city, healthcare, education and cultural tourism. It strengthened research and development in 5G industry integration standards, expanded the 5G application innovation alliance, and optimised the 5G ecology open platform. It continued to increase investment in research and development, and incubated products in IoT for carbon peaking and carbon neutrality, 5G + cooperative vehicle-infrastructure system, 5G + Beidou Navigation Satellite System, smart legal services and smart pension, etc. In terms of core technology research and development, during the year, the Company boosted its investment in technological research, with research and development expenses growing 61.7% year-on-year. The proportion of technological innovation personnel reached 22%, while the number of patents granted reached 1,128, representing a significant year-on-year increase of 120%. The Company led the first-time domestic substitution of high-precision time-frequency synchronisation chips, breaking the foreign monopoly on the technology and providing reliable and low-error time-based precision for 5G networks.

In 2021, the revenue of Industry Internet business reached RMB54.8 billion, representing a year-on-year increase of 28.2% and accounting for 18.5% of the overall service revenue. In particular, the revenue of Unicom Cloud[3] amounted to RMB16.3 billion, representing a year-on-year increase of 46.3%. Driven by the growth of innovative business, the Company's fixed-line service revenue reached RMB129.6 billion, representing a year-on-year increase of 10.9%. In the future, the Company will continue to accelerate the development of proprietary innovation platform capabilities and key products and enhance competitiveness as well as business value.

Fully established core capabilities to drive new breakthroughs in smart operation

The Company adhered to innovation-driven business development and continued to make progress in digital transformation. During the year, the Company launched the "China Unicom Intelligence Brain" to achieve 100% consolidation of core business system, customer system, smart middle platform, Big Data and digital base. The Company adhered to the "platform + application" architecture and established 48 centres, 6 platforms and 9 capabilities with the core capabilities of the "Five Middle Platforms" (public customers, government and enterprise customers, data, network and management) basically established. 10010 hotlines in 31 provinces were fully integrated and smart customer service was centralised across 31 provinces and 2 bases, serving over 400 million users. It offered personalised services that "knew customers better" with Big Data + AI. Smart service ratio reached 80%. The Company continued to strengthen its process governance, resulting in agile empowerment and significant improvement in support capabilities of all production scenarios.

INTEGRATE AND OPEN FOR "TEAM COMPETITION"

The Company insists on factor integration and market convergence. It actively integrated into the development of digital economy and deepened integration and open cooperation to build a high-quality development ecosystem.

Industry ecology steadily improved and network co-build co-share made progress

Taking the construction of new digital information infrastructure such as 5G as an opportunity, the Company continued to deeply promote network co-build co-share. It continued to work closely with China Telecom and added 310,000 new 5G base stations. The total of 5G base stations used by the two companies reached 690,000, creating the world's largest co-built and co-shared 5G network. The scale of 4G sharing was further expanded, and the number of 4G base stations shared by the two companies reached 660,000. Through the co-build co-share of 4G/5G networks, the Company actively supported the goals of "carbon peaking and carbon neutrality". It is expected that more than 17.5 billion kWh of electricity can be saved every year while the cumulative carbon dioxide emission savings exceeded 6 million tons. In addition, the two companies have saved more than RMB210.0 billion in CAPEX on a cumulative basis. At the same time, the Company is committed to further expanding the depth and breadth of co-build co-share, promoting cooperation and sharing in technological innovation, cloud-network integration such as IDC, and promoting the co-build co-share and co-maintenance of infrastructure and key business platforms such as transmission lines, pipes and fibres, equipment rooms and antennae, DAS, etc.

Acceleration of factor integration spurred synergetic cooperation to create new value

The Company took the initiative to actively promote strategic cooperation with national ministries and commissions, local governments, enterprises and institutions, deepen the breadth and depth of open cooperation, and serve the digital transformation of the economy and society. It actively cooperated with strategic partners, industry peers, system vendors, IT companies and the society, and drove value creation with the industry. It strengthened equity investment management and expanded into new domains through minority investment or acquisitions with synergies, driving revenue growth of its main business. Relying on the "direct investment + fund + incubation" investor platform, the Company expanded its presence in innovative domains and promoted an open and cooperative ecosystem.

CHAIRMAN'S STATEMENT

SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The Company actively serves and integrates into the national strategy, resolutely fulfills its missions and responsibilities, and lets people enjoy greater sense of reward, happiness and security in digital, network-based and intelligent development. As the sole official telecommunication service partner of the Beijing 2022 Winter Olympics and Paralympic Winter Games, the Company adhered to the concepts of "Green Olympic Games, Sharing Olympic Games, Open Olympic Games, and Honest Olympic Games" and earnestly implemented the requirements of "simple, safe and wonderful" competitions. With the "Smart Winter Olympics" strategy, it comprehensively achieved zero fault in network support, zero complaint in event service, zero infection in personnel, and successfully provided secure communication support for the Winter Olympics. For the first time, it applied IPv6+ technology to the private network of the Winter Olympics, providing high-quality network services for the broadcast of the Beijing Winter Olympics leveraging capabilities such as network slicing, segment routing and latency optimisation. The Company pushed forward "carbon peaking and carbon neutrality" by promoting green, low-carbon and circular development and network co-build co-share. It continued to accelerate the construction of digital villages to facilitate the modernisation of agriculture and rural areas. It built on the achievements of poverty alleviation and effectively connected with rural revitalisation. It actively followed the "Belt and Road" Initiative, served national strategic plans such as Xiong'an New Area, Guangdong-Hong Kong-Macao Greater Bay Area and Yangtze River Delta Integration, and actively drove the mutual promotion of domestic and international dual circulation, fostering faster development of a new landscape of coordinated regional development. It offered application services on epidemic prevention, culture and sports, education, medical care, environmental protection, charity, etc., for social good. It also cared about the well-being of its employees and helped them grow and develop.

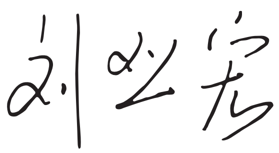
The Company continued to bolster its corporate governance mechanism, enhance execution and strengthen risk management and internal control, in a bid to provide solid support for sustainable and healthy corporate development. During the year, the Company attained a number of accolades, including the 260th place in "Fortune Global 500 Companies", the 276th place in "The Forbes Global 2000", "Asia's No.1 Best Telecommunications Company" and "Best Managed Listed Company in China — 1st" by FinanceAsia, and being voted as "Asia's No. 1 Most Honored Telecom Company" by Institutional Investor for the sixth consecutive year.

OUTLOOK

The digital economy is driving profound changes in the way of production, lifestyle and governance, and has become a strong driver for sustainable and healthy economic and social development. The accelerated integration of digital technology represented by 5G with the real economy and the accelerated digital transformation of various industries have brought huge opportunities for the development of digital economy. It is expected that the value-added of core industries of digital economy will account for 10% of GDP by 2025[4]. As the "national team" in the construction, operation and service of digital information infrastructure, information communication operators are capable and obliged to participate in the wave of digital revolution with a more active attitude, so as to facilitate information flow and build a new digital base for economic and social development, as well as to enhance the development of digital economy, digital life and digital governance to contribute to the national strategy of technological upgrade.

The year 2022 marks the commencement of China Unicom's full implementation of its new strategic plan. China Unicom will continue to fully implement new development philosophies, contribute to the establishment of a new development landscape and promote high-quality development. With the goal of establishing "Cyber Superpower, Digital China, and Smart Society" and adhering to the Company's "1 + 8 + 2" strategic planning, the Company will focus on its five main responsibilities and main businesses, stabilise growth, optimise network, deepen reform, enhance capabilities, strengthen synergy and prevent risks, in order to create greater value for shareholders, customers and society.

Lastly, on behalf of the Board of Directors, I would like to express our sincere gratitude to all shareholders, customers and fellows across the society for their long-term support and to all employees for their continuous dedication and contribution along the way!



Liu Liehong
Chairman and Chief Executive Officer

Hong Kong, 11 March 2022

Note 1: EBITDA represents profit for the year before finance costs, interest income, share of net profit of associates, share of net profit of joint ventures, other income-net, income tax expenses, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Company. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 2: Free cash flow represents operating cash flow less capital expenditure. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 3: Unicom Cloud revenue includes revenue of cloud resources, cloud platform, cloud service, cloud integration, cloud interconnection, cloud security, etc. generated from integrated innovative solutions.

Note 4: Cited from China's "14th Five-Year Plan for Digital Economy Development".

BUSINESS OVERVIEW

In 2021, China Unicom upgraded its strategy to "Strengthen and solidify, preserve and innovate, integrate and open". The Company actively served national strategies and integrated into the new development pattern, with firm progress towards high-quality development. It leveraged its IT centralisation advantages to advance digital transformation and service model innovation in full force. The Company strengthened integrated operation led by 5G services to enhance user acquisition capability.

CHEN ZHONGYUE
Executive Director
and President

MOBILE SERVICE

With the objectives of value first, experience first, and breakthrough in scale, China Unicom made every effort to implement 5G-led integration and cohort-based development, leading quality and scale development with 5G. The Company promoted the development of new 5G users and make breakthroughs in 5G scenarios in key markets and segmented groups. It promoted 5G upgrade of existing users through implementing refined customer segmentation and offering fit and suitable products based on precise Big Data analytics and deep insight from various scenarios. It innovated on multi-metric 5G products to ensure the competitiveness of contracts and products and full 5G package coverage of all customers, strengthening the contract-based and integrated development of 5G users. It improved pricing and contract flexibility to strengthen the differentiation of 5G core applications. It also promoted the innovative development of 5G terminals and pan-terminal industries so as to promote 5G terminal-network-business synergy.

The Company deepened the comprehensive digital transformation and improved its digital marketing service capabilities. With the transformation into the "platform + network + X" product model, it strengthened the overall management of all products as well as its integrated development and operation capabilities. It successfully launched platforms such as China Unicom Digital Village, China Unicom Smart Home and China Unicom Cloud Rhino for the 2C, 2H and 2B2C markets.

The Company accelerated the enhancement of terminal digital operation and supply chain ecosystem. It opened up the terminal operation system, ensured the stability of terminal supply and upgraded its capability in digital supply chain. Consumer financing instruments were widely employed, with more than 100,000 stores providing such financing services.

As of the end of 2021, the Company had approximately 317.12 million mobile billing subscribers, representing a cumulative net increase of 11.30 million subscribers for the year. The number of 5G package subscribers reached 154.93 million, representing a cumulative net increase of 84.10 million subscribers for the year.

FIXED-LINE SERVICE

In 2021, China Unicom adhered to the comprehensive coordination of "terminal + network + business + operation + service + information" in the development of fixed-line service. Led by "Three-Gigabit", the Company established a market-driven mechanism integrating terminal, network, business and service, thereby comprehensively improving its broadband access and resource management capabilities and achieving the coordinated development of broadband sales and network deployment. The Company accelerated the construction of gigabit networks and strengthened broadband capabilities in Southern China. Focusing on high-value regions, it pushed forward the deployment and upgrade of gigabit communities. It continued to carry out broadband speed measurement and upgrade activities and revitalise resources, comprehensively improving the efficiency of network resources. Leveraging on branding advantage associated with the Winter Olympics,

BUSINESS OVERVIEW

the Company strengthened the development of gigabit broadband, laying a foundation for achieving total leadership in Northern China and targeted overtaking in Southern China. With the optimisation of the entire broadband process chain, the Company built a digital operation system of "two networks and one middle platform" for home users, thereby optimising resource allocation and promoting highly-efficient governance. The Company incorporated fixed-line local access into family packages to revitalise fixed-line local access resources, and launched innovative applications such as fixed-line video ringtones and business caller ID. In 2021, fixed-line broadband access revenue reached RMB44.8 billion, representing a year-on-year growth of 5.2%. During the year, the number of broadband subscribers increased by 8.95 million to 95.05 million and the broadband access ARPU was RMB41.3. FTTH subscribers' penetration reached 88%.

INDUSTRY INTERNET

In cloud computing, as the foundation of digital transformation and integrated innovation, Unicom Cloud provided customers with integrated and innovative solutions including cloud resources, cloud platforms, cloud services, cloud integration, cloud interconnection, cloud security, etc. Computing efficiency was enhanced through the unified technical architecture and the unified PaaS platform. The Company made comprehensive deployment in Big Computing with totally revamped Unicom Cloud featuring upgraded technology, products, services and ecosystem. Open architecture, dual-engine base and multi-scenario deployment were all supported. PaaS products such as Big Data, IoT, AI, blockchain and security were deeply integrated with IaaS products. Basic product offerings continued to be enriched while product performance was significantly enhanced. The Company launched seven scenario-based cloud products to drive the digital transformation of thousands of industries. In 2021, the revenue of Unicom Cloud amounted to RMB16.3 billion.

In Big Data, the Company upgraded its capabilities in data application services, data technology services, data security services, AI and blockchain services. Focusing on industries such as government affairs, finance, cultural and tourism and transportation, etc., it optimised product offerings in government affairs Big Data, financial Big Data, cultural and tourism Big Data, industrial AI products and "industry + blockchain". The Company also continuously supported pandemic prevention and control and resumption of work and production. Eight blockchain pilot projects were successfully selected as national blockchain innovation application pilot projects. In 2021, Big Data revenue reached RMB2.6 billion, representing a year-on-year growth of 48.7% with a market share ranking first among telecom operators for the third consecutive year.

In terms of the Internet of Things ("IoT"), the Company accelerated the promotion of a new pattern of IoT connectivity led by 5G. The number of connections reached over 300 million. The Company accelerated platform-based independent innovation. The Yanfei Zhilian connection management platform (CMP) carried over 160 million connections, becoming the main carrying platform. The Yanfei Gewu device management platform (DMP) has connected near a million of devices, over 200 object models and over 180 Open APIs since its commercial launch in April 2021, making it the central platform underlying China Unicom's transition to integrated IoT "connectivity + non-connectivity" applications. The Company released the first low-cost lightweight Yanfei 5G module in China and cooperated with UNISOC to complete the world's first R16-based eMBB + uRLLC + IIoT end-to-end verification, actively promoting the innovative development of the 5G IoT industry. In 2021, China Unicom's IoT revenue reached RMB6.0 billion, representing a year-on-year growth of 43%.

In IT services, the Company strengthened internal innovation and achieved platform-based product capabilities, standardisation of self-developed products and R&D centralisation. It promoted the scale development of 5G applications to enhance gross margins. In Big Application, it developed over 200 proprietary application products, including signature products such as smart city base, central management console, industrial Internet platform, government affair Big Data platform, smart river chief, etc. in the fields of smart city, industrial Internet, digital government, environment, etc. The Company implemented over 8,000 industry application projects with proprietary capabilities, driving RMB6.0 billion in industry application revenue. It has formed differentiated competitive advantages comprising proprietary capabilities, self-developed products, proprietary integration and fulfilment and continuous operating services, fully empowering customers' digital transformation.

NETWORK CAPABILITIES

In 2021, the Company conscientiously implemented the strategic deployment of "Cyber Superpower" and "New Infrastructure". In order to build a differentiated network competitive advantage through digital transformation, the Company deepened network co-build co-share in the industry, strengthened network-business collaboration and service support, and continued to improve network competitiveness. It took multiple measures to effectively alleviate the investment cost pressure brought by the large-scale 5G network construction and rapid business development. It deepened the digital, network-based and intelligent reform of the operation system and pushed forward the network digital transformation.

As at the end of 2021, the number of 5G base stations used reached 690,000. The number of 4G base stations reached 1.56 million with 4G population coverage reaching 95% and administrative village coverage reaching 91%. In the fixed-line network, the Company continued to expand network coverage in new regions and stepped up the network upgrade in areas with PON+LAN. The total number of broadband access ports reached 239 million, of which FTTH ports accounted for 91%. The Company continued to optimise its international network deployment. As at the end of 2021, the international submarine cable capacity, international Internet outbound capacity and inbound bandwidth reached 57.8T, 5.31T and 3.93T, respectively. The Company's international roaming services covered 627 operators in 260 countries and regions.

MARKETING

Branding

In 2021, focusing on digital transformation, the Company's brand promotion was conducted around intelligence, guided by 5G and endorsed by the Winter Olympics, with a view to continuously advocating the creation of smart experience and building a smart brand with warmth. The promotion emphasised on key business advantages such as 5G, three-gigabit offerings, innovative applications, industry applications, gigabit network and high-quality services, etc. and was targeted towards on sub-markets and key industries such as households, rural villages, youth and government and corporate customers, etc. The Company's promotion took advantage of trending events and key festivals, while closely integrating the differentiated advantages of the Winter Olympics with branding and 5G to strengthen the Company's identity as a Winter Olympics partner and demonstrate the brand's strength. In terms of publicity, the Company continuously innovated on the means and forms of promotion, created a three-dimensional communication matrix to effectively convey a good corporate story. It continuously optimised its publicity content and diversified communication means, leading to greater user attention and improved brand value. The overall brand building was on a good momentum with improvement in both reputation and awareness.

Marketing strategies

In line with the trend of rural digital consumption upgrade, the Company implemented "Rural Revitalisation" strategy and continued to leverage 5G to upgrade rural market products and services such as Smart Home, Safe Villages and Digital Villages. In the youth market, targeting multimedia entertainment segments, the Company carried out cooperation with leading touchpoints to achieve scale development, grasped the back-to-school opportunities to carry out frontend-loaded marketing such as college broadband, college informatisation, 5G private network and K12 smart campus, etc.

The Company implemented programmes to "promote handset upgrade" and "promote network access", driving the coordinated development of 5G terminal, network, business and service. With schemes like "terminal-business alignment" and "network-business alignment", the Company continued to strengthen the alignment of broadband terminals, networks and businesses and improve the capability of gigabit network and user perception.

The Company consolidated its fundamental capabilities in existing business operation through integration, value enhancement, loss control and downgrade control, stabilising the scales of both existing revenue and subscribers and driving steady growth of service revenue.

Marketing channels

In 2021, the Company built a "platform-based, digital, smart and ecology-oriented" customer-centric marketing model based on new OMO channels. First, the Company accelerated the comprehensive transformation of offline channels towards targeted markets, kept close to targeted markets, optimised deployment, and comprehensively improved the coverage across communities and towns. It strengthened the construction of the "1 + N + n" business alliance and actively built a new ecosystem of offline channels. Second, it accelerated the improvement of centralised online operation capabilities to tap into potential traffic, sped up the upgrade of 2I2C products and marketing models, stabilised cooperation with leading companies, and actively expanded local innovative lead generation. It accelerated the differentiation of China Unicom APP, expanded user connections, and enhanced user activity, building an ecological cooperation platform. Third, the Company accelerated the online and offline integration, unified the public platform and business operation platform and connected the whole process and production scheduling. It deepened the construction of digital business outlets to expand mutual lead generation and improve channel capabilities.

FINANCIAL OVERVIEW

SERVICE REVENUE (RMB BIL) **296.15**

EBITDA[2] (RMB BIL) **96.32**

NON-VOICE SERVICE REVENUE (RMB BIL) **261.57**

OVERVIEW

In 2021, the company's operating situation was stable, favourable mementum and efficiency of business scale continually enhance, the comprehensive strength led the company reached to a new level, achieving a good start in the "14th Five-Year Plan", the total revenue was RMB327.85 billion in 2021, up by 7.9% year-on-year. Service revenue reached RMB296.15 billion, up by 7.4% year-on-year. Net profit[1] was RMB14.37 billion, up by RMB1.88 billion year-on-year.

In 2021, the Company's net cash flow from operating activities was RMB110.64 billion. Capital expenditure was RMB68.96 billion. Liabilities-to-assets ratio was 43.6% as at 31 December 2021.

REVENUE

In 2021, the Company's revenue was RMB327.85 billion, up by 7.9% year-on-year, of which, service revenue was RMB296.15 billion, up by 7.4% year-on-year due to continuous optimisation of the revenue mix.

The table below sets forth the composition of service revenue, and the percentage contribution of each service to total service revenue for the years of 2021 and 2020:

	2021		2020	
(RMB in billions)	**Total amount**	**As a percentage of service revenue**	Total amount	As a percentage of service revenue
Service revenue	**296.15**	**100.00%**	275.81	100.00%
Include: Voice service	**34.58**	**11.68%**	35.49	12.87%
Non-voice service	**261.57**	**88.32%**	240.32	87.13%

Voice Service

In 2021, service revenue from the voice service was RMB34.58 billion, down by 2.6% year-on-year.

Non-Voice Service

In 2021, service revenue from the non-voice service was RMB261.57 billion, up by 8.8% year-on-year.

FINANCIAL OVERVIEW

COSTS AND EXPENSES

In 2021, total costs and expenses amounted to RMB309.92 billion, up by 7.7% year-on-year.

The table below sets forth the items of the costs and expenses and their respective percentage of the revenue for the years of 2021 and 2020:

	2021		2020	
(RMB in billions)	**Total amount**	**As a percentage of revenue**	Total amount	As a percentage of revenue
Total costs and expenses	**309.92**	**94.53%**	287.81	94.73%
Operating costs	**317.18**	**96.75%**	292.72	96.34%
Include: Interconnection charges	**11.56**	**3.52%**	10.57	3.48%
Depreciation and amortisation	**85.65**	**26.13%**	83.02	27.32%
Network, operation and support expenses	**53.09**	**16.19%**	46.29	15.23%
Employee benefit expenses	**58.94**	**17.98%**	55.74	18.35%
Costs of telecommunications products sold	**30.68**	**9.36%**	26.86	8.84%
Selling and marketing expenses	**32.21**	**9.83%**	30.46	10.03%
General, administrative and other operating expenses	**45.05**	**13.74%**	39.78	13.09%
Finance costs, net of interest income	**0.17**	**0.05%**	0.38	0.13%
Share of net profit of associates	**−1.86**	**−0.57%**	−1.59	−0.52%
Share of net profit of joint ventures	**−1.45**	**−0.44%**	−0.79	−0.26%
Other income-net	**−4.12**	**−1.26%**	−2.91	−0.96%

Interconnection charges

The interconnection charges were RMB11.56 billion in 2021, up by 9.3% year-on-year and, as a percentage of revenue, increased from 3.48% in 2020 to 3.52% in 2021.

Depreciation and amortisation

Depreciation and amortisation charges were RMB85.65 billion in 2021, up by 3.2% year-on-year and, as a percentage of revenue, decreased from 27.32% in 2020 to 26.13% in 2021.

Network, operation and support expenses

Network, operation and support expenses were RMB53.09 billion in 2021, up by 14.7% year-on-year and, as a percentage of revenue, changed from 15.23% in 2020 to 16.19% in 2021 mainly due to increase in rental expenses of premises and equipment, network maintenance and energy consumption cost.

Employee benefit expenses

As a result of the ongoing effort in incentive mechanism reform to strengthen performance-based compensation and the acquisition of innovative talents in the meantime, employee benefit expenses were to RMB58.94 billion in 2021, up by 5.7% year-on-year and, as a percentage of revenue, changed from 18.35% in 2020 to 17.98% in 2021.

Cost of telecommunications products sold

Costs of telecommunications products sold were RMB30.68 billion and revenue from sales of telecommunications products were RMB31.70 billion in 2021. Gross profits on sales of telecommunications products was RMB1.02 billion.

Selling and marketing expenses

The Company fully promoted transformation on digitisation, strengthened O2O integrated operation and exercised stringent control over users development costs, selling and marketing expenses were RMB32.21 billion in 2021, up by 5.7% year-on-year and, as a percentage of revenue, decreased from 10.03% in 2020 to 9.83% in 2021.

General, administrative and other operating expenses

General, administrative and other operating expenses were RMB45.05 billion in 2021, up by 13.3% year-on-year, mainly due to the rapid growth of ICT services leading to increased related service costs and increased investment in technical support for innovative businesses.

FINANCIAL OVERVIEW

EARNINGS

Profit before income tax

In 2021, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB17.93 billion, up by 11.9% year-on-year.

Income tax expenses

In 2021, the Company's income tax expenses was RMB3.42 billion and the effective tax rate was 19.1%.

Profit for the year

In 2021, the Company's net profit[1] was RMB14.37 billion, increased by RMB1.88 billion year-on-year. Basic earnings per share was RMB0.470, up by 15.0% year-on-year.

EBITDA[2]

In 2021, the Company's EBITDA was RMB96.32 billion, up by 2.3% year-on-year. EBITDA as a percentage of service revenue was 32.5%, down by 1.6 percentage points year-on-year.

CAPITAL EXPENDITURE AND CASH FLOW

In 2021, capital expenditure of the Company totaled RMB68.96 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2021, the Company's net cash flow from operating activities was RMB110.64 billion. Free cash flow[3] was RMB41.68 billion after the deduction of the capital expenditure.

FULLY IMPLEMENT NEW STRATEGY, FORGE HEAD AND CREATE GREATER VALUE FOR SHAREHOLDERS

Value orientation

Be value-oriented and dynamically adjust budget and KPIs to incentivise revenue and profit generation

Risk control

Establish full-process fullchain risk control system to prevent and resolve various risks

Technological innovation

Facilitate digital transformation and smart operation upgrade with technological innovation

Flexibility and agility

Build a platform-based organisational structure which is flat, coordinated, agile and connected with ecosystem

Effective incentive

Establish differentiated incentive system focusing on strategic deployments

The table below sets forth the major items of the capital expenditure in 2021:

	2021	
(RMB in billions)	**Total amount**	**As percentage**
Total	**68.96**	**100.00%**
Include: Mobile network	**33.89**	**49.14%**
Broadband and data	**12.93**	**18.75%**
Infrastructure and transmission network	**11.08**	**16.07%**
Others	**11.06**	**16.04%**

FINANCIAL POSITION

The Company's total assets changed from RMB580.62 billion as at 31 December 2020 to RMB591.08 billion as at 31 December 2021. Total liabilities changed from RMB253.10 billion as at 31 December 2020 to RMB257.64 billion as at 31 December 2021. The liabilities-to-assets ratio as at 31 December 2021 was 43.6%, basically same as the end of the prior year. The debt-to-capitalisation ratio decreased from 12.2% as at 31 December 2020 to 9.7% as at 31 December 2021. The net debt-to-capitalisation ratio was 0.4% as at 31 December 2021.

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

Note 2: EBITDA represents profit for the year before finance costs, interest income, shares of net profit of associates, share of net profit of joint ventures, other income-net, income tax expenses, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Company. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 3: Free cash flow represents operating cash flow less capital expenditure. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

RECOGNITION AND AWARDS

For more information, please visit the Company's website at **www.chinaunicom.com.hk**

DIRECTORS AND SENIOR MANAGEMENT

LIU LIEHONG
Chairman and
Chief Executive Officer

Aged 53, a postgraduate with a doctorate degree in Management, was appointed in September 2021 as Chairman and Chief Executive Officer of the Company. Mr. Liu served as Head of the Electronics Second Research Institute under the Ministry of Information Industry, Deputy General Manager of China Electronics Technology Group Corporation, President of China Electronics and Information Industry Development Research Institute and President of CCID Information Industry Group Corporation, Director and General Manager of China Electronics Corporation, Director and General Manager of China Electronics Technology Group Corporation, Vice Minister of the Office of the Central Cyberspace Affairs Commission, Vice Minister of the Cyberspace Administration of China, Vice Minister of the Ministry of Industry and Information Technology, and a Member of the 12th National Committee of the Chinese People's Political Consultative Conference. Mr. Liu is currently 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"). Mr. Liu has extensive experience in management and information industry.

CHEN ZHONGYUE
Executive Director and President

Aged 50, a university graduate with a master's degree in Economics, was appointed in February 2021 as an Executive Director and President of the Company. Mr. Chen served as Deputy General Manager of China Telecom Zhejiang branch, Managing Director of the Public Customers Department of China Telecom, General Manager of China Telecom Shanxi branch, Vice President of China Telecommunications Corporation, Executive Director and Executive Vice President of China Telecom Corporation Limited. Mr. Chen also serves as a Director and General Manager of Unicom Group, a Director and President of A Share Company as well as a Director and President of CUCL. Mr. Chen has extensive experience in management and the telecommunications industry.

DIRECTORS AND SENIOR MANAGEMENT

WANG JUNZHI
Executive Director

Aged 57, a postgraduate with a master's degree in Engineering, was appointed in December 2021 as an Executive Director of the Company. Mr. Wang served as Deputy Director General and Director General of the Department of Labor Protection of All-China Federation of Trade Unions ("ACFTU"), Chairman of the National Committee of the Trade Union of the Energy and Chemistry Sector of China, Director General of the Department of Labor and Economic Work of ACFTU, Secretary of the Secretariat of ACFTU, a member of the 15th and 16th Executive Committee of ACFTU as well as a member of the 16th Presidium of ACFTU. Mr. Wang is currently a Director of Unicom Group, a Director of A Share Company as well as a Director of CUCL. Mr. Wang has extensive experience in management.

MAI YANZHOU
Executive Director and
Senior Vice President

Aged 53, a university graduate with a master's degree in Electronics and Information Engineering, was appointed in February 2018 as a Senior Vice President of the Company. Mr. Mai served as Deputy General Manager of Guangdong Branch of China Network Communications Group Corporation, Deputy General Manager of Guangdong Branch, General Manager of Fujian Branch, as well as General Manager of Liaoning Branch of China Unicom. Mr. Mai served as a Delegate to the 12th National People's Congress. Mr. Mai also serves as a Non-Executive Director and the Deputy Chairman of the Board of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipts trading on OTC Markets Group Inc.), a Non-Executive Director of China Tower Corporation Limited (listed on the Hong Kong Stock Exchange), a Non-Executive Director of China Communications Services Corporation Limited (listed on the Hong Kong Stock Exchange), 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), Vice General Manager of Unicom Group, Senior Vice President of A Share Company as well as Director and Senior Vice President of CUCL. Mr. Mai has extensive experience in management and telecommunications industry.

DIRECTORS AND SENIOR MANAGEMENT

LIANG BAOJUN
Senior Vice President

Aged 52, a university graduate with a master's degree in Engineering, was appointed in February 2018 as a Senior Vice President of the Company. Mr. Liang served as Deputy General Manager of Beijing Branch of China Telecom Corporation Limited, as well as General Manager of Henan Branch of China Telecommunications Corporation, General Manager of Corporate Informatisation Department, General Manager of Government and Enterprise Customers Department of China Telecommunications Corporation. Mr. Liang also serves as Vice General Manager of Unicom Group, Senior Vice President of A Share Company, Director and Senior Vice President of CUCL, as well as Director of certain member of the Group. Mr. Liang has extensive experience in management and telecommunications industry.

HE BIAO

Senior Vice President

Aged 50, a university graduate with a doctorate degree of Business Administration, was appointed in June 2020 as a Senior Vice President of the Company. Mr. He served as Deputy General Manager and General Manager of Guangdong Branch of China Unicom as well as Chairman of China Unicom (Guangdong) Industrial Internet Co., Ltd.. Mr. He also serves as a Vice General Manager of Unicom Group, a Senior Vice President of A Share Company as well as a Director and Senior Vice President of CUCL. Mr. He has extensive experience in management and telecommunications industry.

DIRECTORS AND SENIOR MANAGEMENT

TANG YONGBO
Senior Vice President

Aged 48, a postgraduate with a master's degree in Business Administration, was appointed in December 2021 as a Senior Vice President of the Company. Mr. Tang served as Deputy General Manager and General Manager of Hunan Branch of China Unicom, General Manager of Marketing Department of Unicom Group. He is a Deputy to the 13th National People's Congress. Mr. Tang is currently Vice General Manager of Unicom Group, Senior Vice President of A Share Company as well as Director, Senior Vice President and General Counsel of CUCL, as well as Directors of certain members of the Group. Mr. Tang has extensive experience in management and the telecommunications industry.

LI YUZHUO
Executive Director and
Chief Financial Officer

Aged 49, a postgraduate with a master's degree in Business Administration. Ms. Li served as Director of the Finance Department of China ENFI Engineering Corporation Limited, Vice President of China ENFI Engineering Corporation, Head of the Capital Department and Secretary of the Board of Directors of China Metallurgical Group Corporation (Metallurgical Corporation of China Limited), and Head of the Capital Operation Department of China Minmetals Corporation. Ms. Li is currently Chief Accountant of Unicom Group, the Chief Financial Officer, Board Secretary and Financial Controller of A Share Company, the Director and the Chief Financial Officer of CUCL. Ms. Li has extensive experience in financial investment and capital operation.

DIRECTORS AND SENIOR MANAGEMENT

CHEUNG WING LAM LINUS
Independent Non-Executive Director

Aged 73, was appointed in May 2004 as an Independent Non-Executive Director of the Company. Mr. Cheung is an Independent Non-Executive Director of HKR International Limited (listed on the Hong Kong Stock Exchange). Mr. Cheung was a member of the University of Hong Kong Council, Chairman of the University of Hong Kong School of Professional and Continuing Education, Chairman of Asia Television Limited, Deputy Chairman of PCCW Limited, Independent Non-Executive Directors of Taikang Life Insurance Company Limited and Sotheby's, as well as President of the Chartered Institute of Marketing (Hong Kong Region). Prior to the merger of Pacific Century Cyberworks Limited and Hong Kong Telecom Limited, Mr. Cheung was the Chief Executive of Hong Kong Telecom Limited and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung worked at Cathay Pacific Airways for 23 years, leaving as Deputy Managing Director. He was appointed an Official Justice of the Peace in 1990 and a Non-official Justice of the Peace in 1992. Mr. Cheung received a bachelor's degree in social sciences and a diploma in management studies from the University of Hong Kong. He is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.

WONG WAI MING

Independent Non-Executive Director

Aged 64, 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). 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.

DIRECTORS AND SENIOR MANAGEMENT

CHUNG SHUI MING TIMPSON
Independent Non-Executive Director

Aged 70, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 13th Chinese People's Political Consultative Conference. He is also the Pro-Chancellor of the City University of Hong Kong. Besides, Mr. Chung is an Independent Non-Executive Director of The Miramar Hotel and Investment Company, Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, China Railway Group Limited, Orient Overseas (International) Limited and Postal Savings Bank of China Co., Limited (all listed on the Hong Kong Stock Exchange). From October 2004 to October 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom Group Corporation (Hong Kong) Limited. Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Advisory Committee on Arts Development, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee, an Independent Non-Executive Director of Henderson Land Development Company Limited, Nine Dragons Paper (Holdings) Limited, China Construction Bank Corporation, Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited and Glorious Sun Enterprises Limited, an Independent Director of China Everbright Bank Company Limited and China State Construction Eng. Corp. Ltd. and an Outside Director of China Mobile Communications Corporation. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Mr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

LAW FAN CHIU FUN FANNY
Independent Non-Executive Director

Aged 69, was appointed in November 2012 as an Independent Non-Executive Director of the Company. Mrs. Law is currently a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region ("HKSAR"), 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, Nameson Holdings Limited, Minmetals Land Limited and China Taiping Insurance Holdings Company Limited (all listed on the Hong Kong Stock Exchange), as well as External Director of China Resources (Holdings) Co., Limited. Mrs. Law served as a Deputy of HKSAR to the National People's Congress of the People's Republic of China, Chairman of the Board of Directors of Hong Kong Science and Technology Parks Corporation and an Independent Non-Executive Director of DTXS Silk Road Investment Holdings Company Limited. 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.

CORPORATE GOVERNANCE REPORT

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

The Company has adopted a Corporate Governance Practice which sets out the key terms of reference of the Board on corporate governance functions, including, amongst others, developing and reviewing the Corporate Governance Policy and corporate governance practices of the Company; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and reviewing the Company's compliance with the Code.

In 2021, the Company's continuous efforts in corporate governance gained wide recognition from the capital markets and the Company was accredited with a number of awards. The Company was voted as "Asia's No.1 Most Honored Telecom Company" for six years in a row in "2021 All-Asia Executive Team" ranking organised by the authoritative financial magazine, Institutional Investor. Meanwhile, the Company was also honored with "Asia's Best ESG (Telecoms)" and "Asia's Best IR Team (Telecoms)". The Company was voted by professional investors as "Asia's No.1 Best Telecommunications Company" and "Best Managed Listed Company in China - 1st" in "Asia's Best Managed Companies Poll 2021" by FinanceAsia. The Company was awarded "The Best of Asia - Icon on ESG" and "ESG Influencer" by Corporate Governance Asia. The Company was accredited with "Platinum Award — Excellence in Environmental, Social, and Governance" in "The Asset ESG Corporate Awards 2021".

The Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") provides for code provisions (the "Code Provisions") and recommended best practices with respect to (i) Directors, (ii) remuneration of Directors and senior management and evaluation of the Board of Directors (the "Board"), (iii) accountability and audit, (iv) delegation by the Board, (v) communication with

shareholders and (vi) company secretary. Other than the disclosures made in the section headed "Board of Directors" below, the Company confirms that for the year ended 31 December 2021, it complied with all the Code Provisions.

BOARD OF DIRECTORS

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

In order to achieve a sustainable and balanced development, the Company views Board diversity as a key element for supporting its strategic goals and maintaining sustainable development. The Board membership maintains wide representation. Members of the Board consist of outstanding individuals from different professions. Currently, the Board comprises nine Directors, including five executive Directors and four independent non- executive Directors. Particulars of the Directors are set out on pages 30 to 41 of this annual report. The Company believes that the Board currently comprises experts from diversified professions such as telecommunications, information industry, technology, banking, finance, investment and management, and is diversified in terms of gender, age, duration of service, educational background, professional experience, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

The below sets out the analysis of the current composition of the Board:

DESIGNATION

5
Executive Directors

4
Independent Non-Executive Directors

GENDER

7
male

2
female

AGE GROUP

4
45-54

2
55-64

3
>65

DURATION OF SERVICE (YEARS)

5
<5

1
6-10

3
>10

The roles and responsibilities of the Chairman and the Chief Executive Officer of the Company were performed by the same individual for the year ended 31 December 2021. The Company considers that, as all major decisions are made by the Board and relevant Board Committees after discussion, through supervision by the Board and the independent non-executive Directors together with effective internal control mechanism, the Company has achieved a balance of power and authority. In addition, the same individual performing the roles of the Chairman and the Chief Executive Officer can enhance the Company's efficiency in decision-making and execution, effectively capturing business opportunities.

All independent non-executive Directors of the Company possess good knowledge and experience in different areas. They have been making positive contributions to the development of the Company's strategies and policies through independent, constructive and informed advices. They have maintained close contact with the management and actively express constructive opinions on matters relating to corporate governance, operation management, risk prevention and the capital market at board meetings. These views and opinions facilitate the Board in making their decisions in the shareholders' best interests. All independent non-executive Directors, except for their equity interests and remuneration disclosed in this annual report, do not have any business with or financial interests in the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. The functions of non- executive 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 non-executive Directors, to consider the qualifications of the candidates. The Directors of the Company (including non-executive Directors) are not appointed for a specific term. However, pursuant to the Company's articles of association, one-third of the directors shall retire from office by rotation and shall be eligible for re-election at each annual general meeting.

CORPORATE GOVERNANCE REPORT

Every newly appointed Director is provided with a comprehensive, formal and tailored induction on appointment, including but not limited to the "Guidelines on Directors' Duties" published by the Hong Kong Companies Registry and the "Guidelines for Directors" published by the Hong Kong Institute of Directors. Directors have fiduciary responsibilities to the company. They must not exercise their powers for improper purposes. They must not use the company's opportunities to serve their own interests. Their personal interests are not allowed to conflict with the company's interests, and they must not abuse the company's assets. The Director would subsequently receive all briefing and professional development necessary to ensure that he/she has proper understanding of the Company's operations and businesses, full understanding of his/her responsibilities under the statutes, the common law, the Listing Rules, applicable legal and regulatory requirements, and the Company's business and corporate governance policies. Furthermore, formal letters of appointment setting out the key terms and conditions of the Directors' appointment will be duly prepared.

Directors' training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and/or industrial environment to Directors. In 2021, the Directors as at 31 December 2021 have participated in various training and continuous professional development activities and the summary of which is as follows:

	Types of training
Executive Director	
Liu Liehong *(Chairman)*	**A, B**
Chen Zhongyue	**A, B**
Wang Junzhi	**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, business ethics 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 responsibilities and workload from serving as non-executive Directors and members of the board committees of the Company. The Company also adopted share option scheme for the purpose of providing long term incentives to eligible participants, including Directors (details of such share option scheme are set out in the paragraph headed "Share Option Scheme of the Company" on pages 70 to 71 of this annual report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 147 to 148 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

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

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

The Company Secretary, being an employee of the Company, has day-to-day knowledge of the Company's affairs and reports to the Chairman of the Board. He keeps close contact with all Directors and ensures that the operation of the Board and all board committees is in compliance with the procedures as set forth in the Company's articles of association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meetings will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform his duties, the Company Secretary attended over 15 hours of professional training in 2021.

CORPORATE GOVERNANCE REPORT

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

All Directors are required to devote sufficient time and attention to the affairs of the Company. A culture of openness and debate are promoted in the Board and the Directors are encouraged to express their views and concerns. The Company provides monthly operating update to the Directors, so as to ensure the Directors are familiar with the Company's latest operations. In addition, through regular board meetings and reports from management, the Directors are able to clearly understand the operations, business strategy and latest development of the Company and the industry. Besides formal board meetings, the Chairman also meets annually with independent non-executive Directors, without the presence of other Directors, which further promotes the exchange of diversified views and opinions. In order to ensure that all Directors have appropriate knowledge of the matters discussed at the meetings, adequate, accurate, clear, complete and reliable information regarding those matters is provided in advance and in a timely manner, and all Directors have the right to inspect documents and information in relation to matters to be decided by the Board. The Directors have frequently visited various branches in Mainland China to gain better understanding of the Company's daily operations. In addition, the Company has arranged relevant trainings for the Directors (which include training sessions conducted by professional advisers, such as lawyers and accountants, from time to time) in order to broaden their knowledge in the relevant areas and to improve their understanding of the Company's business, legal and regulatory requirements and the latest operational technologies. The Board also conducts annual evaluation of its performance. Such efforts have improved the corporate governance of the Company.

In 2021, the Board held four board meetings and passed five written resolutions for, amongst other things, discussion and approval of important matters such as the 2020 annual results, the 2020 Form 20-F, the 2021 annual budget, the 2021 interim results, the first and the first three quarters results for 2021, corporate social responsibility report, reports on risk management and internal control, the appointment of executive Directors and Senior Vice President, termination of ADSs program.

Set forth below is an overview of the attendance during the year of 2021 by the Board members at various meetings:

	Meetings Attended/Held During Each Director's Tenure				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Shareholders Meeting
Executive Directors					
Liu Liehong *(Chairman)*[1]	1/1	N/A	N/A	N/A	N/A
Wang Xiaochu[2]	3/3	N/A	N/A	1/1	1/1
Chen Zhongyue[3]	3/4	N/A	N/A	N/A	1/1
Wang Junzhi[4]	N/A	N/A	N/A	N/A	N/A
Li Fushen[5]	2/2	N/A	N/A	N/A	1/1
Zhu Kebing[6]	1/2	N/A	N/A	N/A	0/1
Fan Yunjun[7]	1/2	N/A	N/A	N/A	N/A
Independent Non-Executive Directors					
Cheung Wing Lam Linus	4/4	4/4	1/1	N/A	1/1
Wong Wai Ming	4/4	4/4	1/1	N/A	1/1
Chung Shui Ming Timpson	4/4	4/4	1/1	1/1	1/1
Law Fan Chiu Fun Fanny	4/4	4/4	N/A	1/1	1/1

Note 1: On 3 September 2021, Mr. Liu Liehong was appointed as executive Director of the Company.

Note 2: On 27 August 2021, Mr. Wang Xiaochu has resigned as executive Director of the Company.

Note 3: On 19 February 2021, Mr. Chen Zhongyue was appointed as executive Director of the Company.

Note 4: On 3 December 2021, Mr. Wang Junzhi was appointed as executive Director of the Company.

Note 5: On 11 June 2021, Mr. Li Fushen has resigned as executive Director of the Company.

Note 6: On 18 June 2021, Mr. Zhu Kebing has resigned as executive Director of the Company.

Note 7: On 28 April 2021, Mr. Fan Yunjun has resigned as executive Director of the Company.

In 2021, the Board performed their fiduciary duties and devoted sufficient time and attention to the affairs of the Company. The Board works effectively and performs its responsibilities efficiently with all key and appropriate issues being discussed and approved in a timely manner.

CORPORATE GOVERNANCE REPORT

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers", as set out in Appendix 10 to the Listing Rules (the "Model Code") to govern securities transactions by directors. Further to the specific enquiries made by the Company to the Directors, all Directors have confirmed their compliance with the Model Code for the year ended 31 December 2021.

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2021, which give a true and fair view of the financial position of the Company as at the statement of financial position date and financial performance and cash flows of the Company for the year ended the statement of financial position date, are properly prepared on the going concern basis in accordance with relevant statutory requirements and applicable financial reporting standards. A statement of the independent auditors about their reporting responsibilities related to the financial statements is set out in the independent auditor's report on pages 92 to 96 of this annual report.

COMMITTEES UNDER THE BOARD

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

Audit Committee

Composition

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

Major Responsibilities

The primary responsibilities of the Audit Committee include: as the key representative body, overseeing the Company's relationship with the independent auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor's independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from the independent auditor to the management and responses of the management; discussing the risk management and internal control system with the management as well as reviewing the reports on the risk management and internal control procedures of the Company. The Audit Committee also has the authority to set up a reporting system to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company's accounting, internal control and audit matters. Any complaints on the aforementioned subject matters can be submitted by post (No. 21 Financial Street, Xicheng District, Beijing, 100033, China) or by phone (86-(010) 88091674). The Audit Committee is responsible to and regularly reports its work to the Board.

Work Completed in 2021

The Audit Committee meets the Board and management as well as independent auditor 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. Besides, the Audit Committee meets the independent auditor at least two times each year, without the presence of other Directors and management.

The Audit Committee held four meetings in 2021 for, amongst other things, discussion and approval of the 2020 annual results, the 2020 Form 20-F, the 2021 interim results, and the first and the first three quarters results for 2021. In addition, the Audit Committee approved in the meetings the corporate social responsibility report, the report of the work of corporate social responsibility, the report on risk management, the report on internal audit and internal control, the report on continuing connected transaction, the 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 2021.

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 with respect to audit committee.

Remuneration Committee

Composition

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

CORPORATE GOVERNANCE REPORT

Major Responsibilities

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

Work Completed in 2021

The Remuneration Committee meets at least once a year. The Remuneration Committee held one meeting in 2021 for, amongst other things, discussion and approval of proposal for appraisal and remuneration of senior management.

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

Nomination Committee

Composition

Currently the Nomination Committee comprised Mr. Chung Shui Ming Timpson, Mr. Liu Liehong and Mrs. Law Fan Chiu Fun Fanny. Except for Mr. Liu Liehong, who is the Chairman and CEO of the Company, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny are independent non- executive Directors of the Company. The Chairman of the Nomination Committee is Mr. Chung Shui Ming Timpson.

Major Responsibilities

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

Work Completed in 2021

The Nomination Committee meets at least once a year. The Nomination Committee held one meeting and passed four written resolutions in 2021 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, the appointment of executive Director and senior vice president.

The Company has adopted nomination policy. 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 non-executive Directors, to consider the qualifications of the candidates. The Directors of the Company (including non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation at general meetings. Pursuant to the Company's articles of association, one-third of the Directors shall retire from office by rotation and be eligible for re-election at each annual general meeting.

The Company has also adopted a policy concerning diversity of board members. The Company recognises and embraces the benefits of having a diverse Board, and notes increasing diversity at Board level as an essential element in maintaining a competitive advantage. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective. In reviewing Board composition, the Nomination Committee will consider their professional knowledge, skills, experience and the balance of 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 with due regard to the benefits of diversity on the Board and base on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and duration of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In addition, pursuant to the Company's articles of association, shareholder may propose other person for election as a director at general meeting. The proposal will be considered and approved in the general meeting. With regard to the procedure for shareholder to propose a person for election as a director, please visit the Company's website at https://www.chinaunicom.com.hk/en/about/cg_report.php.

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu is the independent auditor of the Company. Apart from audit services, it also provides other assurance and non-audit services. The audit committees supervised the independent auditor and determined the potential impact of non-audit services on such auditor's independence, and pre-approved the services and fees to be provided by the independent auditor based on the established pre-approval framework. The remuneration paid/payable to the independent auditor for provision of services in 2021 is as follows:

Items	Note	2021 (in RMB thousands)
Audit and other assurance services	(i)	**40,478**
Non-audit services	(ii)	**8,188**

Notes:

(i) Audit and other assurance services in 2021 mainly included the provision of audit service for the Company's consolidated financial statements, and statutory audit services for the financial statements of its subsidiaries, as well as the provision of other assurance services.

(ii) Non-audit services included other services that can be reasonably provided by the independent auditor. In 2021, the provisions of non-audit services mainly included tax compliance services and other advisory services.

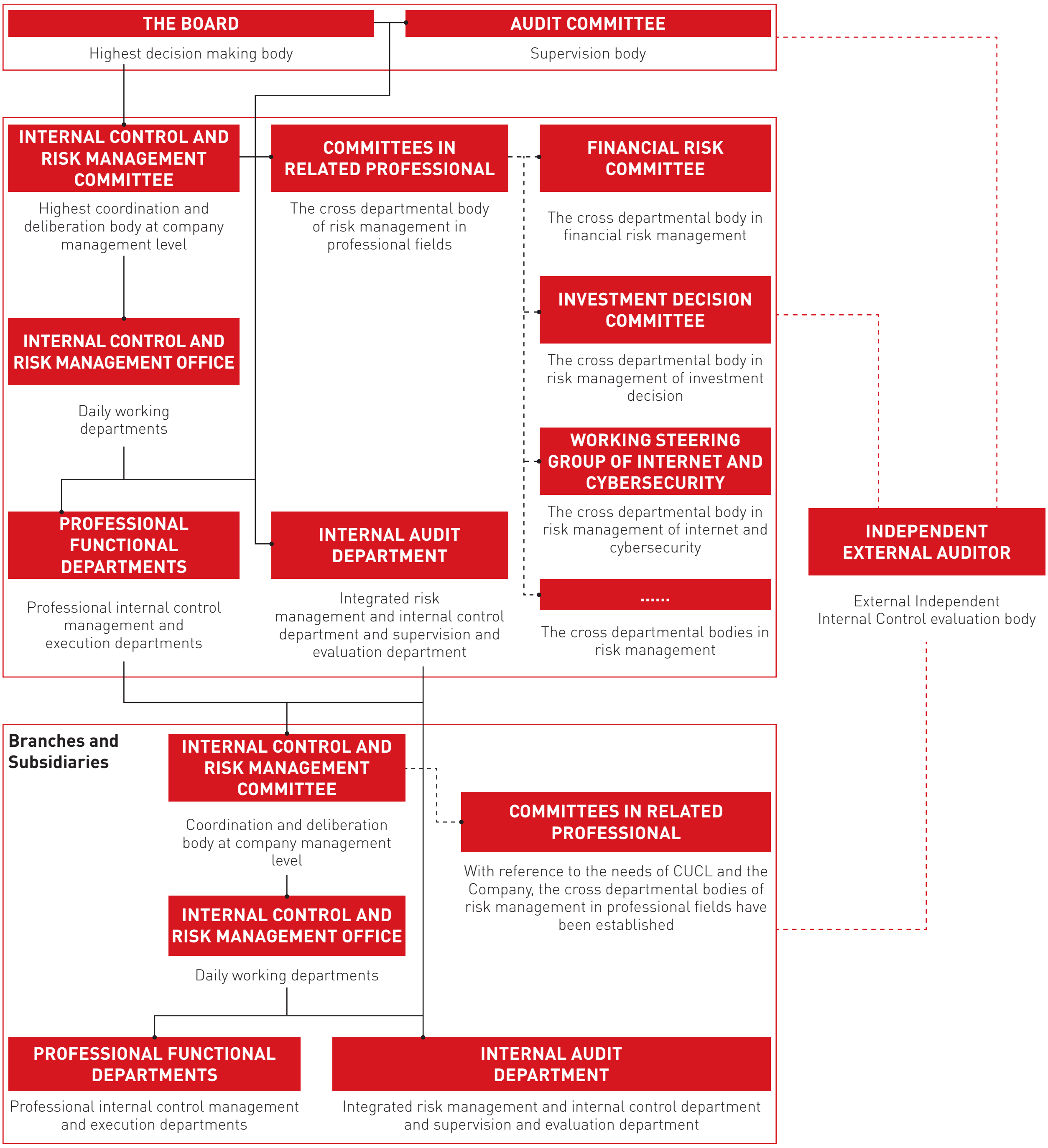
RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems (included but not limited to operational, financial, compliance, environmental, social and governance), promotes the sustainable and healthy development of the Company, and enhances the Company's operation management level and risk prevention ability. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems. The Board acknowledges that it is its responsibility for the risk management and internal control systems and reviewing their effectiveness.

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

Organisation systems

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



CORPORATE GOVERNANCE REPORT

The Company has an internal audit department with 623 staff members, with officers stationed at various provincial branches. The internal audit department reports directly to the Audit Committee at least twice annually and is independent of the Company's daily operation and accounting functions. The internal audit department responsible for overall risk evaluation, special risk evaluation and internal control self-testing etc. It has also formulated targeted risk prevention and control measures, conducted risk follow-up inspections and has enhanced the risk awareness of the employees, all of which have played an active role in the Company's effective support and safeguard of its operation management and business development. Furthermore, with an emphasis on the effectiveness of internal control with respect to the efficiency of operations, accuracy of financial information, and compliance with rules and regulations, the internal audit department conducts, amongst others, internal control assessment and internal audit on economic accountability. In addition, the internal audit department also contributes to strengthening the operation and management, improving internal control systems, mitigating operational risks and increasing the economic efficiency of the Company.

Using the risk evaluation as fundamental with the adoption of Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (the "COSO"), the Company established internal control systems based on the following five fundamental components:

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

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

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

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

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

Risk evaluation and management

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

2021 Risk evaluation result

The followings were the major significant risks which the Company encountered and its countermeasures in 2021:

Continuous market competition risk

In recent years, the revenue growth of the telecommunications industry have slowed down with low profitability. The industry has been competing through the traditional retention game, with serious homogeneity and lack of product differentiation. Price war remains as the main edge among the highly competitive industry. The Company will further implement its new positioning, new strategies and strategic planning objectives, strengthen and enhance its strategic execution, promote cooperation with peers, resolutely eliminate price vicious competition, ensure orderly and healthy competition and maintain sustainable development of the industry.

Risk from the regulatory policies in the industry

The Chinese government will continue to promote the policies such as the opening of telecommunications industry to foreign and private capital, "Speed Upgrade and Tariff Reduction" and adjustments to interconnection settlement in domestic telecommunication services. These regulatory policies will bring new development opportunities to the Company while also bringing challenges. The Company will pay close attention to changes in regulatory policies and respond to the relevant impacts of regulatory policy adjustments in a timely manner.

Network and information security risk

With the rapid development of digital economy and information communication technologies, the state and the society have widely attached importance on user information security of telecom operators, with more stringent legal monitoring in the coming future. The Company has a large number of application systems which contain enormous user data. Data security is a major challenge due to the size, costs and difficulty in data protection. The Company attaches great importance to network and information security, with the aim to strictly comply with laws and regulations and strengthen the security of communication network operation and management of information security in line with the concept of holistic view of national security.

Business transformation and development risk

The traditional business of the telecommunications industry is becoming increasingly saturated. With growing new demand for digital, network and intelligent transformation and upgrades in different industries, research and development of innovative products will be a long-term challenge for sustainable development. The Company continues to strengthen innovation-driven development, increase investment in innovation, expand the scale of scientific and innovative R&D personnel, adhere to the outcome-oriented and value-oriented approach, deeply understand industry needs and closely integrate industry characteristics, so as to enhance core competitiveness and sustainable development capabilities.

CORPORATE GOVERNANCE REPORT

Technology upgrade and development risk

As telecom operators around the world accelerate their network upgrade and promoted the application of 5G technology, while new technologies of information and communication accelerate the upgrade of repetitive computing. The Company has also been expanding its 5G network construction scale, which hugely increased its CAPEX and correspondingly the OPEX. The Company actively participated in the work of major international standards organisations, which carrying out in-depth research and testing of new technologies and new businesses, continuously deepening co-build co-share among the industry, advancing industrial chain collaboration and technological maturity and, on the end-user side, strengthening the driving and guidance of the industry chain for large-scale development of 5G applications.

The scope of the 2021 overall risk evaluation covered the whole Group, which included headquarter, 31 provincial companies and its cities-level branch offices and subsidiaries. Through both the quantitative and qualitative analysis, the Company fully considered the changes in operating environment, business and policies, identified the potential risk to the Company's operation, and planned for the risk according to the quantitative result. After reporting to each professional departments and the management, the significant risks and the risk level of the year were finally determined. The annual risk management instructions from the management were implemented according to the Policy on Risk Management and the Company's risk management requirement. This included the formulation of relevant risk management strategies, solution and corresponding departments carried out interim follow-up inspection works. The negative impacts arising from the risks and risk events were controlled as planned and were within an acceptable range. There were no significant control failings or weaknesses that have been identified during the year.

Monitoring and Optimisation

To ensure the effectiveness of risk management and internal control designs, the Company carried out risk evaluation timely and compared the risk points, formulated or enhanced corresponding internal control measures according to the change in business and management. At the same time, the internal control manual will be updated timely through the assessment and review on applications on internal control workflow modification submitted by professional departments, risk evaluation reports and exceptional issues from internal control assessment etc., so as to provide the effective support for the development of the sustainable growth of the Company. Internal Control and Risk Management Office conducted inspections on effectiveness on risk management and internal control implementation in regular or irregular time interval, improved and enhanced risk management and internal control designs continuously. Our Internal Audit Department has continued to organise our branches and subsidiaries to conduct annual internal control self-assessment based on the actual conditions of each unit and improve the quality of such self-assessment tasks, so as to gradually develop a quantitative internal assessment regime governed by uniform standards. Through the effective rectification of issues identified during the audit, assessment of the internal control system and its implementation, improvements made to the system and process optimisation, a long-term mechanism for closed-loop management in internal control has been put in place. According to the internal control self- assessment reports from the branches and subsidiaries, self-assessment reports from each professional department, current year exceptional issues in internal control discovered during internal audit and the Company annual risk management report, the Group's Internal Control and Risk Management Office at its headquarter formed the Company's internal control self-assessment report, which acted as supporting document for the management to issue a statement of the effectiveness of internal control. Based on different disclosure requirements on Company's internal control assessment report from different listing regulatory body, the Company prepared internal control assessment report respectively. External auditor issued and disclosed independence opinions on financial statement as at 31 December on that year and effectiveness on internal control over financial reporting.

As a telecommunications operator, the Company is subject to the regulations, eg, relevant provisions in the Cybersecurity Law of the People's Republic of China, Data Security Law of the People's Republic of China and Personal Information Protection Law of the People's Republic of China, designed to protect critical information infrastructure. Personal privacy, information security, and data protection are increasingly significant issues in China and other jurisdictions in which the Company operate. For example, Cybersecurity Law of the People's Republic of China which sets forth the general framework regulating network products, equipment and services, as well as the operation and maintenance of information networks, the protection of personal data, and the supervision and administration of cybersecurity in China. Identification Methods for Illegal Collection and Use of Personal Information by Apps published in 2019, stipulating standards for determining illegal acts of collecting and using personal information through mobile applications. Information Security Technology - Personal Information Security Specification published in 2020 which replaced the old version published in 2017. The Cyber Security Review Measures published in 2020 require that the procurement of network products and services that affect or may affect national security should conduct a network security review. The Data Security Law of the People's Republic of China and Personal Information Protection Law of the People's Republic of China published in 2021 further regulate data and personal information processing activities, and protect the legitimate rights and interests of individuals and organisations from being infringed. The Company also devotes significant resources to network security, data security and other security measures to protect its systems and data and in response to the evolving cybersecurity laws and regulations. The Company also employs risk management and internal control systems. including, among other things, (i)continuously strengthening data security capabilities, such as improving data encryption, protection of critical information infrastructure and security of supply chain of the information technology products and services; (ii) establishing data protection compliance

CORPORATE GOVERNANCE REPORT

policies and guidelines, including training on crisis management and compliance of cybersecurity laws and regulations; (iii) self-examining potential risks and weakness of data system and updating private policy; (iv) enhancing the real-time monitoring and alarm reporting system and implementing an emergency action plan to allow the Company to act responsively and minimise losses in the event of an emergency; and (v) continuously improving compliance efforts through enhanced sharing of relevant knowledge internally and externally. The Company is required to perform a security assessment when transferring personal information and important data overseas if such personal information and important data are collected from the operation in China.

Annual review

The Board oversees the Company's risk management and internal control systems on an ongoing basis and the Board conducted an annual review of the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2021, which covered all material controls including financial, operational and compliance controls. After receiving the reports from the Internal Audit Department, as well as the confirmation from the management to the Board on the effectiveness of these systems, the Board is of the view that the Company's risk management and internal control systems is effective and adequate. The review also ensure, with respect to the Company's accounting, internal audit and financial reporting function, the adequacy of resources, staff qualifications and experience, and training programs and budget.

Information Disclosure Controls and Procedural Standards

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

POLICY ON PAYMENT OF DIVIDEND

The objective of the dividend policy is to achieve a long-term, sustainable and steadily increasing dividend, with a view to maximising the shareholders' value. The declaration and payment of future dividends will depend upon, among other things, financial condition, business prospects, future earnings, cash flow, liquidity level and cost of capital. The Company believes such policy will provide the shareholders with a stable return in the long term along with the growth of the Company. Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Company's articles of association, the Company may only pay dividends out of profits available for distribution.

Taking into consideration the Company's sound business development and strong free cash flow, the Board recommended the payment of a final dividend of RMB0.096 per share for the year ended 31 December 2021, together with an interim dividend of RMB0.120 per share already distributed during the year, total dividend for 2021 amounted to RMB0.216 per share. Going forward, the Company will continue to strive for enhancing its profitability and shareholders' returns.

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

In addition to publishing annual reports and interim reports, the Company discloses major unaudited financial information (including revenue, operating expenses, EBITDA, net profit) and other key performance indicators on a quarterly basis and announces operational statistics on a monthly basis in order to enhance the Company's transparency and improve investors' understanding of the business operations of the Company.

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

The Company's investor relations department is responsible for providing information and services requested by investors, maintaining timely communications with investors and fund managers, including responding to investors' inquiries and meeting with company-visit investors, as well as gathering market information and passing views from shareholders to the Directors and management to ensure such views are properly communicated. The Company also arranges from time to time road shows and actively attends investor conferences arranged by investment banks, through which the Company's management meets and communicates with investors to provide them with opportunities to understand more accurately the Company's latest development and performance in various aspects, including business operations and management

CORPORATE GOVERNANCE REPORT

In 2021, the Company participated in the following investor conferences:

Date	Conferences
January 2021	Morgan Stanley Virtual China New Economy Summit
January 2021	UBS Greater China Conference 2021
March 2021	BofA 2021 Asia Pacific Telecom, Media & Technology Conference
March 2021	24th Credit Suisse Asian Investment Conference
March 2021	Morgan Stanley Virtual Hong Kong Summit
June 2021	CITIC Securities Capital Market Forum 2021
June 2021	Nomura Investment Forum Asia 2021
June 2021	Citi Pan-Asia Regional Investor Conference 2021
June 2021	Industrial Securities 2021 Interim Strategy Conference
June 2021	CICC 2H 2021 Investment Strategy Conference
August 2021	UBS China TMI Virtual Conference 2021
September 2021	Nomura China Investor Forum 2021
September 2021	Jefferies Asia Forum
September 2021	28th Annual CITIC CLSA Flagship Investors' Forum
November 2021	12th Credit Suisse China Investment Conference
November 2021	Goldman Sachs China Conference 2021
November 2021	Citi China Investor Conference 2021
November 2021	CICC Investment Forum 2021
November 2021	Jefferies 5G, Software & Data Centers Access Days 2021
November 2021	Huatai Investment Conference 2022
December 2021	China Securities Capital Market Summit 2022

In addition, through announcements, press releases and the Company website (www.chinaunicom.com.hk), the Company disseminates the latest information regarding any significant business development in a timely and accurate manner. In the perspective of investor relations, the Company's website not only serves as an important channel for the Company to disseminate press releases and corporate information to investors and the capital market, but also plays a significant role in the Company's valuation and our compliance with regulatory requirements for information disclosure. In 2021, the Company updated the content of its website on an ongoing basis to further enhance the functions of website and level of transparency in information disclosure, striving for achieving international best practices. Our website was honored with the Grand Award by an international institution, "iNova Awards", this year.

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.

The Company's effort in investor relations is well recognised by the capital market, and accredited with a number of awards. The Company was voted as "Asia's Best IR Team (Telecoms)" in "2021 All-Asia Executive Team" ranking organised by Institutional Investor.

SHAREHOLDERS' RIGHTS

Annual General Meeting

The Board endeavors to maintain an on-going dialogue with shareholders, and in particular, to communicate with shareholders through annual general meetings. Notices of annual general meeting are sent to shareholders at least 21 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. The independent auditor also attends the annual general meeting for the reporting to shareholders every year. 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.

CORPORATE GOVERNANCE REPORT

The last annual general meeting of the Company was held on 13 May 2021, at which the following resolutions were passed and percentage of votes cast in favor of the resolutions are set out as follows:

- to receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2020 (over 99%)
- to declare a final dividend for the year ended 31 December 2020 (over 99%)
- to re-elect Mr. Chen Zhongyue, Mr. Zhu Kebing, Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson as Directors, and to authorise the Board to fix remuneration of the Directors (over 99%)
- to appoint auditor and authorise the Board to fix their remuneration for the year ending 31 December 2021 (over 99%)
- to grant a general mandate for share buy-back (over 99%)
- to grant a general mandate to issue new shares (over 98%)
- to extend the general mandate to issue new shares (over 98%)

The next annual general meeting will be held on 12 May 2022. Please refer to the circular, which sets out the details, that has been sent together with this Annual Report.

Putting Forward Resolutions at Annual General Meetings

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

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

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

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

Convening Extraordinary General Meetings

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

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

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

Putting Forward Resolutions at Extraordinary General Meetings

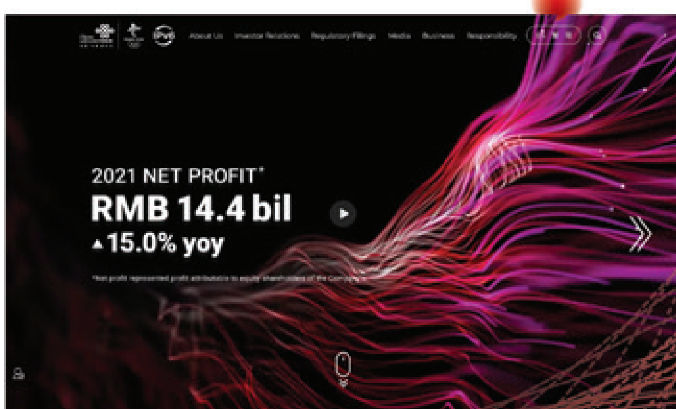
Shareholders may not put forward resolutions to be considered at any general meetings other than annual general meetings. However, shareholders may request an extraordinary general meeting to consider any such resolution as described in "Convening Extraordinary General Meetings" above.

CORPORATE GOVERNANCE REPORT

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.

CONTINUOUS EVOLUTION OF CORPORATE GOVERNANCE

The Company continuously analyses the corporate governance development of international advanced enterprises and the investors' desires, review and enhance corporate governance procedures and practices from time to time so as to meet our shareholders' expectations, commits to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Company's business.



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.

IPv6 https://www.chinaunicom.com.hk

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 2021.

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 2021 are set out on pages 97 to 98 of this annual report.

Taking into consideration the Company's sound business development and strong free cash flow, the Board has resolved to recommend at the forthcoming shareholders' general meeting that the payment of a final dividend of RMB0.096 per ordinary share ("2021 Final Dividend") for the year ended 31 December 2021, totaling approximately RMB2,937 million. Together with the 2021 interim dividend payment of RMB0.120 per share during 2021, the total dividend payment for 2021 amounted to RMB0.216 per share, totaling approximately RMB6,609 million (2020: RMB5,018 million). Going forward, the Company will continue to strive for enhancing its profitability and shareholders' returns. If approved by shareholders at the forthcoming annual general meeting, the 2021 Final Dividend is expected to be paid in Hong Kong dollars on or about 15 June 2022 to those members registered in the Company's register of members as at 23 May 2022 (the "Dividend Record Date").

FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 200 to 201 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2021.

Please refer to the financial statements on pages 97 to 199 for the operating results of the Group for the year ended 31 December 2021 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 2021 is set out in the sections headed "Chairman's Statement" on pages 8 to 15, "Business Overview" on pages 16 to 21, "Financial Overview" on pages 22 to 27, "Financial Statements" on pages 97 to 199, "Human Resources Development" on pages 86 to 87, "Substainability Report" on pages 88 to 91, "Corporate Governance Report" on pages 42 to 67 and "Report of the Directors" on pages 68 to 85 respectively of this annual report. All references herein to other sections or reports in this annual report form part of this Report of the Directors.

LOANS

Please refer to Notes 33, 39 and 45.3 to the consolidated financial statements for details of the borrowings of the Group.

PROMISSORY NOTES

Please refer to Note 34 to the consolidated financial statements for details of the promissory notes of the Group.

CORPORATE BONDS

Please refer to Note 35 to the consolidated financial statements for details of the corporate bonds of the Group.

COMMERCIAL PAPERS

Please refer to Note 40 to the consolidated financial statements for details of the commercial papers of the Group.

CAPITALISED INTEREST

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

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed in this Report of Directors, as at 31 December 2021, no equity-linked agreements were entered into by the Group during the year or subsisted.

PROPERTY, PLANT AND EQUIPMENT

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

CHARGE ON ASSETS

As at 31 December 2021, no property, plant and equipment was pledged to banks as loan security (31 December 2020: Nil).

SHARE CAPITAL

Please refer to Note 30 to the consolidated financial statements for details of the share capital.

RESERVES

Please refer to page 102 and page 181 of this annual report for the movements in the reserves of the Group and the Company during the year ended 31 December 2021 respectively. As at 31 December 2021, the distributable reserve of the Company amounted to approximately RMB5,368 million (2020: approximately RMB13,679 million).

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Please refer to Notes 18, 19 and 20 to the consolidated financial statements for details of the Company's subsidiaries, the Group's associates and joint ventures.

CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 102 of this annual report for the Consolidated Statement of Changes in Equity and page 181 for the Statement of Changes in Equity.

EMPLOYEE BENEFIT EXPENSES

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

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to its five largest customers for the year ended 31 December 2021 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 2021 represented approximately 17% 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 2021 accounted for approximately 45% of the total purchases of the Group for the year.

None of the Directors nor their respective close 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 2021.

SHARE OPTION SCHEME OF THE COMPANY

Pursuant to a resolution passed at the annual general meeting held on 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The purpose of the 2014 Share Option Scheme was to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Following the expiry of the 2014 Share Option Scheme, no further share option can be granted under the 2014 Share Option Scheme, but the provisions of the 2014 Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2014 Share Option Scheme. Under the 2014 Share Option Scheme:

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

(2) any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive Directors of the Company (excluding any independent non- executive Director of the Company in the case such Director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders;

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

$$N = A - B - C$$

where:

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

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

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

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

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

(4) the option period commences on any day after the date on which such share option is offered, but may not exceed 10 years from the offer date;

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

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

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

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

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

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

As at 31 December 2021, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme, representing approximately 5.81% of issued share capital of the Company as at the date of this annual report.

DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' INTERESTS UNDER THE SHARE OPTION SCHEME OF THE COMPANY

For the year ended 31 December 2021 and as at 31 December 2021, none of the Directors of the Company or chief executives or employees of the Company had any interests under any share option scheme of the Company.

REPORT OF THE DIRECTORS

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

As at 31 December 2021, the interests and short positions of Directors and chief executives of the Company in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

Long Positions in the Shares and Underlying Shares of the Company

Name of Director	Capacity	Ordinary Shares Held	Percentage of Issued Shares
Chung Shui Ming Timpson	Beneficial owner (Personal)	6,000	0.00%

Save as disclosed in the foregoing, as at 31 December 2021, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares, or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Furthermore, save as disclosed in the foregoing, during the year ended 31 December 2021, none of the Directors or chief executives (including their spouses and children under the age of 18) of the Company had any interests in or was granted any right to subscribe in any shares, underlying shares, or debentures of the Company or any of its associated corporations, or had exercised any such rights.

MATERIAL INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2021, the following persons (other than disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures") had the following interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of Part XV of the SFO:

Long Positions in the Shares and Underlying Shares of the Company

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

Notes:

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

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

(3) Unicom Group BVI holds 8,082,130,236 shares (representing 26.41% of the total issued shares) of the Company directly. In addition, Unicom Group BVI is also interested in 225,722,791 shares (representing 0.74% of the total issued shares) of the Company under the SFO, in which Unicom Group BVI had a pre-emptive right.

Apart from the foregoing, as at 31 December 2021, 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 30 to the consolidated financial statements for details of the share capital of the Company.

REPORT OF THE DIRECTORS

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

COMPOSITION OF THE BOARD

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

Executive Directors:

Liu Liehong *(Chairman and Chief Executive Officer)* (appointed on 3 September 2021)
Wang Xiaochu (resigned on 27 August 2021)
Chen Zhongyue (appointed on 19 February 2021)
Wang Junzhi (appointed on 3 December 2021)
Li Fushen (resigned on 11 June 2021)
Mai Yanzhou (appointed on 28 February 2022)
Zhu Kebing (resigned on 18 June 2021)
Fan Yunjun (resigned on 28 April 2021)
Li Yuzhuo (appointed on 28 February 2022)

Independent Non-Executive Directors:

Cheung Wing Lam Linus
Wong Wai Ming
Chung Shui Ming Timpson
Law Fan Chiu Fun Fanny

Pursuant to the articles of association, Mr. Liu Liehong, Mr. Wang Junzhi, Mr. Mai Yanzhou, Ms. Li Yuzhuo, Mr. Cheung Wing Lam Linus and Mrs. Law Fan Chiu Fun Fanny will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for the service agreements between the Company and the executive Directors, subsisted during 2021 or as at 31 December 2021, the Directors or his /her connected entity(ies) did not have any material interest, whether directly or indirectly, in any significant transaction, arrangement or contract 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 determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESSES

Unicom Group and the A Share Company are engaged in telecommunications business and other related businesses in China that are similar to and/or compete with those of the Company. Executive directors of the Company also hold executive positions with Unicom Group and the A Share Company. Please refer to the section headed "Directors and Senior Management" on pages 30 to 41 of this annual report for further details.

Mr. Li Fushen (resigned from his position as an executive Director of the Company with effect from 11 June 2021) was served as a non-executive director and the deputy chairman of the board of directors of PCCW Limited. Mr. Li Fushen also served as a non-executive director of HKT Limited and HKT Management Limited (the trustee-manager of the HKT Trust). Mr. Zhu Kebing (resigned from his position as an executive Director and Chief Financial Officer of the Company with effect from 18 June 2021) was served as a non-executive director of PCCW Limited, HKT Limited and HKT Management Limited. Mr. Mai Yanzhou serves as a non-executive director and the deputy chairman of the board of directors of PCCW Limited. Mr. Mai Yanzhou also serves as a non-executive director of HKT Limited and HKT Management Limited (the trustee-manager of the HKT Trust).

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

Apart from the above, there are no competing interests of directors which are disclosable under Rule 8.10(2)(b) of the Listing Rules at any time during the year of 2021 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 2021 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 2021, the Group had approximately 242,497 employees, 598 employees and 286 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 12,606 temporary staff in Mainland China. For the year ended 31 December 2021, employee benefit expenses were approximately RMB58.944 billion (for the year ended 31 December 2020: RMB55.740 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.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

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

REPORT OF THE DIRECTORS

As disclosed in our 2020 Annual Report, the actual amounts of proceeds utilised up to 31 December 2020 was approximately RMB74.58 billion and remaining proceeds as at 31 December 2020 was approximately RMB0.38 billion. Such remaining proceeds would be utilised in technology validation and enablement and launch of trial programs in relation to the 5G network. The Company utilised the proceeds according to the above-mentioned plan during the period of 1 January 2021 to 31 December 2021. As at 31 December 2021, the Company did not have proceeds that remained unused.

CONTINUING CONNECTED TRANSACTIONS

On 21 October 2019, CUCL, a wholly-owned subsidiary of the Company, and Unicom Group entered into a comprehensive services agreement (the "2020-2022 Comprehensive Services Agreement") to renew certain continuing connected transactions including (i) telecommunications resources leasing; (ii) property leasing; (iii) value-added telecommunications services; (iv) materials procurement services; (v) engineering design and construction services; (vi) ancillary telecommunications services; (vii) comprehensive support services; (viii) shared services; and (ix) financial services, including deposit services, lending and other credit services, and other financial services. Pursuant to the 2020-2022 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 2020-2022 Comprehensive Services Agreement is valid for a term of three years starting from 1 January 2020 and expiring on 31 December 2022.

Unicom Group is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Details of the continuing connected transactions under the 2020-2022 Comprehensive Services Agreement are as follows:

(1) Telecommunications Resources Leasing

Unicom Group agrees to lease to CUCL:

(a) certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities); and

(b) certain other telecommunications facilities required by CUCL for its operations.

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

For the year ended 31 December 2021, the total charges paid by CUCL to Unicom Group amounted to approximately RMB270 million.

(2) Property Leasing

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

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

For the year ended 31 December 2021, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB1,039 million, and the rental charges paid by Unicom Group to CUCL was negligible.

(3) Value-added Telecommunications Services

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

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

For the year ended 31 December 2021, the total revenue allocated to Unicom Group in relation to value-added telecommunications services amounted to approximately RMB274 million.

REPORT OF THE DIRECTORS

(4) Materials Procurement Services

Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement.

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

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

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

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

For the year ended 31 December 2021 the total charges paid by CUCL to Unicom Group amounted to approximately RMB28 million.

(5) Engineering Design and Construction Services

Unicom Group agrees to provide engineering design, construction and supervision services and IT services to CUCL. Engineering design services include planning and design, engineering inspection, telecommunications electronic engineering, telecommunications equipment engineering and corporate telecommunications engineering. Construction services include services relating to telecommunications equipment, telecommunications routing, power supplies, telecommunications conduit, and technical support systems. IT services include services relating to office automation, software testing, network upgrading, research and development of new business, and development of support systems.

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

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

For the year ended 31 December 2021, the total charges paid by CUCL to Unicom Group amounted to approximately RMB2,337 million.

(6) Ancillary Telecommunications Services

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

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

For the year ended 31 December 2021, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB2,587 million.

(7) Comprehensive Support Services

Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities which are provided under the Telecommunications Resources Leasing above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services).

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

For the year ended 31 December 2021, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB1,224 million, and the total services charges paid by Unicom Group to CUCL amounted to approximately RMB193 million.

(8) Shared Services

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

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

For the year ended 31 December 2021, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB86 million, and the services charges paid by Unicom Group to CUCL was negligible.

(9) Financial Services

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

The key pricing policies are follows:

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

(b) Lending and other credit services
The lending interest rate will follow the interest rate standard promulgated by the People's Bank of China, and will be no less than the minimum interest rate offered by CUCL and its subsidiaries to other clients for the same type of loan, and the applicable interest rate offered to Unicom Group by the general commercial banks in PRC for the same type of loan. For the year ended 31 December 2021, the maximum daily lending and other credit services balance (including accrued interests) amounted to approximately RMB10,583 million.

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

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

REPORT OF THE DIRECTORS

For the financial year ended 31 December 2021, the above continuing connected transactions have not exceeded their respective caps.

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

The staff from the relevant business departments and the connected persons of the Company will negotiate the pricing terms of the continuing connected transactions. These pricing terms will be determined in accordance with the pricing policy principles set out in the 2020-2022 comprehensive services agreement, which should be fair and reasonable and subject to the review of the finance department.

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

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

The Company's independent auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 76 to 82 of this annual report in accordance with paragraph14A.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 2021 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 2021. Please refer to Note 45 to the consolidated financial statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2021.

CORPORATE GOVERNANCE REPORT

Report on the Company's corporate governance is set out in "Corporate Governance Report" on pages 42 to 67.

DELIST OF ADSs AND TERMINATION OF ADSs PRORGAM

Pursuant to the former U.S. President's executive order and the requirements of the New York Stock Exchange LLC (the "NYSE"), the delisting of the Company's the American Depositary Shares ("ADSs") from NYSE has taken effect on 18 May 2021, and the ADSs Program has terminated on 18 October 2021. The Company's ordinary shares are traded on The Stock Exchange of Hong Kong Limited.

MATERIAL LEGAL PROCEEDINGS

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

The principal activities of Company's subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The Company is required to comply with the Cybersecurity Law of the People's Republic of China, Telecommunications Regulations of the People's Republic of China, Administrative Regulations on Telecommunications Companies with Foreign Investments and other related laws and regulations. At the same time, oversea subsidiaries of the Company are also required to comply with the related laws and regulations where their business operations are located.

For the year ended 31 December 2021, 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 2021.

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 2021 and as at the date of this annual report.

REPORT OF THE DIRECTORS

DONATIONS

For the year ended 31 December 2021, the Group made charitable and other donations in an aggregate amount of approximately RMB2.082 million.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the shareholders' rights to attend and vote at the Annual General Meeting (and any adjournment thereof) on 12 May 2022, and entitlement to the 2021 Final Dividend, the register of members of the Company will be closed. Details of such closures are set out below:

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

Latest time to lodge transfer documents for registration	4:30 p.m. of 3 May 2022
Closure of register of members	From 4 May 2022 to 12 May 2022
Record date	4 May 2022

(2) For ascertaining the shareholders' entitlement to the 2021 Final Dividend:

Latest time to lodge transfer documents for registration	4:30 p.m. of 20 May 2022
Closure of register of members	23 May 2022
Dividend Record date	23 May 2022

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the Annual General Meeting, and to qualify for the 2021 Final Dividend, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than the aforementioned latest times.

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2021 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 2021 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 2021 Final Dividend payable to them after deducting the amount of Enterprise Income Tax payable on such dividend. Investors who invest in the shares in the Company listed on the Main Board of The Stock Exchange of Hong Kong Limited through the Shanghai Stock Exchange or Shenzhen Stock Exchange (the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong

Stock Connect investors) are investors who hold shares through HKSCC Nominees Limited, and in accordance with the above requirements, the Company will pay to HKSCC Nominees Limited the amount of the 2021 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 2021 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 20 May 2022, 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.

MANAGEMENT CONTRACTS

Other than employment contracts, no contract concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2021.

INDEPENDENT AUDITOR

At the close of the 2021 annual general meeting of the Company held on 13 May 2021, KPMG and KPMG Huazhen LLP retired as independent auditor of the Company upon expiration of its term of office. The Hong Kong financial reporting for the year ended 31 December 2021 have been audited by Deloitte Touche Tohmatsu, which retire and, being eligible, offer itself for re-appointment at the 2022 annual general meeting. A resolution to re-appoint appointment of Deloitte Touche Tohmatsu and to authorise the Directors to fix its respective remuneration will be proposed at the 2022 annual general meeting.

By Order of the Board
Liu Liehong
Chairman and Chief Executive Officer

Hong Kong, 11 March 2022

HUMAN RESOURCES DEVELOPMENT

Adhering to the team collaboration approach, China Unicom continuously optimises its system and mechanism, allowing employees and teams who highly contributing to customer needs and enhancing corporate value to share higher returns, thus achieving the mutual growth of the Company and the employees. In 2021, underpinned by the goals of promoting "staff in and out", "post up and down" and "compensation up and down", China Unicom paid continuous efforts to deepen the human resources system reform and implement a talent-based enterprise, providing human resources support for the Company's comprehensive digital transformation and achieving sustainable high-quality development.

Supply-side reforms in human resources continued to improve employment efficiency and optimise employment structure. The Company strengthened the employment efficiency up to industry benchmarks and internal benchmarks by rationally allocating employment resources, resulting in a 7% year-on-year increase in the labour productivity. In 2021, the Company stepped up the introduction of transformation talents, 6,032 high school graduates were introduced and mainly allocated to innovative transformation roles. Internal personnel were mobilised orderly through the internal human resources market. In 2021, the Company opened more than 2,800 vacancies through the internal human resources market, with an accumulation of more than 12,000 applicants.

The Company adopted performance-based compensation as the principal mechanism with a diversified remuneration structure. The Company improved the employee compensation distribution and performance evaluation mechanism to achieve the aligned growth of employee benefits and the return and efficiency of the Company. The Company optimised its value-based internal remuneration distribution mechanism, coordinating and optimising the distribution and widening the gap in remuneration, so as to realise precision in allocation. The Company launched an integrated incentive reporting system, which is able to deliver customised remuneration report to the employees, further enhancing employees' sense of achievement. A long-term incentive system was also established to effectively attract, retain, and appropriately compensate talents.

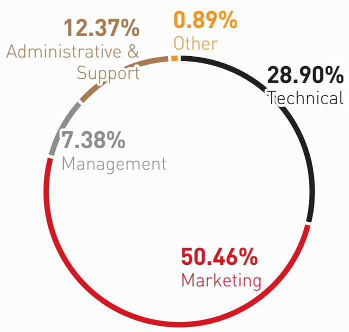
Focusing on the top-level design, the Company conducted comprehensive analysis on the leadership team structure and the overall planning and coordination with due regard to the needs of the Company in the course of development. China Unicom continuously optimised the quality and ability of management, strengthened the supervision of managers and motivating managers at all levels to take new responsibilities and deliver new initiatives in the new era. The Company strategically accelerated structural optimisation and further strengthened the young manager development, as well as the communication between the headquarters and the frontline. In 2021, the Company organised the "100 People to Xiong'an" talent exchange program in accordance with the construction requirement of Xiong'an New Area. Management systems with terms and deeds were fully implemented. While promoting the withdrawn rate of 2nd tier managers of no less than 1.5% per annum, the Company stepped up effort to withdraw managers, further stimulating their vitality.

The Company formulated and issued the "Guiding Opinions on In-depth Implementation of Strengthening Enterprise through Talents", which determined that the Company would vigorously adjust the talent structure based on innovation, including increasing the proportion of scientific and technological innovation and R&D personnel and promoting the implementation through reforming the resource allocation model, implementing key talent projects and deepening the reform of talent mechanism. The Company continued to strengthen the construction of four-level professional talent echelon that consists of 19,000 leaders, experts, backbones and cutting-edge talents, of which technical professionals accounted for more than 50%. The Company accelerated the training and introduction of high-level talents and introduced more than 40 domestic industrial experts in the field of scientific and technological innovation. Digital empowerment of key groups was carried out to realise the full coverage of digital empowerment of 4,000 management personnel and 19,000 four-level professional talents.

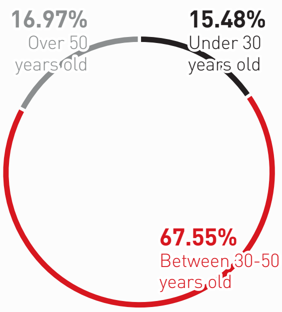
Focusing on the Group's digital transformation work, with improvement in the digital capabilities for all employees as a core aim, the Group formulated the annual key training plans for management personnel and professionals, and carried out regular and multi-level professional ability improvement and transformation empowerment training. Targeting on the career development of employees, the Company implemented differentiated training for different groups, constructed digital ability standards and curriculum systems for key groups, formed training programs and increased standardised empowerment and system guidance.

ANALYSIS OF STAFF COMPOSITION

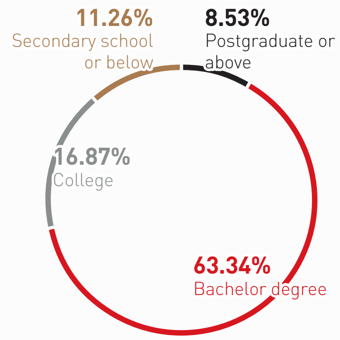
PERSONNEL BY PROFESSION



BY AGE



BY EDUCATION BACKGROUND



For further details of Human Resources Development, please refer to the relevant sections of the Company's detailed Sustainability Report 2021 to be published in May 2022. Please visit the Company's website at **www.chinaunicom.com.hk**.

SUSTAINABILITY REPORT

China Unicom is always committed to integrating its own development with broader sustainable development to achieve the harmony and alignment of corporate interests and social goals. In 2021, under the guidance of the new development philosophies of innovation, coordination, green, openness and sharing, the Company continued to practically implement national strategic plans such as Cyber Superpower, Digital China and the "Belt and Road Initiative", etc. and expressed its willingness and attitude to assume the responsibility of sustainable development by formulating the sustainable development strategy system of China Unicom. In the face of the impact of the pandemic, rapid changes in situations and uncertainties in the tough external environment, we bravely assumed the responsibilities of economic, social, environmental and technological innovation, and started a new journey of high-quality development with new positioning and new strategic pattern. As achievements in the opening year, we have demonstrated our new responsibilities in serving the implementation of major national strategies to meet the people's demand for high-quality life and lead the transformation and upgrade of thousands of industries.

BEARING IN MIND THE NEEDS OF THE COUNTRY AND RESOLUTELY SHOULDERING THE RESPONSIBILITY OF NATIONAL STRATEGIC PLANS

Adhering to the people-oriented value and fundamental logic, China Unicom accelerated the construction of high-speed and ubiquitous, air-space-ground integrated, cloud-network integrated, smart and agile, green and low-carbon, and secured and controllable digital information infrastructure of intelligence and comprehensiveness, so as to build Cyber Superpower and Digital China through promoting regional coordination development and maintaining network information security.

COMMITTING THE CORPORATE RESPONSIBILITIES AND STEADILY PERFORMING THE RESPONSIBILITY OF ECONOMIC DEVELOPMENT

China Unicom supports the development of digital economy and empowers thousands of industries with digital intelligence by continuously enriching the connotations of communication products and services, with a view to vigorously improve network quality and user experience and provide customers with quality communication services. As a "pioneer" in the mixed-ownership reform of central state-owned enterprises, China Unicom has been guided by the market-oriented allocation factors of production, deeply reformed systems and mechanisms and accelerated the establishment of new mechanism that stimulates the vitality of micro entities to better adapt production relations to productivity development, leading to significant improvement in operational efficiency. China Unicom considers employees as the most valuable resources of the Company, it attaches great importance to employees and helps them achieve success, providing them with a broad development platform to promote the comprehensive development of employees and form good vibes for the harmonious development of employees and the enterprise.

CARING FOR THE PEOPLE AND STRONGLY BEARING THE RESPONSIBILITY OF SOCIETY AND PEOPLE'S LIVELIHOOD

China Unicom has always adhered to the people-oriented development philosophy, taking the improvement of people's well-being and all-round development as the starting point and goal of digital development. The Company effectively connected the consolidation and expansion of poverty alleviation achievements with rural revitalisation, actively delivered the warmth of public welfare, promoted the common prosperity of the society, and continuously enhanced the people's sense of gain, happiness and security. At the same time, the Company actively implemented the national "dual carbon" requirements to help build a beautiful China and gathered the advantages of all parties to form an integrated and opened collaboration ecosystem to promote the common development of the industry chain.

INSIGHT IN THE TREND AND DEEPLY IMPLEMENTING THE RESPONSIBILITY OF SCIENTIFIC AND TECHNOLOGICAL INNOVATION

China Unicom is committed to becoming the national team in the operation and service of digital information infrastructure, the key force in the establishment of Cyber Superpower, Digital China and Smart Society, and the frontline troop in the integration and innovation of digital technologies. Targeting at serving national strategies and supporting and leading high-quality development, the Company will coordinate development and security, focus on improving demand-driven original technology, source supply, resource allocation, transformation and application capabilities, and accelerate the construction of a world-class enterprise to play a better role as a state-owned enterprise in achieving technology independence and self-improvement and building a modern industrial system.

CHINA UNICOM'S SUBSTAINABILITY STRATEGY SYSTEM

CREATE AND ENHANCE VALUE

SHAREHOLDERS

COMMUNITY

PARTNERS

EMPLOYEES

GOVERNMENT

CUSTOMERS

PEERS

Resolutely shouldering the responsibility of national strategy plan

Steadily performing the responsibility of economic development

Strongly bearing the responsibility of society and people's livelihood

Deeply implementing the responsibility of semantic and technological innovation

The Company will publish its detailed. Sustainability Report 2021 in May 2022. For more details, please visit the Company's website at https://www.chinaunicom.com.hk.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF CHINA UNICOM (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 97 to 199, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified revenue recognition as a key audit matter because there is an inherent industry risk around the accuracy of revenue recorded by the IT billing systems given the complexity of the systems and the significance of volumes of data processed by the systems. Revenues from the provision of telecommunications services are, in general, recognised as performance obligations are satisfied. Fees for telecommunications packages are recognised for each service type in the packages. The data records are captured and the revenue transactions are recorded by the IT billing systems. Details of the accounting policies for revenue recognition and an analysis of revenues are disclosed in Note 2.25 and Note 6, respectively, to the consolidated financial statements.	Our procedures in relation to revenue recognition comprising both control testing and substantive procedures on a sample basis, included involving our internal IT specialists to assist with: • Testing the IT environment in which the billing systems reside, including interface controls between different IT applications. • Testing the key controls over the calculation of the amounts billed to customers and the capturing and recording of the revenue transactions. • Testing the key controls over the authorisation of the rate changes and the input of such rates to the billing systems. • Testing the end-to-end reconciliations from data records to the billing systems and to the general ledger. • Testing the accuracy of customer bill calculations and the respective revenue transactions recorded. • Testing revenue transactions by comparing the amounts recognised in general ledger to supporting documents, including customer bills, contracts and billing reports.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and long-lived assets	
We identified the impairment of goodwill and long-lived assets as a key audit matter because the impairment assessment of the cash-generating unit to which those assets belong requires the management to exercise significant judgments relating to the estimation of level of revenue, amount of operating costs and applicable discount rate. Details of the accounting policies for impairment of goodwill and long-lived assets and the related accounting estimates are disclosed in Note 2.8, Note 2.13 and Note 4.2, respectively, to the consolidated financial statements. Details of goodwill impairment assessment are disclosed in Note 17 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill and long-lived assets included: • With the assistance of our internal valuation specialists, assessing the discount rate and assumptions used by the management in the value in use model and comparing the discount rate used by the management to externally derived data and our own assessments of key inputs used in deriving the discount rate. • With the assistance of our internal valuation specialists, comparing the key inputs to the projected cash flows, such as the revenue growth rate and amount of operating costs, with corresponding historical data to evaluate the reasonableness of the management's projections. • Assessing and challenging the significant judgments and estimates used in the management's impairment assessment and evaluating the sensitivity analysis performed by the management.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Ip Kan Wah.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
11 March 2022

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

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

	Note	Year ended 31 December 2021	2020
Revenue	6	**327,854**	303,838
Interconnection charges		**(11,557)**	(10,574)
Depreciation and amortisation		**(85,652)**	(83,017)
Network, operation and support expenses	7	**(53,087)**	(46,286)
Employee benefit expenses	8	**(58,944)**	(55,740)
Costs of telecommunications products sold	9	**(30,683)**	(26,862)
Other operating expenses	10	**(77,263)**	(70,237)
Finance costs	11	**(1,385)**	(1,747)
Interest income		**1,215**	1,366
Share of net profit of associates		**1,862**	1,588
Share of net profit of joint ventures		**1,448**	787
Other income — net	12	**4,119**	2,911
Profit before income tax		**17,927**	16,027
Income tax expenses	13	**(3,420)**	(3,450)
Profit for the year		**14,507**	12,577
Profit attributable to:			
Equity shareholders of the Company		**14,368**	12,493
Non-controlling interests		**139**	84
Profit for the year		**14,507**	12,577
Earnings per share for profit attributable to equity shareholders of the Company during the year:			
Basic earnings per share (RMB)	14	**0.47**	0.41
Diluted earnings per share (RMB)	14	**0.47**	0.41

The notes on pages 106 to 199 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021
(All amounts in RMB millions)

	Year ended 31 December	
	2021	2020
Profit for the year	**14,507**	12,577
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Changes in fair value of financial assets measured at fair value through other comprehensive income ("FVOCI") (non-recycling)	**135**	(1,482)
Tax effect on changes in fair value of financial assets measured at FVOCI (non-recycling)	**(3)**	4
Changes in fair value of financial assets measured at FVOCI, net of tax (non-recycling)	**132**	(1,478)
Others	**(23)**	(5)
	109	(1,483)
Items that may be reclassified subsequently to statement of income:		
Changes in fair value of financial assets measured at FVOCI, net of tax (recycling)	**(3)**	34
Currency translation differences	**(133)**	(257)
	(136)	(223)
Other comprehensive income for the year, net of tax	**(27)**	(1,706)
Total comprehensive income for the year	**14,480**	10,871
Total comprehensive income attributable to:		
Equity shareholders of the Company	**14,341**	10,787
Non-controlling interests	**139**	84
Total comprehensive income for the year	**14,480**	10,871

The notes on pages 106 to 199 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(All amounts in RMB millions)

	Note	As at 31 December 2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment	15	**355,031**	364,187
Right-of-use assets	16	**32,866**	37,960
Goodwill	17	**2,771**	2,771
Interest in associates	19	**41,278**	38,802
Interest in joint ventures	20	**7,138**	5,656
Deferred income tax assets	13	**271**	745
Contract assets	21	**71**	103
Contract costs	22	**4,025**	3,672
Financial assets measured at fair value	23	**3,715**	3,493
Other assets	25	**17,682**	14,591
		464,848	471,980
Current assets			
Inventories	26	**1,846**	1,951
Contract assets	21	**406**	823
Accounts receivable	27	**17,957**	16,287
Prepayments and other current assets	28	**17,925**	15,882
Amounts due from ultimate holding company	45	**10,558**	10,570
Amounts due from related parties	45	**270**	195
Amounts due from domestic carriers		**2,007**	3,665
Financial assets measured at fair value	23	**29,011**	24,189
Short-term bank deposits and restricted deposits	24	**11,968**	11,989
Cash and cash equivalents	29	**34,280**	23,085
		126,228	108,636
Total assets		**591,076**	580,616

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(All amounts in RMB millions)

	Note	As at 31 December 2021	2020
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	30	**254,056**	254,056
Reserves	31	**(17,228)**	(18,821)
Retained profits			
— Proposed final dividend	32	**2,937**	5,018
— Others		**92,572**	86,334
		332,337	326,587
Non-controlling interests		**1,096**	933
Total equity		**333,433**	327,520
LIABILITIES			
Non-current liabilities			
Long-term bank loans	33	**1,835**	2,482
Promissory notes	34	**—**	998
Corporate bonds	35	**—**	1,999
Lease liabilities	36	**10,415**	16,458
Deferred income tax liabilities	13	**417**	64
Deferred revenue	37	**6,951**	5,927
Amounts due to related parties	45	**742**	3,042
Other obligations	38	**1,098**	98
		21,458	31,068

	Note	As at 31 December 2021	2020
Current liabilities			
Short-term bank loans	39	**385**	740
Commercial papers	40	**6,875**	7,000
Current portion of long-term bank loans	33	**372**	418
Current portion of promissory notes	34	**1,004**	—
Current portion of corporate bonds	35	**2,039**	1,000
Lease liabilities	36	**12,144**	11,503
Accounts payable and accrued liabilities	41	**140,124**	134,437
Bills payable		**4,246**	5,482
Taxes payable		**1,435**	2,805
Amounts due to ultimate holding company	45	**4,028**	1,640
Amounts due to related parties	45	**12,926**	9,183
Amounts due to domestic carriers		**2,262**	2,291
Current portion of other obligations	38	**2,519**	2,529
Contract liabilities	21	**45,704**	42,641
Advances from customers		**122**	359
		236,185	222,028
Total liabilities		**257,643**	253,096
Total equity and liabilities		**591,076**	580,616
Net current liabilities		**(109,957)**	(113,392)
Total assets less current liabilities		**354,891**	358,588

The notes on pages 106 to 199 are an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 11 March 2022 and signed on behalf of the Board by:

Liu Liehong
Director

Li Yuzhuo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021
(All amounts in RMB millions)

		Attributable to equity shareholders of the Company								
	Note	Share capital	General risk reserve	Investment revaluation reserve	Statutory reserves	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
Balance at 1 January 2020		254,056	690	(7,956)	30,185	(41,722)	84,794	320,047	708	320,755
Total comprehensive income for the year		–	–	(1,478)	–	(228)	12,493	10,787	84	10,871
Share of an associate's other reserves		–	–	–	–	(37)	–	(37)	–	(37)
Appropriation to statutory reserves		–	–	–	1,246	–	(1,246)	–	–	–
Appropriation to other reserves		–	160	–	–	–	(160)	–	–	–
Dividends relating to 2019 final	32	–	–	–	–	–	(4,529)	(4,529)	–	(4,529)
Capital contribution relating to share-based payment borne by A Share Company (as defined in Note 1)	44	–	–	–	–	375	–	375	–	375
Others		–	–	–	–	(56)	–	(56)	141	85
Balance at 31 December 2020		254,056	850	(9,434)	31,431	(41,668)	91,352	326,587	933	327,520
Total comprehensive income for the year		**–**	**–**	**132**	**–**	**(159)**	**14,368**	**14,341**	**139**	**14,480**
Contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Addition of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14**	**14**
Share of associate's other reserves		**–**	**–**	**–**	**–**	**(56)**	**–**	**(56)**	**–**	**(56)**
Appropriation to statutory reserves		**–**	**–**	**–**	**1,384**	**–**	**(1,384)**	**–**	**–**	**–**
Appropriation to other reserves		**–**	**137**	**–**	**–**	**–**	**(137)**	**–**	**–**	**–**
Dividends relating to 2020 final	32	**–**	**–**	**–**	**–**	**–**	**(5,018)**	**(5,018)**	**–**	**(5,018)**
Dividends relating to 2021 interim	32	**–**	**–**	**–**	**–**	**–**	**(3,672)**	**(3,672)**	**–**	**(3,672)**
Capital contribution relating to share-based payment borne by A Share Company	44	**–**	**–**	**–**	**–**	**136**	**–**	**136**	**–**	**136**
Others		**–**	**–**	**–**	**–**	**19**	**–**	**19**	**–**	**19**
Balance at 31 December 2021		**254,056**	**987**	**(9,302)**	**32,815**	**(41,728)**	**95,509**	**332,337**	**1,096**	**333,433**

The notes on pages 106 to 199 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(All amounts in RMB millions)

	Year ended 31 December	
	2021	2020
Cash flows from operating activities		
Cash generated from operations	**114,414**	107,428
Interest received	**1,215**	1,309
Interest paid	**(1,324)**	(1,832)
Income tax paid	**(3,669)**	(1,354)
Net cash inflow from operating activities	**110,636**	105,551
Cash flows from investing activities		
Purchase of property, plant and equipment, right-of-use assets and other assets	**(72,047)**	(58,656)
Proceeds from disposal of property, plant and equipment and other assets	**2,267**	1,647
Acquisition of financial assets measured at fair value through profit and loss ("FVPL")	**(2,294)**	(5,751)
Proceeds from disposal of financial assets measured at FVPL	**646**	4,268
Acquisition of debt securities measured at FVOCI (recycling)	**(28,930)**	(42,650)
Acquisition of equity securities measured at FVOCI (non-recycling)	**(8)**	—
Proceeds from disposal of debt securities measured at FVOCI (recycling)	**26,494**	19,511
Net cash inflows from addition of subsidiaries	**1,462**	—
Acquisition of other financial assets measured at amortised cost	**(61,463)**	(9,050)
Proceeds from disposal of other financial assets measured at amortised cost	**60,762**	9,050
Dividends received from financial assets measured at FVOCI (non-recycling)	**179**	210
Acquisition of interest in associates	**(2,328)**	(1,349)
Acquisition of interest in joint ventures	**(45)**	(117)
Proceeds from disposal of associates and joint ventures	**8**	19
Dividends received from associates	**813**	546
Increase in short-term bank deposits and restricted deposits	**(400)**	(6,900)
Lending by Unicom Group Finance Company Limited ("Finance Company") to a related party	**(11,400)**	(16,500)
Repayment of loans from a related party to Finance Company	**11,500**	13,704
Net cash outflow from investing activities	**(74,784)**	(92,018)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021
(All amounts in RMB millions)

	Note	Year ended 31 December 2021	2020
Cash flows from financing activities			
Contribution from non-controlling interests		**10**	66
Proceeds from short-term bank loans and other obligations		**685**	2,740
Proceeds from commercial papers		**6,800**	8,000
Loans from a related party		**207**	—
Repayment of short-term bank loans		**(740)**	(7,564)
Repayment of long-term bank loans		**(763)**	(395)
Repayment of commercial papers		**(7,000)**	(10,000)
Repayment of related party loans		**(2,507)**	(50)
Repayment of corporate bonds		**(1,000)**	—
Capital element of lease rentals paid		**(12,727)**	(11,696)
Payment of issuing expense for commercial papers		**(5)**	(7)
Dividends paid to equity shareholders of the Company		**(8,690)**	(5,447)
Net deposits with Finance Company by related parties		**980**	283
Decrease/(increase) in statutory reserve deposits placed by Finance Company		**171**	(1,140)
Net cash outflow from financing activities		**(24,579)**	(25,210)
Net increase/(decrease) in cash and cash equivalents		**11,273**	(11,677)
Cash and cash equivalents, beginning of year		**23,085**	34,945
Effect of changes in foreign exchange rate		**(78)**	(183)
Cash and cash equivalents, end of year	29	**34,280**	23,085
Analysis of the balances of cash and cash equivalents:			
Cash balances		**—**	1
Bank balances		**34,280**	23,084
		34,280	23,085

The notes on pages 106 to 199 are an integral part of these consolidated financial statements.

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

	Year ended 31 December	
	2021	2020
Profit before income tax	**17,927**	16,027
Adjustments for:		
Depreciation and amortisation	**85,652**	83,017
Interest income	**(1,215)**	(1,366)
Finance costs	**1,308**	1,564
Loss on disposal of property, plant and equipment	**3,749**	2,365
Impairment losses under expected credit loss ("ECL") model and write-down of inventories	**3,301**	5,584
Dividends from financial assets measured at FVOCI (non-recycling)	**(179)**	(210)
Gains on disposal of financial assets measured at FVPL	**(15)**	(87)
Investment income from debt securities measured at FVOCI (recycling)	**(850)**	(174)
Fair value losses/(gains) on financial assets measured at FVPL	**39**	(154)
Share of net profit of associates	**(1,862)**	(1,588)
Share of net profit of joint ventures	**(1,448)**	(787)
Expenses for restricted shares of A Share Company granted to the Group's employees	**136**	375
Changes in working capital:		
Increase in accounts receivable	**(4,243)**	(4,151)
Decrease in contract assets	**454**	1,125
Increase in contract costs	**(3,038)**	(1,371)
(Increase)/decrease in inventories	**(359)**	59
Decrease/(increase) in restricted deposits	**250**	(233)
Increase in other assets	**(826)**	(1,694)
Increase in prepayments and other current assets	**(1,747)**	(4,178)
Increase in amounts due from ultimate holding company	**(88)**	(36)
Increase in amounts due from related parties	**(75)**	(5)
Decrease/(increase) in amounts due from domestic carriers	**1,658**	(217)
Increase in accounts payable and accrued liabilities	**7,053**	8,210
(Decrease)/increase in other taxes payable	**(307)**	1,271
(Decrease)/increase in advances from customers	**(225)**	29
Increase in contract liabilities	**3,063**	1,993
Increase in deferred revenue	**1,108**	1,076
Increase/(decrease) in other obligations	**71**	(198)
Increase/(decrease) in amounts due to ultimate holding company	**2,388**	(11)
Increase in amounts due to related parties	**2,763**	1,076
(Decrease)/increase in amounts due to domestic carriers	**(29)**	117
Cash generated from operations	**114,414**	107,428

The notes on pages 106 to 199 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

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

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited ("SEHK") on 22 June 2000 and the American Depositary Shares ("ADS") of the Company were listed on the New York Stock Exchange on 21 June 2000. The New York Stock Exchange LLC filed Form 25 with the United States Securities and Exchange Commission on 7 May 2021 and the delisting of the Company's ADS has taken effective on 18 May 2021.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation

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

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

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

(a) Going Concern Assumption

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation (Continued)

(b) Critical Accounting Estimates and Judgment

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

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

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

(c) New Accounting Standards and Amendments

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation (Continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

Under HKFRSs, business combination of entity and business under common control of the Group after 2005 was accounted for using merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the HKICPA in 2005.

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries and non-controlling interests (Continued)

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2.12) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see Note 2.4).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale.

2.4 Associates, joint ventures and joint arrangement

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

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates, joint ventures and joint arrangement (Continued)

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(c) Group companies

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

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

- Income and expenses for each statement presenting profit or loss and other comprehensive income are translated at average exchange rates (unless the use of the average rate for a period is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

(a) Construction-in-progress

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

(b) Property, plant and equipment

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

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

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

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

(c) Depreciation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

(c) Depreciation (Continued)

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

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

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

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

2.8 Goodwill

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

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

2.9 Contract costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Contract costs (Continued)

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

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

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

2.10 Contract assets and contract liabilities

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Other assets

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

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

(ii) Long-term prepaid usage fees for transmission lines and electricity cables are amortised using a straight-line method over service period.

2.12 Financial assets and financial liabilities

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

Financial assets measured at amortised cost

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

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

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

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

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

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

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(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets and financial liabilities (Continued)

Financial assets measured at fair value

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

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

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

Financial liabilities

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

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

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

Offsetting a financial asset and a financial liability

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of non-financial assets other than goodwill

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

2.14 Credit losses from financial instruments and contract assets

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

— financial assets measured at amortised cost (including cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, certain financial assets included in prepayments and other current assets, amounts due from ultimate holding company, amounts due from related parties, amounts due from domestic carriers and certain other assets);

— contract assets as defined in HKFRS 15, "Revenue from contracts with customers" ("HKFRS 15") (see Note 2.10); and

— debt securities measured at FVOCI (recycling).

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

Measurement of ECLs

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

— twelve-month ECLs: these are losses that are expected to result from possible default events within the twelve months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

Significant increases in credit risk

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

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

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Significant increases in credit risk (Continued)

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

Credit-impaired financial assets

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

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

2.15 Inventories

Inventories, which primarily comprise handsets and accessories, are stated at the lower of cost and net realisable value. Cost is based on the first-in-first-out method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value for all the inventories is determined on the basis of anticipated sales proceeds less estimated costs necessary to make the sale. Cost necessary to make the sale include incremental costs directly attributable to the sale and other cost necessary to sell inventories.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Accounts receivable

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

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

2.17 Short-term bank deposits and restricted deposits

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

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

2.18 Cash and cash equivalents

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

2.19 Government grants

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

2.20 Borrowings

Borrowings including bank loans, commercial papers, promissory notes and corporate bonds are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the instruments using the effective interest method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share capital

Ordinary shares are classified as equity.

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

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

2.22 Employee benefits

(a) Retirement benefits

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group is required to make contributions to the retirement plans at certain percentage of the employees' payroll. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a reduction in the future payments is available. For the years ended 31 December 2021 and 2020, no forfeited contributions may be used by the Group to reduce the existing level of contributions.

(b) Medical insurance

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

(c) Housing benefits

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits (Continued)

(d) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. For defined benefit plan, the Group's obligation for this benefit plan is determined using the projected unit credit method and recognised as liability, with actuarial valuation carried out at the end of each annual reporting period.

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

(e) Share-based compensation costs

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

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

(f) Restricted A-Share Incentive Scheme

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Accounts payable

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

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

2.24 Provisions

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

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

2.25 Revenue recognition

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

- Standalone sales of telecommunications products, which mainly represent handsets and accessories, and telecommunications equipment, are recognised when control has been transferred to the buyers;

- The Group offers preferential packages to customers which include bundle sale of mobile handsets and provision of services. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their standalone selling prices. Revenue relating to the sale of handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of telecommunications services.

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

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

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

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

2.26 Interest income

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

2.27 Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Lease

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

(a) As a lessee

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Lease (Continued)

(a) As a lessee (Continued)

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

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

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

(b) As a lessor

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Borrowing costs

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

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

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

2.30 Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Taxation (Continued)

(b) Deferred income tax (Continued)

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

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

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

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

2.31 Dividend distribution

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

2.32 Research and development expenditure

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.32 Research and development expenditure (Continued)

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

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

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

2.33 Contingent liabilities and contingent assets

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

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

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

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

2.34 Earnings per Share

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.35 Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US dollars" or "USD"), Hong Kong dollars ("HK dollars" or "HKD") and European dollars ("Euro"). Exchange risk mainly exists with respect to the financial assets and financial liabilities denominated in foreign currencies including balances with international carriers, cash and cash equivalents.

The Group's headquarter is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years of 2021 and 2020, the Group had not entered into any forward exchange contracts or currency swap contracts.

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

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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

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

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified in the consolidated statement of financial position as financial assets measured at FVOCI (non-recycling) or FVPL.

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

(iii) Cash flow and fair value interest rate risk

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

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk (Continued)

The Group's interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, corporate bonds, related party loans and lease liabilities. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During the years of 2021 and 2020, the Group's borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowings and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in the years of 2021 and 2020.

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

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

(b) Credit risk

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

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

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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

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

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

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

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

The following tables show the undiscounted cash flows of the financial liabilities and lease liabilities (including interest expense) categorised by time from the end of the period under review to the contractual maturity date:

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

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

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

3.2 Capital risk management

The Group's objectives when managing capital are:

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

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

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

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

3.2 Capital risk management (Continued)

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

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

3.3 Fair value estimation

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

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

3.3 Fair value estimation (Continued)

(a) Financial assets measured at fair value

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

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

The following table presents the Group's assets that are measured at fair value as at 31 December 2021:

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

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

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

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

3.3 Fair value estimation (Continued)

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

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

During the years ended 31 December 2021 and 2020, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

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

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 0.57% to 4.35% (2020: 0.57% to 4.35%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 31 December 2021 and 2020 due to the nature or short maturity of those instruments.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

4.1 Depreciation on property, plant and equipment

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

4.2 Impairment of goodwill and long-lived assets

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

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

4.3 Allowance for ECLs

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

5. SEGMENT INFORMATION

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

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

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

6. REVENUE

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

Disaggregation of revenue by major services and products:

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

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6. REVENUE (Continued)

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

7. NETWORK, OPERATION AND SUPPORT EXPENSES

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

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

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

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

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

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

8. EMPLOYEE BENEFIT EXPENSES

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

8.1 Directors' emoluments

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

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

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8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

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

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

Notes:

(a) Mr. Liu Liehong was appointed as executive director, chairman and chief executive officer on 3 September 2021.

(b) Mr. Wang Xiaochu resigned as executive director, chairman and chief executive officer on 27 August 2021.

(c) Mr. Chen Zhongyue was appointed as executive director and president on 19 February 2021.

(d) Mr. Wang Junzhi was appointed as executive director on 3 December 2021.

(e) Mr. Li Fushen resigned as executive director on 11 June 2021.

(f) Mr. Zhu Kebing resigned as executive director on 18 June 2021.

(g) Mr. Fan Yunjun was appointed as executive director on 17 February 2020 and resigned on 28 April 2021.

(h) Mr. Li Guohua resigned as executive director on 11 March 2020.

(i) Mr. Shao Guanglu resigned as executive director on 16 January 2020.

(j) Mr. Cesareo Alierta Izuel retired as non-executive director on 25 May 2020.

8. EMPLOYEE BENEFIT EXPENSES (Continued)

8.1 Directors' emoluments (Continued)

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

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

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

8.2 Senior management's emoluments

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

8.3 Five highest paid individuals

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

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

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

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

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

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

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10. OTHER OPERATING EXPENSES

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

11. FINANCE COSTS

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

12. OTHER INCOME — NET

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

13. TAXATION

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

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

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13. TAXATION (Continued)

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

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

(i) According to the PRC enterprise income tax law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15% (2020: 15%). Certain subsidiaries of the Group obtained the approval of High and New Technology Enterprise and were entitled to a preferential income tax rate of 15% (2020: 15%), and certain research and development costs of the Group's PRC subsidiaries are qualified for 75% (2020: 75%) additional deduction for tax purpose.

(ii) As at 31 December 2021, the Group did not recognise deferred tax assets of approximately RMB51 million (2020: approximately RMB181 million) in respect of tax losses amounting to approximately RMB203 million (2020: approximately RMB726 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five or ten years from the year incurred and hence will be expired by the year of 2026 or 2031.

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

13. TAXATION (Continued)

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

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

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

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

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13. TAXATION (Continued)

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

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

14. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2021 and 2020 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share for the years ended 31 December 2021 and 2020 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. There were no dilutive potential ordinary shares for the years ended 31 December 2021 and 2020.

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

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

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

16. RIGHT-OF-USE ASSETS

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

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16. RIGHT-OF-USE ASSETS (Continued)

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

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

17. GOODWILL

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Group in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group's share of the fair values of the separately identifiable net assets acquired prior to the adoption of AG 5 in 2005.

Goodwill is allocated to the Group's cash-generating unit (the "CGU"). The recoverable amount of the CGU with goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, and extrapolated using a steady 1% growth rate (2020: 1%),the applicable discount rate of 11% (2020: 11%). Management determined expected growth rate and operating results based on past performance and its expectations in relation to market developments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2021 and 2020, any reasonably possible change in the assumptions used in the calculation of recoverable amount would not result in impairment losses.

18. INVESTMENTS IN SUBSIDIARIES

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

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

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom (Russia) Operations Limited Liability Company	Russia, 28 December 2016, limited liability company	–	100%	RUB10,000	Telecommunications service in Russia
China Unicom (Brazil) Telecommunications Limited	Brazil, 23 June 2016, limited liability company	–	100%	R$21,165,840	Telecommunications service in Brazil
China Unicom (Brazil) Holdings Ltda.	Brazil, 27 October 2017, limited liability company	–	100%	R$21,277,298	Investment holding
China Unicom Operations (Thailand) Limited	Thailand, 20 November 2017, limited liability company	–	100%	1,040,000 shares, Baht100 each	Telecommunications service in Thailand
China Unicom Operations (Malaysia) Sdn. Bhd.	Malaysia, 10 November 2017, limited liability company	–	100%	3,200,000 shares, MYR1 each	Telecommunications service in Malaysia
China Unicom Operations Korea Co., Ltd	Korea, 24 November 2017, limited liability company	–	100%	60,000 shares, KRW5,000 each	Telecommunications service in Korea
China Unicom (Vietnam) Operations Company Limited	Vietnam, 19 April 2018, limited liability company	–	100%	VND2,276,000,000	Telecommunications service in Vietnam
China Unicom (Cambodia) Operations Co., Ltd	Cambodia, 11 May 2018, limited liability company	–	100%	10,000 shares, Riels4,000 each	Telecommunications service in Cambodia
PT China Unicom Indonesia Operations	Indonesia, 25 October 2019, limited liability company	–	100%	20,000,000,001 shares, Rp1 each	Telecommunications service in Indonesia
China Unicom (Philippines) Operations Inc	Philippines, 6 November 2019, limited liability company	–	100%	103,012 shares, Php100 each	Telecommunications service in Philippines
China Unicom (Mexico) Operations Limited	Mexico, 29 October 2021, limited liability company	–	100%	Not applicable	Telecommunications service in Mexico
Unicom Vsens Telecommunications Company Limited	The PRC, 19 August 2008, limited liability company	–	100%	RMB610,526,500	Sales of handsets, telecommunications equipment and provision of technical services in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Zhengzhou Kaicheng Industrial Company Limited	The PRC, 21 December 2005, limited liability company	–	100%	RMB2,200,000	Provision of property services in the PRC
Unicompay Company Limited	The PRC, 11 April 2011, limited liability company	–	100%	RMB250,000,000	Provision of e-payment services in the PRC
Beijing Wo Digital Media Advertising Co., Ltd	The PRC, 21 July 2006, limited liability company	–	100%	RMB20,000,000	Provision of advertising design, production, agency and publication in the PRC
Guangdong Unicom Communication Construction Co., Ltd	The PRC, 28 May 2013, limited liability company	–	100%	RMB30,000,000	Provision of telecommunications network construction, maintenance and technical services in the PRC
China Unicom Intelligence Security Technology Corporation Limited	The PRC, 15 August 2007, limited liability company	–	100%	RMB150,000,000	Provision of technical development and consultation in the PRC
Unicom Cloud Data Company Limited	The PRC, 4 June 2013, limited liability company	–	100%	RMB4,000,000,000	Provision of technology development, transfer and consulting service in the PRC
Unicom Innovation Investment Company Limited	The PRC, 29 April 2014, limited liability company	–	100%	RMB3,040,000,000	Venture capital investment business in the PRC
Xiaowo Technology Co., Ltd	The PRC, 24 October 2014, limited liability company	–	100%	RMB200,000,000	Provision of internet information services and value-added telecommunications services in the PRC
China Unicom Smart Connection Technology Company Limited	The PRC, 7 August 2015, limited liability company	–	68.88%	RMB246,796,148	Auto informatisation in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom (Zhejiang) Industry Internet Company Limited	The PRC, 20 June 2017, limited liability company	–	100%	RMB11,000,000	Provision of information communications technology business in the PRC
China Unicom (ShanDong) Industrial Internet Company Limited	The PRC, 3 March 2017, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom (Fujian) Industrial Internet Company Limited	The PRC, 23 February 2018, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom (Shanxi) Industrial Internet Company Limited	The PRC, 21 March 2018, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom Xiongan Industrial Internet Company Limited	The PRC, 25 April 2018, limited liability company	–	100%	RMB274,342,600	Provision of information communications technology business in the PRC
China Unicom (Sichuan) Industrial Internet Company Limited	The PRC, 29 March 2018, limited liability company	–	100%	RMB50,000,000	Provision of information communications technology business in the PRC
China Unicom (Liaoning) Industrial Internet Company Limited	The PRC, 28 March 2018, limited liability company	–	100%	RMB20,000,000	Provision of information communications technology business in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom High-tech Big Data Artificial Intelligence Technology (Chengdu) Co., Ltd.	The PRC, 29 March 2018, limited liability company	–	51%	RMB10,000,000	Provision of Big Data Service, cloud computation and infrastructure service in the PRC
China Unicom iRead Science and Culture Co., Ltd.	The PRC, 28 April 2018, limited liability company	–	100%	RMB51,000,000	Provision of internet information technology, online video, online reading material services in the PRC
China Unicom WO Music & Culture Co., Ltd.	The PRC, 8 May 2018, limited liability company	–	100%	RMB100,000,000	Provision of internet information technology services in the PRC
China Unicom Leasing Co., Ltd.	The PRC, 11 April 2018, limited liability company	25%	75%	RMB2,500,000,000	Provision of finance leasing business in the PRC
Yunjing Culture And Tourism Technology Co., Ltd	The PRC, 27 February 2019, limited liability company	–	60%	RMB20,000,000	Provision of data analysis, processing and application services in the PRC
Yundun Intelligent Security Technology Co., Ltd	The PRC, 11 November 2019, limited liability company	–	51%	RMB51,000,000	Provision of software development, technology promotion and development in the PRC
Wobaifu Information Technology (Tianjin) Co., Ltd	The PRC, 17 April 2020, limited liability company	–	100%	RMB10,000,000	Provision of software and information technology service in the PRC
Changchun FAW Communications Technology Co., Ltd.	The PRC, 27 September 2002, limited liability company	–	51%	RMB86,458,600	Telecommunications operation in the PRC

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

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19. INTEREST IN ASSOCIATES

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

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

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

The above associate is accounted for using the equity method in the consolidated financial statements.

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

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

19. INTEREST IN ASSOCIATES (Continued)

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

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

Aggregate information of associates that are not individually material:

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

20. INTEREST IN JOINT VENTURES

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

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

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

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20. INTEREST IN JOINT VENTURES (Continued)

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

	MUCFC	
	2021	2020
Assets	**149,698**	108,311
Liabilities	**(135,661)**	(97,283)
Equity	**(14,037)**	(11,028)
Revenue	**15,933**	12,651
Profit for the year	**3,063**	1,668
Total comprehensive income for the year	**3,063**	1,668
Included in above income:		
Interest income	**20,598**	15,710
Interest expense	**(4,555)**	(3,059)
Income tax expense	**(477)**	(728)
Reconciled to the Group's interests in the joint venture:		
Net assets of the joint venture	**14,037**	11,028
The Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**7,019**	5,514

Aggregate information of joint ventures that are not individually material:

	2021	2020
The Group's share of net profit	**(84)**	(47)
The Group's share of other comprehensive income	**—**	—
The Group's share of total comprehensive income	**(84)**	(47)
Aggregate carrying amount of the Group's interest in these joint ventures	**119**	142

21. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

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

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

(b) Contract liabilities

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

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

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22. CONTRACT COSTS

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

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

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

23. FINANCIAL ASSETS MEASURED AT FAIR VALUE

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

23. FINANCIAL ASSETS MEASURED AT FAIR VALUE (Continued)

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

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

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

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

24. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

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

25. OTHER ASSETS

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

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25. OTHER ASSETS

(i) Intangible assets

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

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

26. INVENTORIES

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

27. ACCOUNTS RECEIVABLE

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

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

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

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

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

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

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27. ACCOUNTS RECEIVABLE (Continued)

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

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

For individual subscribers and general corporate customers

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

For major corporate customers

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

27. ACCOUNTS RECEIVABLE (Continued)

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

For individual subscribers and general corporate customers

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

For major corporate customers

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

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

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27. ACCOUNTS RECEIVABLE (Continued)

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

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

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

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

28. PREPAYMENTS AND OTHER CURRENT ASSETS

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

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

(i) VAT recoverable includes the input VAT and prepaid VAT that is expected to be deducted within one year.

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

As at 31 December 2021 and 2020, there was no significant impairment for the prepayments and other current assets.

29. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

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

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

(b) Reconciliation of liabilities arising from financing activities

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

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

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

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

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

30. SHARE CAPITAL

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

31. RESERVES

(a) Movement in components of equity

The Company

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

(b) Nature and purpose

(i) Statutory reserves

CUCL is registered as a foreign investment enterprise in the PRC. In accordance with the Articles of Association, it is required to provide for statutory reserves, which are appropriated from profit after tax but before dividend distribution.

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

Accordingly, CUCL appropriated approximately RMB1,384 million (2020: approximately RMB1,246 million) to the statutory reserve fund for the year ended 31 December 2021.

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31. RESERVES (Continued)

(b) Nature and purpose (Continued)

(i) Statutory reserves (Continued)

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under HKFRSs, the appropriations to the staff bonus and welfare fund are charged to the consolidated statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2021 and 2020, no appropriation to staff bonus and welfare fund has been made by CUCL.

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

(ii) General risk reserve

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

(iii) Investment revaluation reserve

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

(iv) Other reserves

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

32. DIVIDENDS

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

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

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

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from the SAT of the PRC, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 31 December 2021, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

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

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33. LONG-TERM BANK LOANS

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

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

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

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

34. PROMISSORY NOTES

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

35. CORPORATE BONDS

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

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

36. LEASE LIABILITIES

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

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

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

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37. DEFERRED REVENUE

Deferred revenue mainly represents the unamortised portion of government grants.

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

38. OTHER OBLIGATIONS

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

(i) One-off cash housing subsidies

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

38. OTHER OBLIGATIONS (Continued)

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

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

In January 2009, through the absorption of China Netcom (Group) Company Limited ("CNC China") by CUCL and the absorption of China Network Communications Group Corporation ("Netcom Group") by Unicom Group, the rights and obligations formerly undertaken by CNC China and Netcom Group were taken over by CUCL and Unicom Group separately. As at 31 December 2021, the Group's unpaid one-off cash housing subsidies amounted to approximately RMB2,493 million (2020: RMB2,496 million). If the actual payments required for these one-off housing subsidies differ from the amount provided, Unicom Group will bear any additional payments required. If the actual payments are lower than the amount provided, the difference will be paid to Unicom Group.

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

39. SHORT-TERM BANK LOANS

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

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

40. COMMERCIAL PAPERS

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

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

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

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40. COMMERCIAL PAPERS (Continued)

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

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

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

41. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

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

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

On 6 September 2009, the Company announced that in order to strengthen the cooperation between the Company and Telefónica, the parties entered into a strategic alliance agreement and a subscription agreement, pursuant to which each party conditionally agreed to invest an equivalent of US dollars 1 billion in each other through an acquisition of each other's shares.

On 23 January 2011, the Company entered into an agreement to enhance the strategic alliance with Telefónica that: (a) Telefónica would purchase ordinary shares of the Company for a consideration of US dollars 500 million through acquisition from third parties; and (b) the Company would acquire from Telefónica 21,827,499 ordinary shares of Telefónica held in treasury ("Telefónica Treasury Shares") for an aggregate purchase price of Euro374,559,882.84. On 25 January 2011, the Company completed the purchase of Telefónica Treasury Shares in accordance with the strategic agreement. During 2011, Telefónica completed its investment of US dollars 500 million in the Company.

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

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

43. EQUITY-SETTLED SHARE OPTION SCHEMES

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Under the 2014 Share Option Scheme, the share options may be granted to employees including all directors; any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders. As at 31 December 2021, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme. Pursuant to the 2014 Share Option Scheme, the consideration payable by a participant for the grant of share options will be HK dollars 1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

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

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

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

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

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44. RESTRICTED A-SHARE INCENTIVE SCHEME

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

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

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

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

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

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

45. MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

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

45.1 Connected transactions with Unicom Group and its subsidiaries other than the Group ("Unicom Group and its subsidiaries")

(a) Recurring transactions

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

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

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45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

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

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

(iii) CUCL and Unicom Group agreed to mutually lease properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes.

(iv) Unicom Group agreed to lease to CUCL certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) and certain other telecommunications facilities for its operations. The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and facilities provided that such charges would not be higher than market rates. For maintenance service to the telecommunications facilities aforementioned, unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL and determined with reference to market rates or a cost-plus basis if there are no market rates.

(v) Unicom Group agreed to provide engineering design, construction and supervision services and IT services to CUCL. The charges payable by CUCL for the above services are determined with reference to the market price and are settled when the relevant services are provided.

(vi) Unicom Group and CUCL agreed to provide shared services to each other and would share the costs related to the shared services proportionately in accordance with their respective total assets value with certain adjustments. For the years ended 31 December 2021 and 2020, the services charges paid by Unicom Group to CUCL was negligible.

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

(a) Recurring transactions (Continued)

(vii) Unicom Group agreed to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group has also agreed to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement. The charges payable by CUCL to Unicom Group are based on contract values, market rates, government guidance price or cost-plus basis where applicable.

(viii) Unicom Group agreed to provide ancillary telecommunications services to CUCL. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers' service. The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

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

(x) Unicom Group is the registered proprietor of the "Unicom" trademark in English and the trademark bearing the "Unicom" logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark licence agreement between Unicom Group and the Group, the Group has been granted the right to use these trademarks on a royalty free and renewal basis.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

(b) Amounts due from Unicom Group and its subsidiaries

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

45.2 Related party transactions with Tower Company

(a) Related Party transactions

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

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

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

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

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

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

45.2 Related party transactions with Tower Company (Continued)

(a) Related Party transactions (Continued)

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

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

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

45.3 Other related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in RMB millions unless otherwise stated)

45. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

(b) Amounts due to Unicom Group and its subsidiaries

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

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

46. CONTINGENCIES AND COMMITMENTS

46.1 Capital commitments

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

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

46.2 Contingent liabilities

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

47. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(All amounts in RMB millions unless otherwise stated)

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

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

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

Liu Liehong
Director

Li Yuzhuo
Director

48. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Proposed final dividend

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

49. APPROVAL OF FINANCIAL STATEMENTS

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

FINANCIAL SUMMARY

For the five-year ended 31 December 2021
(All amounts in RMB millions, except per share data)

Selected financial summary for 2017 to 2021, including selected consolidated statement of income data and consolidated statement of financial position data for 2017, 2018, 2019, 2020 and 2021 were prepared in accordance with HKFRSs.

RESULTS

Selected Statement of Income Data

	2021	2020	2019	2018	2017
Revenue	**327,854**	303,838	290,515	290,877	274,829
Interconnection charges	**(11,557)**	(10,574)	(11,513)	(12,579)	(12,617)
Depreciation and amortisation	**(85,652)**	(83,017)	(83,080)	(75,777)	(77,492)
Network, operation and support expenses	**(53,087)**	(46,286)	(43,236)	(55,077)	(54,507)
Employee benefit expenses	**(58,944)**	(55,740)	(50,516)	(48,143)	(42,471)
Costs of telecommunications products sold	**(30,683)**	(26,862)	(26,412)	(27,604)	(26,643)
Other operating expenses	**(77,263)**	(70,237)	(64,480)	(62,561)	(57,166)
Finance costs	**(1,385)**	(1,747)	(2,123)	(1,625)	(5,734)
Interest income	**1,215**	1,366	1,272	1,712	1,647
Share of net profit of associates	**1,862**	1,588	1,359	2,477	893
Share of net profit of joint ventures	**1,448**	787	646	598	574
Other income — net	**4,119**	2,911	1,735	783	1,280
Profit before income tax	**17,927**	16,027	14,167	13,081	2,593
Income tax expenses	**(3,420)**	(3,450)	(2,795)	(2,824)	(743)
Profit for the year	**14,507**	12,577	11,372	10,257	1,850
Profit attributable to:					
Equity shareholders of the Company	**14,368**	12,493	11,330	10,197	1,828
Non-controlling interests	**139**	84	42	60	22
Profit for the year	**14,507**	12,577	11,372	10,257	1,850
Earnings per share for profit attributable to equity shareholders of the Company:					
Basic earnings per share (RMB)	**0.47**	0.41	0.37	0.33	0.07
Diluted earnings per share (RMB)	**0.47**	0.41	0.37	0.33	0.07

RESULTS (Continued)

Selected Statement of Financial Position Data

	2021	2020	2019	2018	2017
Property, plant and equipment	**355,031**	364,187	367,401	384,475	416,596
Right-of-use assets	**32,866**	37,960	43,073	—	—
Financial assets measured at fair value	**32,726**	27,682	4,093	4,673	4,446
Current assets	**126,228**	108,636	83,595	75,909	76,722
Accounts receivable	**17,957**	16,287	17,233	14,433	13,964
Cash and cash equivalents	**34,280**	23,085	34,945	30,060	32,836
Total assets	**591,076**	580,616	562,499	540,320	571,983
Lease liabilities (non-current portion)	**10,415**	16,458	21,535	—	—
Current liabilities	**236,185**	222,028	205,190	214,910	242,622
Accounts payable and accrued liabilities	**140,124**	134,437	117,525	122,458	125,211
Short-term bank loans	**385**	740	5,564	15,085	22,500
Lease liabilities (current portion)	**12,144**	11,503	10,790	—	—
Commercial papers	**6,875**	7,000	8,995	—	8,991
Current portion of promissory notes	**1,004**	—	—	—	17,960
Current portion of corporate bonds	**2,039**	1,000	—	16,994	—
Current portion of long-term bank loans	**372**	418	437	441	410
Long-term bank loans	**1,835**	2,482	2,869	3,173	3,473
Promissory notes	**—**	998	998	—	—
Corporate bonds	**—**	1,999	2,998	999	17,981
Total liabilities	**257,643**	253,096	241,744	226,034	267,636
Total equity	**333,433**	327,520	320,755	314,286	304,347

CORPORATE INFORMATION

BOARD OF DIRECTORS (As At 11 March 2022)

Executive Directors

Liu Liehong *Executive Director, Chairman and Chief Executive Officer*
Chen Zhongyue *Executive Director and President*
Wang Junzhi *Executive Director*
Mai Yanzhou *Executive Director and Senior Vice President*
Li Yuzhuo *Executive Director and Chief Financial Officer*

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)*
Liu Liehong
Law Fan Chiu Fun Fanny

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS

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Sullivan & Cromwell LLP

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PUBLICATIONS

Financial reports, announcements, press releases and other investor information of the Company are available to access electronically via the Company's website.

STOCK CODE

Hong Kong Stock Exchange: 762

COMPANY WEBSITE

www.chinaunicom.com.hk

CORPORATE CULTURE

OUR VISION

Be a creator of smart living
trusted by customers

OUR MISSION

Connect the world to innovate and
share a good smart living

OUR MANAGEMENT PHILOSOPHY

Create value for customers

OUR CORE VALUES

Customer-oriented
Employee-friendly
Attentive to quality service
Inherently innovative
Proud of endeavours

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