

CHINA UNICOM (HONG KONG) Ltd
Form 6-K
April 07, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the Month of April 2017
Commission File Number 1-15028

China Unicom (Hong Kong) Limited
(Exact Name of Registrant as Specified in Its Charter)

75/F, The Center,
99 Queen s Road Central, Hong Kong
(Address of principal executive offices)

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

Form 20-F Form 40-F

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

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

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

Yes No

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

EXHIBITS

Exhibit
Number

- 1.1 Annual report for the year ended December 31, 2016, released on March 31, 2017.
- 1.2 Circular dated March 31, 2017 in respect of Proposed General Mandates to Buy Back Shares and to Issue Shares, Proposed Re-Election of Directors and Notice of Annual General Meeting.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

effects of the imposition of and changes in value-added tax relating to the PRC telecommunications business;

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

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

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

SIGNATURES

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

CHINA UNICOM (HONG KONG) LIMITED
(Registrant)

Date: April 7, 2017

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

FORWARD-LOOKING STATEMENTS

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

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COMPANY PROFILE

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

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

As at 31 December 2016, Unicom Group held 61.94% of the shares in the Company through China United Network Communications Limited (A Share Company), China Unicom (BVI) Limited and China Unicom Group Corporation (BVI) Limited; the public shareholders of A Share Company held 12.42% of the shares in the Company through A Share Company's shareholding in China Unicom (BVI) Limited. The remaining 25.64% of the shares in the Company were held by public shareholders at The Stock Exchange of Hong Kong Limited and New York Stock Exchange.

At present, the Company provides a full range of telecommunications services in China, including mobile broadband (WCDMA, LTE FDD, TD-LTE), fixed-line broadband, GSM, fixed-line local access, ICT, data communications and other related value-added services. As at the end of 2016, the Company had fixed-line local access subscribers of about 67 million, fixed-line broadband subscribers of about 75 million, and mobile billing subscribers of about 264 million.

SHAREHOLDING STRUCTURE

PERFORMANCE HIGHLIGHTS

BRAVE THE SHORT-TERM PROFIT PRESSURE TO DRIVE LONG-TERM SUSTAINABLE DEVELOPMENT

SERVICE REVENUE (RMB BILLIONS)	240.98	h2.4% YoY
MOBILE SERVICE REVENUE (RMB BILLIONS)	145.02	h1.7% YoY
MOBILE BILLING SUBSCRIBERS (MILLIONS)	263.8	h11.5MIL YoY
MOBILE BILLING SUBSCRIBERS ARPU (RMB)	46.4	hRMB0.1 YoY

KEY FINANCIAL DATA	2016	2015
Operating Revenue (RMB billions)	274.20	277.05
Service Revenue ¹ (RMB billions)	240.98	235.28
Of which: Mobile service	145.02	142.62
Fixed-line service	94.66	91.26
EBITDA ² (RMB billions)	79.50	87.50
EBITDA as % of service revenue	33.0%	37.2%
Net Profit (RMB billions)	0.63	10.56
Basic Earnings per Share (RMB)	0.026	0.441
Dividend per Share (RMB)	N/A	0.17
KEY OPERATING DATA	2016	2015
Mobile Billing Subscribers ³ (millions)	263.8	252.3
4G Subscribers (millions)	104.6	44.2
Mobile Billing Subscribers ARPU ³ (RMB)	46.4	46.3
4G Subscribers ARPU (RMB)	76.4	87.8 ⁴
Fixed-line Broadband Subscribers (millions)	75.2	72.3
Fixed-line Broadband Access ARPU (RMB)	49.4	51.7
Fixed-line Local Access Subscribers (millions)	66.7	73.9

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

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

Note 3: In order to better satisfy the strategic management needs of the Company, the Company's internal management and analysis in relation to the mobile service began to focus more on the mobile billing subscribers (which in general refer to subscribers who have revenue contribution in the current month) and 4G subscribers (mobile billing subscribers who possess 4G handsets and use the 4G network of the Company) from 2016. From January 2016 onwards, the aggregate number and net addition of mobile billing subscribers and 4G subscribers are disclosed. The adjustment in the disclosure of subscriber statistics does not affect the Company's revenue and profit recognition.

Note 4: As of December 2015.

MAJOR EVENTS

JANUARY

China Unicom and China Telecom signed strategic cooperation agreement titled Co-build and Co-share Resources; Enhance Customer Service .

MARCH

China Unicom and Tencent signed strategic cooperation framework agreement.

JULY

China Unicom launched its first 100G trans-pacific submarine cable.

AUGUST

China Unicom (Hong Kong) Global Centre was officially opened.

China Unicom announced its cloud computing strategy and established China Unicom WO Cloud+ Cloud Ecosystem Alliance .

SEPTEMBER

China Unicom successfully completed the telecommunications assurance services for 11th G20 Summit.

NOVEMBER

China Unicom signed strategic cooperation framework agreement with Baidu.

China Unicom signed strategic cooperation framework agreement with Alibaba.

CHAIRMAN S STATEMENT

DEAR SHAREHOLDERS,

Addressing acute challenges from market competition in 2016, the Company actively advanced the implementation of the new development strategy centred on Focus, Cooperation and Innovation and strived to mitigate the underlying shortcomings. As a result, fundamental capabilities in network, terminals, channels, services and IT were notably enhanced, with business and service revenue restored to a positive and steady momentum while the overall competitive edges were strengthened and cemented, further solidifying the foundation of the Company for a further turnaround and healthy development in the future.

OVERALL RESULTS

To promote long-term sustainable development, the Company braved the short-term profit pressure, strengthened its fundamental capabilities, and increased cost initiatives (including selling and marketing, network, operation and support expenses) as appropriate to strive for a gradual turnaround. It achieved initial success in turning around the unfavourable conditions in operation and development. In 2016, service revenue of the Company bottomed out and reached RMB240.98 billion, up 2.4% year-on-year. The Company's EBITDA amounted to RMB79.50 billion, down by 9.1% year-on-year and accounted for 33.0% of

the service revenue. Profit attributable to equity shareholders of the Company was RMB0.63 billion, down by 94.1% year-on-year, which, however, showed substantial improvement compared to the loss attributable to equity shareholders of the Company (excluding the gain on disposal of tower assets) of approximately RMB3.36 billion in the second half of 2015. Going forward, the Company will continue to deepen the implementation of Focus Strategy and strive to improve profitability.

Through implementing precise investment and actively promoting cooperation and resource sharing within and beyond the industry, the Company attained substantial improvement in the network capability while capital expenditure decreased to RMB72.11 billion, down by 46.1% from last year. Benefiting from the gradual improvement in service revenue and the substantial decline in capital expenditure, free cash flow of the Company turned positive and reached RMB2.48 billion.

Taking into consideration the Company's profitability, debt, cash flow level and capital requirements for its future development, the Board has resolved not to pay a dividend for the year 2016. The Company will strive to enhance its profits while paving the way for paying a dividend for the year 2017.

BUSINESS DEVELOPMENT

4G continuously gaining edges with a robust kick-off of marketing model transformation set to accelerate mobile service development

In 2016, the Company focused on the acceleration of 4G business development, driving the turnaround of the operational challenges of mobile service. Mobile service revenue bottomed out and achieved RMB145.02 billion, up 1.7% year-on-year. The number of mobile billing subscribers beat the downward trend for consecutive months last year, registering a net addition of 11.51 million and reaching a total of 263.82 million mobile billing subscribers. The ARPU of mobile billing subscribers remained stable with a slight increase to RMB46.4.

During the year, the Company expedited 4G network construction and achieved 4G network quality on par with the industry in the focused regions with ample capacity; audaciously popularised All Network Access handsets with dual SIM card slots, contributing to the fast improvement in terminal supply; triggered rapid increase in mobile data traffic by targeted marketing of data capacity bundled with contents and speeding up the migration of 2G/3G subscribers to 4G; and strengthened the mutual promotion and coordinated development of the integrated offerings in 4G, fixed-line broadband, video, applications, etc. In 2016, the number of 4G subscribers of the Company demonstrated a net

increase of 60.40 million to a total of 104.55 million. The proportion of 4G subscribers to mobile billing subscribers increased by 22.1 percentage points year-on-year to 39.6%, still with enormous potential for growth. The monthly average DOU per 4G subscriber reached 1,521MB.

Leveraging the advantages brought by rapid improvement in 4G network capabilities, wide adoption in All Network Access handsets, the proprietary centralised BSS system and the nationwide e-commerce platform, the Company initiated 2I2C marketing model in the fourth quarter of 2016 and began to collaborate with Internet companies on innovative targeted marketing. Through sub-dividing market segments and strengthening data traffic operation, differentiated products and development models were established with a view to achieving win-win scenarios with both subscribers and partners. The innovative business model of 2I2C business not only enables the Company to develop new touch points for customer acquisition and lift the capabilities to drive 4G subscriber and revenue growth at low incremental cost, but also continuously enhances customer value through smart marketing and convenient promotion of consumption upgrade. At present, the 2I2C business has achieved a robust kick-off, which will facilitate marketing model transformation of the Company and accelerate the scale development of its 4G business in future.

Fast Development of Innovative Services in Key Areas Driving Steady Growth in Fixed-line Service Revenue

In 2016, the Company sped up the development of innovative services such as Internet Data Centre (IDC)/cloud computing, Information Communications Technology (ICT), video, Internet of Things (IoT) and others, effectively offsetting the revenue decline in fixed-line voice. The fixed-line service revenue reached RMB94.66 billion, up 3.7% year-on-year, of which the proportion of fixed-line voice revenue dropped to 14.0%, mitigating the operating risk of the decline in fixed-line voice, while further optimising the fixed-line revenue structure.

During the year, the Company actively leveraged its advantages in fibre network and informatisation with the focus on industrial Internet and platform-based services and fully promoted product development, platform support, marketing services and other core capabilities. Besides, it propelled new breakthroughs in IDC and cloud computing, ICT, IoT, Big Data, IPTV, industry applications, Internet finance and other innovative services. In 2016, the Company's IDC and cloud computing revenue reached RMB9.45 billion, up 33.7% year-on-year. ICT revenue reached RMB5.94 billion, up 37.0% year-on-year, enjoying the leading position in educational informatisation while advancing scale development in healthcare informatisation. IPTV revenue reached RMB1.41 billion, up 68.1% year-on-year.

Actively Countering Competitive Challenges in Broadband Market by Promoting Subscriber Consumption Upgrade and Integrated Development Leveraging High-Bandwidth Products and Video Applications

Faced with fierce market competition in fixed-line broadband, the Company, by taking full advantage of the network capabilities generated from fibre network upgrade, vigorously promoted high-bandwidth products and enriched video contents and applications to stimulate bandwidth upgrade and showcased differentiation and brand edges. The Company optimised fixed-line broadband customer service, installation and maintenance work flow, and strengthened support capabilities, which in turn enhanced end-to-end network experience and customer satisfaction. It also pushed forward the optimisation and upgrade of the household Internet integrated products of the broadband, video and applications to drive mutual-promoting development. In 2016, the Company's fixed-line broadband access revenue amounted to RMB43.87 billion, maintaining steady performance year-on-year. Fixed-line broadband subscribers increased by 4.0% year-on-year to 75.24 million, of which 71.2% were Fibre-to-the-home (FTTH) subscribers. Smart WO Family subscribers accounted for 26.1% of the fixed-line broadband subscribers, up 12.8 percentage points year-on-year.

NETWORK DEPLOYMENT

With an aim to providing high quality network experience of faster speed, broader coverage, better perception to its customers, the Company focused on key regions, including 4G, fixed-line broadband and other key businesses, and deepened cooperation and co-sharing in deploying premium network with craftsmanship spirit under highly precise and efficient investment. In 2016, the Company recorded a net increase of 337,000 4G base stations to a total of 736,000, with coverage, speed and signal quality of the 4G network in key regions on par with the industry. As a result of the steady progress in the speed upgrade in fixed-line broadband, ten provinces in Northern China achieved all fibre network, in which city areas were basically equipped with 100Mbps access capability. The Company continued to enhance its basic network capabilities such as transmission and carrying network with industry-lowest backhaul latency. Rapid improvement in network capabilities has laid a solid foundation for the Company to accelerate its business development.

IN-DEPTH COOPERATION AND INNOVATIVE TRANSFORMATION

In 2016, the Company actively promoted in-depth cooperation in various aspects to facilitate improvement in the network and service development capability, as well as cost reduction and efficiency enhancement, with fruitful results gradually emerging. Through innovative targeted marketing cooperation with Internet companies, the Company managed to expand touch points with customers. The Company implemented infrastructure resources co-building and co-sharing within the industry; proactively promoted cooperation with mobile virtual network operators (MVNOs), maintaining leadership in MVNO subscriber market share. The Company also strengthened cooperation with private capital on local access in Southern China and promoted diversified and cross-industry cooperation for win-win development.

During the year, the comprehensive and strategic cooperation with China Telecom was smoothly progressing. During the year, a total of 70,000 4G base stations and approximately 16,000 km transmission fibre cable were co-built and co-shared. The Company also jointly promoted 6-mode All Network Access handsets together with China Telecom and standardised the 4K smart set-top box and broadband services. Through the cooperation, savings of approximately RMB3.3 billion in CAPEX and RMB0.35 billion in operating expenses were achieved. Looking ahead, the two parties will further open existing base station resources and strengthen the sharing, while enhancing cooperation in operational maintenance and innovative services to reap new outcomes.

The Company deepened innovation in its systems and mechanisms. For the fundamental services, the Company promoted simplification of administration and pushed forward appropriate delegation and empowerment to enhance efficiency. For the innovative services, it promoted the market-oriented reform and initiated internal innovation incubation projects to actively create an innovative ambience; improved the support capability of its IT systems and strengthened cost and risk control; systematically pushed forward the reform in human resource structure, and optimised staff incentive system and structure to motivate operational vibrancy at all levels.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Company continues on improving corporate governance structure and strengthening execution, leading to steady enhancement in management and corporate governance. In 2016, the Company was awarded a number of accolades, including Asia's No. 1 Best Managed Company TMT Sector by FinanceAsia, and Asia's No. 1 Most Honored Telecom Company by Institutional Investor.

The Company took the initiative in fulfilling its social responsibilities and actively supported the harmonious economic, social and environmental development guided by the developmental concept of being Innovative, Coherent, Green, Open, Sharing. The Company was committed to building the fast, green and secure premium network; actively conducted green operation, carried forward equipment reuse and reduced network energy consumption; enhanced service quality to provide consumers with the most compelling experience, assured consumption and dedicated services; shared the success and growth with its employees while adding values to them; and supported development in the western region by enhancing network coverage and service channel construction in remote areas to narrow the digital divide and create a smart lifestyle.

OUTLOOK

Currently, along with the drastic change of the market environment, the Company is undergoing a new stage of transformation. A new round of technology and industrial revolution is steering us into a new digital and intelligent era. While the transmission-based basic services remain as the main revenue stream for operators, the traditional telecommunication subscriber market has already been saturated and voice services are on the downward trend with the existing market to witness fiercer competition. The demand for data traffic, a key element of digital ecosystem, continues to increase. Innovative services addressing new demand have become the new engine for growth. With the Internet Superpower strategy and the Internet+ action plan implemented by the State, the Internet of Things, cloud computing and Big Data have turned into real demands from potential market, promising great industry values. In the meantime, further release of reform benefits generated within and beyond the Company will promote China Unicom to change its operational mechanism at a higher level.

Looking into the future, the Company will respond to hardships and challenges face-to-face, grab development opportunities, deepen the implementation of Focus Strategy, persistently uphold scale and economical development as the centre, promote growth, control costs and reform mechanism, thus pushing the Company to shorten the odyssey of transformation, as well as to accelerate the turnaround in future, and step onto the healthy development path. We will unswervingly promote the innovation and transformation of operating model and manage innovative use of resources, so as to deliver sustainable growth in revenue and gradual economic improvement. We are determined to improve quality and enhance efficiency, eliminate excess capacity and destock based on the practical situation. We will promote frequency band and capacity reduction of 2G/3G networks in an orderly manner to improve management, cost effectiveness and operational efficiency. We will accelerate reform in various fields and build a more market-oriented mechanism in an effort to enhance corporate vibrancy and return.

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

Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 15 March 2017

BUSINESS OVERVIEW

IN 2016, FACED WITH PROFOUND CHANGES IN THE MARKET ENVIRONMENT AND CHALLENGES SUCH AS INDUSTRY TRANSFORMATION, SPEED UPGRADE AND TARIFF REDUCTION AND INTENSIFIED COMPETITION, THE COMPANY FULLY IMPLEMENTED FOCUS STRATEGY BY FOCUSING ON 4G SERVICES AND ON KEY REGIONS, PROMOTED THE WIDESPREAD ADOPTION OF ALL NETWORK ACCESS TERMINALS, LAUNCHED TARGETED MARKETING CAMPAIGNS, ENFORCED SIMPLIFICATION OF ADMINISTRATION AND POWER DELEGATION, RESULTING A BOTTOM-OUT OF BUSINESS DEVELOPMENT.

MOBILE SERVICE

In 2016, the Company further optimised its 4G product offerings, leveraged Big Data to drive existing users value enhancement, and initiated the Three Missions in key cities, namely customer acquisition, migration of 2G to 4G and monetisation of data capacity to propel the transformation of operating model. Meanwhile, the Company also proactively expanded external cooperation, and partnered deeply with Internet companies to develop integrated products combining dedicated data traffic with third-party applications in an attempt to drive data usage via content and applications. The business momentum of mobile service improved substantially and bottomed out. Mobile billing subscribers witnessed a net increase of 11.51 million to a total of 263.82 million during the year. Mobile billing subscribers ARPU was RMB46.4. Mobile handset data traffic reached 1,608.1 billion MB, up by 131.1% year-on-year. More than 2,400 partner companies have joined the WO+ open platform, with a total of 1.83 billion function calls during the year.

FIXED-LINE SERVICE

In 2016, the Company continued to market its upgraded fibre network with an emphasis on high speed and premier quality, focused on promoting the sense of competition and efficient use of resources, fostered a shift in practice from

passive sales to proactive marketing and customer acquisition, and strengthened cooperation with private capital in Southern China. The Company drove the establishment of a 4K UHD industry alliance to speed up innovation and development in home Internet, and to promote steady growth of fixed-line service. The number of broadband subscribers witnessed a net increase of 2.91 million to a total of 75.24 million. Broadband access ARPU was RMB49.4. FTTH subscriber penetration reached 71.2%, up by 18.1 percentage points year-on-year. The number of fixed-line local access subscribers decreased by 7.21 million to 66.65 million.

NETWORK CAPABILITIES

In 2016, led by 4G and fibre network upgrade, the Company quickly built up a premium 4G network with comprehensive coverage and favourable user perception, creating strong brand recognition for superior network with craftsmanship. Network quality was on par with industry in the key regions. The Company had a total of 736,000 4G base stations in operation, of which 539,000 were located in 139 key cities. The Company undertook massive construction of fibre broadband network and all fibre network upgrade, with 10 provinces in Northern China achieved all fibre network by the end of 2016. The number of broadband access ports amounted to 190 million, 98.0% of which were FTTX access ports.

The Company continued to optimise its international network deployment. As at the end of 2016, its total international submarine cable bandwidth reached 12.1T, total cross-border terrestrial cable bandwidth reached 7.6T, international outbound Internet bandwidth reached 1,711G, with international roaming covering 609 operators in 250 countries and regions.

MARKETING

Branding

In 2016, the Company focused on key cities, young mobile Internet users and video service, rebuilt the reputation of WO 4G+ under the theme of "Premium WO 4G+ Network with Endless Surprises" by highlighting its merits of fast network speed, abundant data allowance and rich contents. Meanwhile, the Company promoted the brand concept of "Wonderful WO" in all-around manner through extensive publicity of its advantages in both broadband and integrated businesses, so as to constantly enhance the brand influence of "WO".

Marketing Strategies

In 2016, the Company deepened implementation of Focus Strategy, initiated the "Three Missions" in key regions, innovated its tariff and product models, transformed its distribution model, and developed customer value management system. The Company also strengthened brand promotion, endeavoured to build a content and application ecosystem

centred around video and bolstered its Big Data support capability, thereby effectively promoting its business transformation and development.

The Company laid foundation for innovative services by establishing a number of industrial Internet bases and incubation centres in key business areas and focusing on industrial Internet and platform-based businesses. It achieved rapid growth in ICT, IDC and cloud computing, Internet of Things and Big Data, etc. Meanwhile, the Company forged strategic partnership with various Internet companies to cooperate on integrated product development, mutual promotion and joint operation, so as to fuel its innovative service development.

Distribution Channels

In 2016, backed by its WO retail platform, the Company developed a business model of offering terminal supply chain services to channels with over 15,000 self-owned terminal chain stores. Leaning on multiple touch points, the Company turned the electronic channel into a major channel for servicing customers and an important channel for product sales. The Company launched in-depth cooperation with large Internet companies with a robust kick-off in 2I2C offering. The Company widely developed online marketing system both internally and externally, as well as the integrated O2O functions, thus effectively enhancing its marketing capabilities.

Customer Care

In 2016, the Company strengthened its monitoring over service quality and operation of the major service touch points, and further improved the customer-oriented assessment system for managing and evaluating customer reputation and user experience. By accelerating the transformation and upgrade of traditional channels and deepening smart customer service operation, the Company

developed a professional and coordinated service model addressing Internet+ Services , established a customer reward and loyalty programme platform built upon the Internet era, proactively mitigated service shortcomings and improved customer perception. The Company maintained the lowest rates of customer complaint and unsolicited charges in the industry for the year.

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FINANCIAL OVERVIEW

I. OVERVIEW

In 2016, the Company actively responded to the challenge of Speed Upgrade and Tariff Reduction, Real-name registration and increased competition. At the same time, the Company actively mitigated underlying shortcomings and increased cost initiatives as appropriate to strive for an accelerated turnaround, enhance the ability of sustainable development. The Company's revenue was RMB274.20 billion in 2016, down by 1.0% compared with last year, of which service revenue stopped deteriorating and stabilised and reached RMB240.98 billion, up by 2.4% compared with last year. Profit for the year² was RMB0.63 billion, down by 94.1% compared with last year, decreased by RMB3.00 billion compared with last year (excluding the net gain on disposal of telecommunication towers).

In 2016, net cash flow from operating activities was RMB74.59 billion. Capital expenditure was RMB72.11 billion. Liabilities-to-assets ratio was 62.9% as at 31 December 2016.

II. REVENUE

In 2016, the Company's revenue was RMB274.20 billion, down by 1.0% compared with last year, of which, service revenue accounted for RMB240.98 billion, up by 2.4% compared with last year. Revenue from sales of telecommunications products was RMB33.22 billion, down by 20.5% compared with last year.

The following table sets forth the composition of service revenue, including as a percentage of the service revenue for the years of 2016 and 2015:

(RMB in billions)	2016		2015	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	240.98	100.0%	235.28	100.0%
Include: Mobile service	145.02	60.2%	142.62	60.6%
Fixed-line service	94.66	39.3%	91.26	38.8%
Include: Fixed-line broadband access	43.87	18.2%	43.86	18.6%
IDC and cloud computing	9.45	3.9%	7.07	3.0%

1. Mobile service

In 2016, service revenue from the mobile service was RMB145.02 billion, up by 1.7% compared with last year.

2. Fixed-line service

In 2016, service revenue from the fixed-line service was RMB94.66 billion, up by 3.7% compared with last year. Out of service revenue from the fixed-line service, revenue from broadband access was RMB43.87 billion which were basically same as last year. Revenue from IDC and cloud computing was RMB9.45 billion, up to 33.7% compared with last year.

III. COSTS AND EXPENSES

In 2016, total costs and expenses amounted to RMB273.41 billion, up by 4.0% compared with last year.

The table below sets forth the major items of the costs and expenses and their respective percentage of the revenue for the years of 2016 and 2015:

ANALYSIS OF TOTAL COSTS AND EXPENSES

Percentage of total costs and expenses to revenue

	2016	2015
Interconnection charges	4.65%	4.73%
Depreciation and amortisation	28.01%	27.70%
Network, operation and support expenses	18.66%	15.27%
Employee benefit expenses	13.46%	12.68%
Cost of telecommunications products sold	13.32%	15.90%
Selling and marketing expenses	12.64%	11.54%
Others [#]	8.97%	7.11%
	99.71%	94.93%

[#] Including general, administrative and other expenses, finance costs, net of interest income, share of net profit/loss of associates, share of net profit/loss of joint ventures and other income-net

(RMB in billions)	2016		2015	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	273.41	99.71%	263.01	94.93%
Operating costs	271.49	99.01%	266.28	96.11%
Include: Interconnection charges	12.74	4.65%	13.09	4.73%
Depreciation and amortisation	76.80	28.01%	76.74	27.70%
Network, operation and support expenses	51.17	18.66%	42.31	15.27%
Employee benefit expenses	36.91	13.46%	35.14	12.68%
Costs of telecommunications products sold	36.53	13.32%	44.05	15.90%
Selling and marketing expenses	34.65	12.64%	31.97	11.54%
General, administrative and other expenses	22.69	8.27%	22.98	8.29%
Finance costs, net of interest income	3.86	1.41%	6.50	2.34%
Share of net (profit)/loss of associates	-0.20	-0.07%	0.76	0.27%
Share of net (profit)/loss of joint ventures	-0.15	-0.06%	0.04	0.02%
Other income-net	-1.59	-0.58%	-10.57	-3.81%

1. Interconnection charges

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB12.74 billion in 2016, down by 2.7% compared with last year and, as a percentage of revenue, decreased from 4.73% in 2015 to 4.65% in 2016.

2. Depreciation and amortisation

Depreciation and amortisation charges in 2016 were RMB76.80 billion which were basically same as last year and, as a percentage of revenue, changed from 27.70% in 2015 to 28.01% in 2016.

3. Network, operation and support expenses

The transformation of the tower operation model³ and expanded network scale caused rapid growth in usage fee of telecommunication towers. The Company incurred network, operation and support expenses of RMB51.17 billion in 2016, up by 20.9% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 15.27% in 2015 to 18.66% in 2016.

4. Employee benefit expenses

The Company continued to deepen the reform in recruitment and remuneration as well as resources allocation. The Company's employee benefit expenses amounted to RMB36.91 billion in 2016, up by 5.0% compared with last year and, as a percentage of revenue, changed from 12.68% in 2015 to 13.46% in 2016.

5. Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB36.53 billion and revenue from sales of telecommunications products amounted to RMB33.22 billion in 2016. Loss on sales of telecommunications products was RMB3.31 billion, of which the Company continued

to optimise the terminal contract product mix, terminal subsidy cost accounted to RMB3.07 billion in 2016, up by 7.8% compared with last year.

6. Selling and marketing expenses

To accelerate business development and strive for revenue growth while enhance customers quality, the Company continued to optimise its selling and marketing strategies and increased selling and marketing expenses as appropriate. In 2016, selling and marketing expenses were RMB34.65 billion, up by 8.4% compared with last year and, as a percentage of revenue, increased from 11.54% in 2015 to 12.64% in 2016.

7. General, administrative and other expenses, exclude selling and marketing expenses and cost of telecommunications products sold

General, administrative and other expenses were RMB22.69 billion in 2016, down by 1.2% compared with last year and, as a percentage of revenue, basically the same as last year.

8. Finance costs, net of interest income

In 2016, finance costs, net of interest income, was RMB3.86 billion, down by RMB2.64 billion compared with last year. The decrease in finance costs, net of interest income compared with last year was mainly because there was the exchange loss accounted for RMB2.10 billion in last year as a result of the changes in exchange rate.

9. Other income-net

Other income-net was RMB1.59 billion in 2016, decreased by RMB8.98 billion compared with last year. The decrease in other income-net compared with last year was mainly due to the net gain on disposal of telecommunication towers (before tax) amounted to RMB9.25 billion in last year.

IV. EARNINGS

1. Profit before income tax

Under the influence of increased tower usage fee which caused increased in network, operation and support expenses and selling and marketing expenses, the Company's profit before income tax was RMB0.78 billion in 2016. Exclude the net gain on disposal of telecommunication towers (before tax) amounted to RMB9.25 billion in last year, the Company's profit before income tax decreased by RMB4.01 billion compared with last year.

2. Income tax

In 2016, the Company's income tax was RMB0.15 billion and the effective tax rate was 19.6%.

3. Profit for the year

In 2016, the Company's profit for the year was RMB0.63 billion. The Company's profit for the year decreased by RMB3.00 billion compared with last year (excluding the net gain on disposal of telecommunication towers in last year). Basic earnings per share was RMB0.026, down by 94.1% compared with last year.

V. EBITDA⁴

In 2016, the Company's EBITDA was RMB79.50 billion, down by 9.1% compared with last year. EBITDA as a percentage of service revenue was 33.0%, down by 4.2 percentage points compared with last year.

VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2016, capital expenditure of the Company totaled RMB72.11 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. Out of the total capital expenditure, capital expenditure attributable to mobile network was RMB27.74 billion; capital expenditure attributable to broadband and data service was RMB16.84 billion; and capital expenditure attributable to infrastructure and transmission network was RMB19.71 billion.

In 2016, the Company's net cash inflow from operating activities was RMB74.59 billion. Free cash flow was RMB2.48 billion after the deduction of the capital expenditure in 2016.

The following table sets forth the major items of the capital expenditure in 2016.

(RMB in billions)	2016	
	Total amount	As percentage
Total	72.11	100.0%
Include: Mobile network	27.74	38.5%
Broadband and data	16.84	23.4%
Infrastructure and transmission network	19.71	27.3%
Others	7.82	10.8%

VII. BALANCE SHEET

The Company's total assets increased from RMB610.35 billion as at 31 December 2015 to RMB614.15 billion as at 31 December 2016. Total liabilities changed from RMB379.13 billion as at 31 December 2015 to RMB386.47 billion as at 31 December 2016. The liabilities-to-assets ratio changed from 62.1% as at 31 December 2015 to 62.9% as at 31 December 2016. The debt-to-capitalisation ratio changed from 39.2% as at 31 December 2015 to 43.6% as at 31 December 2016. The net debt-to-capitalisation ratio was 37.7% as at 31 December 2016. Taking into consideration the Company's stable net cash inflows from its operating activities and good credit records, the Company believes that it should have sufficient funds to meet its needs for working capital.

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

Note 2: Profit for the year refers to profit attribute to equity shareholders of the Company.

Note 3: Following the establishment of China Tower Corporation Limited (hereafter referred to as "Tower Company") in 2014, the Company sold certain telecommunications towers and related assets to Tower Company in 2015. Therefore, the operation model regarding the use of telecommunications towers changed from self-construction and self-maintenance to payment of usage fee to Tower Company.

Note 4: EBITDA represents profit for the year before finance costs, interest income, shares of net profit/loss of associates, share of net profit/loss of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Group.

DIRECTORS AND SENIOR MANAGEMENT

WANG XIAOCHU

(Chairman and Chief Executive Officer)

Aged 58, was appointed in September 2015 as an Executive Director, Chairman and Chief Executive Officer of the Company. Mr. Wang, a professor level senior engineer, graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang province; Director General of the Tianjin Posts and Telecommunications Administration; Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited; Vice President of China Mobile Communications Corporation; an Executive Director, Chairman and Chief Executive Officer

of China Telecom Corporation Limited; Chairman and President of China Telecommunications Corporation; and Chairman and a Non-Executive Director of China Communications Services Corporation Limited. Mr. Wang has served as a Director of Telefónica S.A. (listed on various stock exchanges including Madrid, New York and London) since September 2015. Mr. Wang also serves as the Chairman of China United Network Communications Group Company Limited (Unicom Group), China United Network Communications Limited (A Share Company) and China United Network Communications Corporation Limited (CUCL), respectively. Mr. Wang has extensive experience in management and telecommunications industry.

LU YIMIN

(Executive Director and President)

Aged 53, was appointed as an Executive Director of the Company in October 2008 and President of the Company in February 2009. Mr. Lu, a researcher level senior engineer, graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in 1985 and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in June 2001. Mr. Lu joined China Network Communications Group Corporation (Netcom Group) in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited (PCCW , listed on the Hong Kong Stock Exchange with an American Depositary Receipts trading on OTC Markets Group Inc. in the U.S.) since May 2008 and the Deputy Chairman of the Board of PCCW since November 2011. Mr. Lu has served as a Non-

Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Prior to joining the Netcom Group, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005. Mr. Lu is Vice Chairman and President of Unicom Group. Mr. Lu is also a Director and President of A Share Company, and a Director and President of CUCL. Mr. Lu has extensive experience in administration and business management in the government and the telecommunications industry.

LI FUSHEN

(Executive Director and Chief Financial Officer)

Aged 54, was appointed in March 2011 as an Executive Director and Chief Financial Officer of the Company. Mr. Li graduated from the Jilin Engineering Institute with a degree in engineering management in 1988, and from the Australian National University with a master's degree in management in 2004. From November 2001 to October 2003, Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. From October 2003 to August 2005, Mr. Li served as General Manager of the Finance Department of Netcom Group. Since October 2005, he has served as the Chief Accountant of Netcom Group. He has served as Chief Financial Officer of China Netcom Group Corporation (Hong Kong) Limited (China Netcom) since September 2005 and has served as Executive Director of China Netcom since January 2007. From

December 2006 to March 2008, Mr. Li served as Joint Company Secretary of China Netcom. From February 2009 to March 2011, Mr. Li served as a Senior Vice President of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipts trading on OTC Markets Group Inc.) since July 2007, and a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li is a Director, Vice President and Chief Accountant of Unicom Group, a Director of A Share Company, as well as Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

CESAREO ALIERTA IZUEL

(Non-Executive Director)

Aged 71, was appointed in October 2008 as a Non-Executive Director of the Company. Mr. Alierta has been a member of the Board of Directors of Telefónica S.A. (listed on various stock exchanges including Madrid, New York and London) from January 1997. Mr. Alierta is Executive Chairman of Fundación Telefónica, a director of DTS, Distribuidora de Televisión Digital, S.A.U. and a member of the Board of trustees of the Caixa d'Estalvis i Pensions de Barcelona la Caixa Banking Foundation. He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University), the Chairman of the Consejo Empresarial para la Competitividad (Business Competitiveness Council), and a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts Association. He has also been a member of

the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. Between July 2000 and April 2016, he served as an Executive Chairman of Telefónica S.A.. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. From April 2008 to December 2013 he was a member of the Board of Directors of Telecom Italia, S.p.A.. Between September 2010 and June 2016, Mr. Alierta served as a member of the Board of Directors of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London). In September 2005, Mr. Alierta received The Global Spanish Entrepreneur award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master's degree in business administration at the University of Columbia (New York) in 1970.

CHEUNG WING LAM LINUS

(Independent Non-Executive Director)

Aged 68, was appointed in May 2004 as an Independent Non-Executive Director of the Company. Mr. Cheung is a member of the Board of Governors of Centennial College of the University of Hong Kong, Independent Non-Executive Directors of HKR International Limited (listed on the Hong Kong Stock Exchange) and Sotheby's (listed on the New York Stock Exchange). Mr. Cheung was a member of the University of Hong Kong Council, Chairman of the Council of Centennial College, Chairman of the University of Hong Kong School of Professional and Continuing Education, Chairman of Asia Television Limited, Deputy Chairman of PCCW Limited, an Independent Non-Executive Director of Taikang Life Insurance Company Limited, as well as President of the Chartered

Institute of Marketing (Hong Kong Region). Prior to the merger of Pacific Century Cyberworks Limited and Hong Kong Telecom Limited, Mr. Cheung was the Chief Executive of Hong Kong Telecom Limited and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung worked at Cathay Pacific Airways for 23 years, leaving as Deputy Managing Director. He was appointed an Official Justice of the Peace in 1990 and a Non-official Justice of the Peace in 1992. Mr. Cheung received a bachelor's degree in social sciences and a diploma in management

studies from the University of Hong Kong. He is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.

WONG WAI MING

(Independent Non-Executive Director)

Aged 59, was appointed in January 2006 as an Independent Non-Executive Director of the Company. Mr. Wong is Executive Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the Hong Kong Stock Exchange and the New York Stock Exchange). Prior to his current executive position at Lenovo Group Limited, Mr. Wong was the Chief Executive Officer and Executive Director of Roly International Holdings Limited and an Executive Director of Linmark Group Limited (currently known as Daohe Global

Group Limited and listed on the Hong Kong Stock Exchange). Mr. Wong served as a Non-Executive Director of Linmark Group Limited. Mr. Wong was previously an investment banker with over 15 years of experience in investment banking business in Greater China and was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Wong is a chartered accountant and holds a bachelor's degree (with Honors) in management science from the Victoria University of Manchester in the United Kingdom.

CHUNG SHUI MING TIMPSON

(Independent Non-Executive Director)

Aged 65, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 12th Chinese People's Political Consultative Conference. He is also the Pro-Chancellor of the City University of Hong Kong. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, China Construction Bank Corporation, Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited (formerly known as Jinmao Investments and Jinmao (China) Investments Holdings Limited) (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an Independent Director of China State Construction Eng. Corp. Ltd. (listed on the Shanghai Stock Exchange). From October 2004 to October 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the

Betterment and Progress of Hong Kong, the Chairman of the Advisory Committee on Arts Development, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee, an Independent Non-Executive Director of Henderson Land Development Company Limited and Nine Dragons Paper (Holdings) Limited, an Independent Director of China Everbright Bank Company Limited and 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 64, was appointed in November 2012 as an Independent Non-Executive Director of the Company. Mrs. Law is currently Chairman of the Board of Directors of Hong Kong Science and Technology Parks Corporation, a Deputy of the Hong Kong Special Administrative Region (HKSAR) to the National People's Congress of the People's Republic of China, a Member of the Executive Council of the Government of HKSAR, the Special Adviser to the China-US Exchange Foundation, a Director of the Fan Family Trust Fund and the Honorary Principal of Ningbo Huizhen Academy. Besides, Mrs. Law is an Independent Non-Executive Director of CLP Holdings Limited and DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) and Nameson Holdings Limited (all listed on the Hong Kong Stock Exchange), as well as External Director of China Resources (Holdings)

Co., 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.

JIANG ZHENGXIN

(Senior Vice President)

Aged 59, was appointed as Senior Vice President of the Company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor's degree in radio engineering from Beijing University of Posts and Telecommunications in 1982, a master's degree in business administration from Jilin University in 2001, and a PhD in political economy from Jilin University in 2006. Mr. Jiang served as Deputy Director of the Bureau of Telecommunications Administration in Changchun of Jilin Province from February 1998 to July 1999. He was the Deputy General Manager of Jilin Mobile Communication Company from July 1999 to March

2004. He served as the Deputy General Manager of South Communication Co. Limited of Netcom Group from March 2004 to June 2004, and he was the General Manager of Zhejiang Branch of Netcom Group from June 2004 to September 2007. He has served as Deputy General Manager of Netcom Group since September 2007. Mr. Jiang is a Vice President of Unicom Group, a Director and Senior Vice President of CUCL as well as the Chairman of Supervisory Committee of A Share Company. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.

SHAO GUANGLU

(Senior Vice President)

Aged 52, was appointed as Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined Unicom Group in February 1995. Mr. Shao was Deputy

General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. Mr. Shao also serves as a Vice President of Unicom Group, a Director of A Share Company and a Director and Senior Vice President of CUCL. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

RECOGNITION & AWARDS

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CORPORATE GOVERNANCE REPORT

The Board is committed to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Company's business. As a company incorporated in Hong Kong, the Company adopts the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance of Hong Kong and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company dual-listed in Hong Kong and the United States, the current Articles of Association are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the regulatory requirements for non-US companies listed in the United States. These rules serve as guidance for the Company to improve the foundation of its corporate governance, and the Company strives to comply with the relevant requirements of international and local corporate governance best practices. The Company has regularly published statements relating to its internal control in accordance with the US Sarbanes-Oxley Act and the regulatory requirements of the U.S. Securities and Exchange Commission and the New York Stock Exchange to confirm its compliance with related financial reporting, information disclosure, corporate internal control requirements and other regulatory requirements. The Board is responsible for performing overall corporate governance duties. The Company has adopted a Corporate Governance Practice which sets out the key terms of reference of the Board on corporate governance functions, including, amongst others, developing and reviewing the Corporate Governance Policy and corporate governance practices of the Company; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's media enquiry policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and reviewing the Company's compliance with the Code.

In 2016, 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 awarded as Asia's No.1 Best Managed Company TMT Sector in Asia's Best Managed Companies Poll 2016 by FinanceAsia. Meanwhile, Mr. Wang Xiaochu, Chairman and CEO of the Company was named as Best CEO in China 1st, Mr. Li Fushen, Executive Director and CFO of the Company was named as Best CFO in China 2nd. The Company was voted by institutional investors as Asia's No.1 Most Honored Telecom Company in 2016 All-Asia Executive Team ranking organised by the authoritative financial magazine, Institutional Investor. Meanwhile, Mr. Wang Xiaochu was named as Asia's Best CEO (Telecoms) 1st, Mr. Li Fushen was named as Asia's Best CFO (Telecoms) 2nd. The Company was awarded The Best of Asia Outstanding on Corporate Governance by Corporate Governance Asia. Meanwhile, Mr. Wang Xiaochu was named Asia's Best CEO, Mr. Li Fushen was also named Asia's Best CFO, and the Company was also honoured as Best Investor Relations Company. The company was voted by investors as the Most Progress in Investor Relations at IR Magazine Awards Greater China 2016, and Mr. Wang Xiaochu was voted Best Senior Management. The Company was accredited with Platinum Award for Excellence in Governance, CSR & Investor Relations in The Asset Corporate Awards 2016.

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 2016, it complied with all the Code Provisions.

BOARD OF DIRECTORS

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

In order to achieve a sustainable and balanced development, the Company views Board diversity as a key element for supporting its strategic goals and maintaining sustainable development. The Board membership maintains wide representation.

Members of the Board consist of outstanding individuals from different professions in Mainland China, Hong Kong and overseas. As at 31 December 2016, the Board comprises eight Directors, including three executive Directors, one non-executive Director and four independent non-executive Directors. Particulars of the Directors are set out on pages 28 to 33 of this annual report. The Company believes that the Board currently comprises experts from diversified professions such as telecommunications, information technology, banking, finance and management, and is diversified in terms of gender, age, duration of service, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

The below sets out the analysis of the composition of the Board as at 31 December 2016:

The roles and responsibilities of chairman and chief executive of the Company were performed by the same individual for the year ended 31 December 2016. Mr. Wang Xiaochu serves as Chairman and CEO of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Wang Xiaochu is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company. The Board believes that at the present stage, Mr. Wang Xiaochu and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities of the Company's strategies in a more effective manner so as to support the effective development of the Company's business.

All non-executive Director and independent non-executive Directors of the Company are influential members of society and possess good knowledge and experience in different areas. They have been making positive contributions to the development of the Company's strategies and policies through

independent, constructive and informed advices. They have maintained close contact with the management and actively express constructive opinions on matters relating to the shareholders and the capital market at board meetings. These views and opinions facilitate the Board in making their decisions in the shareholders' best interests. All independent non-executive Directors, except for their equity interests and remuneration disclosed in this annual report, do not have any business with or financial interests in the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. The functions of non-executive Director and independent non-executive Directors include, amongst other things, attending board meetings, exercising independent judgements at meetings, playing a leading role in resolving any potential conflicts of interest, serving on committees by invitation and carefully examining whether the performance of the Company has reached the planned corporate targets and objectives, and monitoring and reporting on matters relating to the performance of the Company.

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

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

Directors' training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and/or industrial environment to Directors.

In 2016, the Directors as at 31 December 2016 have participated in various training and continuous professional development activities and the summary of which is as follows:

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

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

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

The remuneration package for executive Directors includes salary and performance-linked annual bonuses. The remuneration of executive Directors is determined by reference to their respective duties and responsibilities in the Company, their respective experience, prevailing market conditions and applicable regulatory requirements while the award of the performance-linked annual bonuses is tied to the attainment of key performance indicators or targets set by the Company. The remuneration of non-executive Directors is determined by reference to prevailing market conditions and their respective workload from serving as non-executive Directors and members of the board committees of the Company. The Company also adopted share option schemes for the purpose of providing long term incentives to eligible participants, including Directors (details of such share option schemes are set out in the paragraph headed "Share Option Schemes of the Company" on pages 60 to 61 of this annual

report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 122 to 124 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

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

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

The Company Secretary, being an employee of the Company, has day-to-day knowledge of the Company's affairs and reports to the Chairman of the Board. He keeps close contact with all Directors and ensures that the operation of the Board and all board committees is in compliance with the procedures as set forth in the Articles of Association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meetings will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform his duties, the Company Secretary attended sufficient professional training in 2016.

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

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

In 2016, the Board held four board meetings and passed one written resolution for, amongst other things, discussion and approval of important matters such as the 2015 annual results, the 2015 Form 20-F, the 2016 annual budget, the 2016 interim results, the first and the first three quarters results for 2016, reports on risk management and internal control, continuing connected transactions as well as the appointment of the Chairman and member of the Nomination Committee.

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

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

Note 1: On 16 February 2016, Mr. Chung Shui Ming Timpson was appointed as the chairman of the Nomination Committee; Mrs. Law Fan Chiu Fun Fanny was appointed as a member of the Nomination Committee.

Note 2: On 1 November 2016, Mr. Zhang Junan resigned as executive Director of the Company.

Note 3: Certain Directors (including independent non-executive Directors) did not attend the Annual General Meeting and some of the meetings of the Board and committees due to other business commitments or being overseas.

In 2016, the Board performed their fiduciary duties and devoted sufficient time and attention to the affairs of the Company. The Board works effectively and performs its responsibilities efficiently with all key and appropriate issues being discussed and approved in a timely manner.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules 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 2016.

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2016, which give a true and fair view of the financial position of the Company as at the statement of financial position date and financial performance and cash flows of the Company for the year ended the statement of financial position date, are properly prepared on the going concern basis in accordance with relevant statutory requirements and applicable financial reporting standards. A statement of the independent auditors about their reporting responsibilities related to the financial statements is set out in the independent auditor's report on page 80 to page 85 of this annual report.

COMMITTEES UNDER THE BOARD

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

including, amongst others, obtaining independent professional advice at the expense of the Company, to perform its duties. The committees report their decisions or recommendations to the Board after meetings.

Audit Committee

Composition

As at 31 December 2016, 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.

Work Completed in 2016

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

The Audit Committee held five meetings in 2016 for, amongst other things, discussion and approval of the 2015 annual results, the 2015 Form 20-F, the 2016 interim results, and the first and the first three quarters results for 2016. In addition, the Audit Committee approved in the meetings the continuing connected transactions, the report on risk management, the report on internal audit and internal control, the re-appointment, the audit fees and the audit plans of the independent auditor as well as the non-audit services provided by the independent auditor in 2016.

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

Remuneration Committee

Composition

As at 31 December 2016, the Remuneration Committee comprised Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson, all being independent non-executive Directors of the Company. The Chairman of the Remuneration Committee is Mr. Cheung Wing Lam Linus.

Major Responsibilities

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

Work Completed in 2016

The Remuneration Committee meets at least once a year. The Remuneration Committee held one meeting in 2016 for, amongst other things, discussion and approval of the 2015 appraisal report and the 2016 performance contract of the CEO and bonus for senior management for 2015.

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

Nomination Committee

Composition

As at 31 December 2016, the Nomination Committee comprised Mr. Chung Shui Ming Timpson, Mr. Wang Xiaochu and Mrs. Law Fan Chiu Fun Fanny. Except for Mr. Wang Xiaochu, who is the Chairman and CEO of the Company, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny are independent non-executive Directors of the Company. The Chairman of the Nomination Committee is Mr. Chung Shui Ming Timpson.

Major Responsibilities

The primary responsibilities of the Nomination Committee include: reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals