

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 1-15028

CHINA UNICOM (HONG KONG) LIMITED
(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's Name Into English)

Hong Kong
(Jurisdiction of Incorporation or Organization)

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
Ordinary shares	The New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on The New York Stock Exchange, Inc. of American depository shares, or ADSs, each representing 10 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2015, 23,947,081,083 ordinary shares were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Note Regarding Forward-Looking Statements

This annual report 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) our plans and strategies and our ability to successfully execute these plans and strategies, including those in connection with our mergers and acquisitions and capital expenditures; (ii) our plans for network expansion, including those in connection with the build-out of our mobile services and network infrastructure; (iii) our competitive position, including our 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 our position as an integrated telecommunications operator and expand into new services and markets; (iv) our future business condition, including our future financial results, cash flows, financing plans and dividends; (v) the future growth of market demand of, and opportunities for, our 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 they relate to us, are intended to identify certain of these forward-looking statements. We do 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 annual report are, by their nature, subject to significant risks and uncertainties. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of our 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, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, or the SASAC, 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, or 4G, services;
- competitive forces from more liberalized markets and our 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 we have prepared our projected financial information and capital expenditure plans;
- costs and benefits from our investment in and arrangements with the Tower Company;
- effects of the imposition of and changes in value-added tax, or VAT, 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 “D. Risk Factors” under Item 3.

Certain Definitions

As used in this annual report, references to “we”, “us”, “our”, the “Company”, “our company” and “Unicom” are to China Unicom (Hong Kong) Limited (formerly known as China Unicom Limited). Unless the context otherwise requires, these references include all of our subsidiaries. In respect of any time prior to our incorporation, references to “we”, “us”, “our” and “Unicom” are to the telecommunications businesses in which our predecessors were engaged and which were subsequently assumed by us. All references to “Unicom Group” are to China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation), our indirect controlling shareholder. Unless the context otherwise requires, these references include all of Unicom Group’s subsidiaries, including us and our subsidiaries.

All references to “China Netcom” are to China Netcom Group Corporation (Hong Kong) Limited, which merged with us in October 2008, and, as the context may require, its subsidiaries. References to “Netcom Group” mean China Network Communications Group Corporation, which merged with, and was absorbed by, Unicom Group in January 2009 and, as the context may require, its subsidiaries, other than us and our subsidiaries.

As used in this annual report:

- references to “China” or “PRC” mean the People’s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan, and references to the “central government” or the “PRC Government” mean the central government of the PRC;
- references to “our fixed-line northern service region” mean the 10 municipalities, provinces and region where we operate fixed-line services in northern China, consisting of Beijing and Tianjin Municipalities, and Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, and Shanxi Provinces, and the Inner Mongolia Autonomous Region;
- references to the “21 provinces in southern China” mean Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Hubei Province, Hunan Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Hainan Province, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region; we completed the acquisitions of certain telecommunications business and assets, including the fixed-line business in those 21 provinces in southern China, from Unicom Group and Netcom Group and/or their respective subsidiaries and branches in January 2009; see “A. History and Development of the Company — Unicom Acquisitions and Sales — Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China” under Item 4;
- references to “Hong Kong Stock Exchange” or “HKSE” mean The Stock Exchange of Hong Kong Limited, and references to “NYSE” or “New York Stock Exchange” mean The New York Stock Exchange, Inc; and

- references to “Renminbi” or “RMB” are to the currency of the PRC, references to “U.S. dollars” or “US\$” are to the currency of the United States of America, references to “HK dollars” or “HK\$” are to the currency of the Hong Kong Special Administrative Region of the PRC and references to “Euro” are to the currency of the eurozone (19 of the 28 member states of the European Union).

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2013, 2014 and 2015 and the consolidated statement of financial position data as of December 31, 2014 and 2015 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes, included elsewhere in this annual report on Form 20-F. The selected historical consolidated income statement data for the years ended December 31, 2011 and 2012 and the consolidated statement of financial position data as of December 31, 2011, 2012 and 2013 set forth below are derived from our audited consolidated financial statements that are not included in this annual report on Form 20-F. Our consolidated financial statements as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 have been prepared and presented in accordance with IFRS. The statistical information set forth in this annual report on Form 20-F relating to China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside China.

In October 2015, we, through our wholly own subsidiaries, China United Network Communications Corporation Limited, or CUCL, and Unicom New Horizon Telecommunications Company Limited, or Unicom New Horizon, completed the disposal of certain of our telecommunications towers and related assets to the Tower Company. See “B. Business Overview — The Tower Company” under Item 4. As we own 28.1% of the share capital of the Tower Company, we recognized at the completion 71.9% of the gains on such disposal, with the remaining amount of such gain amortized over the remaining useful life of the transferred assets.

In December 2012, we completed the acquisition of the entire equity interest in Unicom New Horizon Telecommunications Company Limited, or Unicom New Horizon, through our wholly owned subsidiary, China United Network Communications Corporation Limited, or CUCL, from Unicom Group, or the 2012 Acquisition. See “A. History and Development of the Company — Unicom Acquisitions and Sales — 2012 Acquisition” under Item 4. As Unicom New Horizon did not meet the definition of a “business” under IFRS 3 (Revised) “Business Combinations”, we accounted for the 2012 Acquisition as an asset purchase transaction in accordance with IAS 16 “Property, Plant and Equipment”.

As of or for the year ended December 31,

2011	2012	2013	2014	2015	2015
RMB	RMB	RMB	RMB	RMB	US\$(^b)

(in millions, except for per share data)

Consolidated Income Statement Data:**Revenue⁽²⁾****Mobile services**

Service revenue	103,307	126,036	151,133	155,095	142,620	22,017
Sales of mobile telecommunications products	23,219	38,735	56,393	39,743	41,665	6,432
Total mobile telecommunications revenue	126,526	164,771	207,526	194,838	184,285	28,449

Fixed-line services

Service revenue ⁽²⁾	81,642	83,213	86,487	88,481	91,261	14,088
Sales of fixed-line telecommunications products	63	64	78	60	106	16
Total fixed-line telecommunications revenue	81,705	83,277	86,565	88,541	91,367	14,104

Unallocated amounts

Service revenue ⁽²⁾	936	878	947	1,302	1,397	216
Sales of other telecommunications products	—	—	—	—	—	—
	936	878	947	1,302	1,397	216

Total revenue	209,167	248,926	295,038	284,681	277,049	42,769
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Total costs, expenses and others	(203,569)	(239,405)	(281,324)	(268,750)	(263,014)	(40,602)
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Income before income tax	5,598	9,521	13,714	15,931	14,035	2,167
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Income tax expenses	(1,371)	(2,425)	(3,306)	(3,876)	(3,473)	(536)
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Net income	4,227	7,096	10,408	12,055	10,562	1,631
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Earnings per share for income attributable to equity shareholders during the year

-Basic earnings per share ⁽³⁾	0.18	0.30	0.44	0.51	0.44	0.07
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-Diluted earnings per share ⁽³⁾	0.18	0.30	0.43	0.49	0.44	0.07
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-Basic earnings per ADS ⁽⁴⁾	1.79	3.01	4.40	5.05	4.41	0.68
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-Diluted earnings per ADS ⁽⁴⁾	1.78	2.96	4.31	4.95	4.41	0.68
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-Number of shares outstanding for basic earnings per share ⁽³⁾	23,564	23,565	23,658	23,852	23,947	23,947
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-Number of shares outstanding for diluted earnings per share ⁽³⁾	23,785	24,664	24,656	24,795	23,947	23,947
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-Number of ADS outstanding for basic earnings per ADS ⁽⁴⁾	2,356	2,357	2,366	2,385	2,395	2,395
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-Number of ADS outstanding for diluted earnings per ADS ⁽⁴⁾	2,379	2,466	2,466	2,480	2,395	2,395
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As of or for the year ended December 31,					
2011	2012	2013	2014	2015	2015
RMB	RMB	RMB	RMB	RMB	US\$ ⁽¹⁾

(in millions, except for per share data)

Consolidated Statement of Financial Position Data:

Assets						
Cash and cash equivalents and short-term bank deposits	15,410	18,282	21,560	25,364	21,957	3,390
Property, plant and equipment	381,859	430,997	431,625	438,321	454,631	70,183
Inventories and consumables	4,651	5,803	5,536	4,378	3,946	609
Prepayments and other current assets	6,127	9,580	9,664	10,029	10,864	1,677
Financial assets at fair value through other comprehensive income	6,951	5,567	6,497	5,902	4,852	749
Total assets	456,233	516,124	529,171	545,072	610,346	94,221
Liabilities						
Accounts payable and accrued liabilities	95,252	108,486	102,212	120,371	167,396	25,841
Short-term bank loans	32,322	69,175	94,422	91,503	83,852	12,945
Commercial papers	38,000	38,000	35,000	9,979	19,945	3,079
Current portion of long-term bank loans	50	850	48	45	84	13
Current portion of other obligations	2,586	2,642	2,672	2,698	2,797	432
Current portion of corporate bonds	—	5,000	—	—	—	—
Current portion of promissory notes	—	15,000	—	—	2,499	386
Long-term bank loans	1,384	536	481	420	1,748	270
Promissory notes	15,000	—	—	21,460	36,928	5,701
Convertible bonds	11,118	11,215	11,002	11,167	—	—
Corporate bonds	7,000	2,000	2,000	2,000	2,000	309
Tax payable	1,232	1,820	2,634	1,466	3,163	488
Total liabilities	250,335	306,619	310,272	317,531	379,130	58,527
Shareholders' equity	205,898	209,505	218,899	227,541	231,216	35,694
Share capital ⁽⁵⁾	2,311	2,311	2,328	179,101	179,102	27,649

As of or for the year ended December 31,					
2011	2012	2013	2014	2015	2015
RMB	RMB	RMB	RMB	RMB	US\$(¹)

(in millions, except for per share data)

Other Financial Data:

Net cash inflow from operating activities of continuing operations	66,491	70,620	78,482	88,094	84,301	13,014
Net cash outflow from investing activities of continuing operations	(82,970)	(99,480)	(77,110)	(75,319)	(91,354)	(14,102)
Net cash inflow/(outflow) from financing activities of continuing operations	8,988	32,004	1,926	(8,973)	3,427	528
Net (decrease)/increase in cash and cash equivalents	(7,491)	3,144	3,298	3,802	(3,626)	(560)
Dividend declared per share	0.10	0.12	0.16	0.20	0.17	0.03

- (1) The translation of RMB into U.S. dollars has been made at the rate of RMB6.4778 to US\$1.00, representing the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2015. The translations are solely for the convenience of the reader.
- (2) Revenue and service revenue figures for the year ended December 31, 2011 include fixed-line upfront connection fees for basic telephone access services that were eliminated by order of the former Ministry of Information Industry in July 2001. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of 10 years. No upfront connection fees will be recognized after December 31, 2011.
- (3) See Note 39 to our consolidated financial statements included elsewhere in this annual report on Form 20-F on how basic and diluted earnings per share are calculated under IFRS.
- (4) Earnings per ADS is calculated by multiplying earnings per share by 10, which is the number of shares represented by each ADS.
- (5) The significant increase in our share capital in 2014 is primarily caused by the conversion of the amounts standing to the credit of the share premium account and the capital redemption reserve into our share capital due to the implementation of the no-par value regime under the Hong Kong Companies Ordinance (Cap. 622), which became effective on March 3, 2014. See Note 19 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. The exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board, or the daily exchange rate. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 31, 2015 (RMB6.4778 to US\$1.00 and HK\$7.7507 to US\$1.00). These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The daily exchange rates were RMB6.4810 = US\$1.00 and HK\$7.7562 = US\$1.00, respectively, on April 14, 2016. The following table sets forth the high and low daily exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Exchange Rate

	RMB per US\$1.00		HK\$ per US\$1.00	
	High	Low	High	Low
October 2015	6.3591	6.3180	7.7503	7.7495
November 2015	6.3945	6.3180	7.7526	7.7498
December 2015	6.4896	6.3883	7.7527	7.7496
January 2016	6.5932	6.5219	7.8270	7.7505
February 2016	6.5795	6.5154	7.7969	7.7700
March 2016	6.5500	6.4480	7.7745	7.7528
April 2016 (up to April 14, 2016)	6.4810	6.4580	7.7569	7.7537

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2011, 2012, 2013, 2014 and 2015, calculated by averaging the daily exchange rate on the last day of each month during the relevant years.

Average Exchange Rate

	<u>RMB per US\$1.00</u>	<u>HK\$ per US\$1.00</u>
2011	6.4475	7.7793
2012	6.2990	7.7556
2013	6.1412	7.7565
2014	6.1704	7.7554
2015	6.2869	7.7519

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Our Business

We face intense competition from other telecommunications operators, including China Mobile and China Telecom, and other companies that provide telecommunications or related services, which may materially and adversely affect our financial condition, results of operations and growth prospects.

The telecommunications industry in China has been rapidly evolving. We, along with China Mobile Communications Corporation, or China Mobile, and China Telecommunications Corporation, or China Telecom, are the three full-service telecommunications service providers that operate both fixed-line and mobile telecommunications networks in China. See “A. History and Development of the Company — Restructurings of the Telecommunications Industry” under Item 4. We face intense competition in virtually all aspects of our services, including mobile services, fixed-line voice services, broadband services and data communications services, from China Mobile and China Telecom and expect that this competition will further intensify. In particular, we compete with China Mobile and China Telecom in mobile services. For fixed-line services, we are a leading fixed-line operator in northern China, while China Telecom has a dominant market position in southern China and the MIIT granted to China Mobile the approval for China Mobile to authorize China Mobile Limited to operate the fixed-line telecommunications business in December 2013. In addition, the PRC Government is in the process of introducing new policies that may intensify competition among the three telecommunications operators, such as the policies that would allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers in certain areas in China and the removal by the State Council of the MIIT’s approval requirement on the tariff standard of telecommunications services.

We also face increasing competition from other service providers, such as cable television companies and Internet service providers, which compete against our broadband access, voice and messaging services and other services by offering telecommunications or related services. Such competition may further intensify due to recent policies of the PRC Government. For example, the PRC Government is in the process of implementing policies regarding the convergence of television broadcast, telecommunications and Internet access networks, and has introduced a series of policies that encourage non-State-owned companies to enter the PRC telecommunications industry. In May 2013, the MIIT issued the pilot program for mobile telecommunications resale business that permit non-State-owned companies to purchase mobile services from telecommunications operators and provide mobile services to end-customers after repackaging and rebranding. The initial trial period of the pilot program ended on December 31, 2015, but the telecommunications resale business will continue to be governed by the rules of the pilot program before the MIIT issues any further rules. Since December 2013, the MIIT has approved 42 companies to operate such business.

We also face increasing competition from other telecommunications operators for key employees. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could result in significant increase in our operating expenses, and we may be unable to attract or retain these personnel.

Intensive competition from China Mobile and China Telecom, as well as other companies that provide telecommunications or related services, could lead to slower subscriber growth, lower usage or traffic volume of our telecommunications services, continued price pressure, higher customer acquisition and retention costs and higher labor costs, which may materially and adversely affect our financial condition, results of operations and growth prospects.

The successful development of our mobile services is subject to market demand, consumer acceptance, technological challenges, competition on service fees, terminal subsidies and other marketing expenses, and other uncertainties, and expected benefits from investments in our mobile networks.

Our principal telecommunications services are mobile services, of which 4G services have become a critical part. We commercially launched our 4G services in March 2014 and we will continue to make investments in our 4G networks, expand our network coverage and improve our network quality in the future. We may experience various difficulties in the development of our 4G services and other mobile services, including software, network, handset and other technical issues. We cannot assure you that we will be able to do so in a timely fashion or that we will not encounter other difficulties. Moreover, with respect to our mobile business, in particular our 4G services, we cannot assure you that:

- we will be able to gain access to sufficient resources at commercially reasonable terms and conditions for expansion of our mobile networks;
- our mobile services will be more popular among potential subscribers than those of our competitors; and
- our mobile services will generate an acceptable or commercially viable rate of return.

Any failure or delay in expanding and upgrading our mobile networks, any increase in the associated costs (including the costs and expenses that may be incurred as a result of the changes of our marketing and sales policies) could hinder the recovery of our significant capital investment in mobile services, respectively, which could in turn have a material adverse effect on our financial condition, results of operations and growth prospects. For example, our depreciation and amortization expenses increased by 3.9% from RMB73.87 billion in 2014 to RMB76.74 billion in 2015, primarily due to our continuing expansion and upgrade of our 4G networks, mainly attributable to the expansion of our network coverage as well as our increased investment in network operation and enhanced network support and maintenance. The increase in depreciation and amortization expenses was partially offset by the decrease in the depreciation and amortization relating to the telecommunications towers and related assets we disposed of to the Tower Company in October 2015. Also, our network, operation and support expenses increased by 11.8% from RMB37.85 billion in 2014 to RMB42.31 billion in 2015, primarily due to the usage fees payable to the Tower Company with respect to certain telecommunications towers and related assets, the expansion of networks, facilities and base stations and the increases in other rental expenses and utilities charges. If such expenses continue to increase without corresponding increase in the relevant service revenue, our profitability would be adversely affected.

The industry trends of mobile service substitution and mobile service migration from old generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and old generations mobile services, which may materially and adversely affect our financial condition, results of operations and growth prospects.

We experienced a continuing decline in the number of fixed-line local telephone subscribers and usage of our fixed-line local telephone services during the past several years due to the trend of mobile service substitution for fixed-line services. Consistent with trends in global markets in recent years, significant traffic from our fixed-line networks has been diverted to mobile networks, including mobile networks of other mobile operators. This trend has resulted in a continuing decline in our revenue derived from our fixed-line local telephone services in recent years.

Similarly, as the technology of mobile services evolves, the trend of mobile services migration from old generations to new generations would generally have an adverse effect on our old generations services, including a growth slowdown or a decrease in the number of subscribers and usage. In particular, our Global System for Mobile Communications, or GSM mobile services, and third generation mobile telecommunications services, or 3G services, have been negatively affected by the trend of migration to 4G services, which resulted in a decrease in our subscribers and revenue from our non-4G mobile services in 2015. Although such trend of migration would increase our 4G services subscribers and revenue, it may not fully offset the adverse effect.

We have been taking various measures to retain our subscribers and their service usage of our fixed-line local telephone services, attract our old generations mobile services subscribers to migrate to our 4G networks, and attract mobile service subscribers from other telecommunications operators to our mobile services network, in particular, the 4G networks. Such measures include improvement of our products and services, acceleration of the construction and coverage of our 4G networks, and promotion of the integrated development of our mobile services and fixed-line services in order to mitigate the adverse impact caused by the above mentioned industry trends. If these efforts are not successful, our financial condition, results of operations and growth prospects could be materially and adversely affected.

Competition from foreign-invested operators may further increase the competition for employees, exacerbate price competition and increase our operating expenses, thereby adversely affecting our financial condition, results of operations and growth prospects.

As a result of China's accession to the World Trade Organization, or WTO, in December 2001 and the adoption of the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises in January 2002, which implement China's commitments to the WTO, the PRC Government has agreed to gradually liberalize the various segments and regions of the telecommunications market in China to foreign investors. Currently, foreign investors are permitted to own up to 49% of joint ventures that offer basic telecommunications services without any geographic restrictions in China and up to 50% of joint ventures that offer value-added telecommunications services without any geographic restrictions in China. More foreign-invested operators may enter China's telecommunications market as a result of this liberalization. They may have greater financial, managerial and technical resources and more expertise in network management and sales and marketing than we do.

Increased competition from foreign-invested operators into the PRC telecommunications market may further increase the competition for skilled and experienced employees, exacerbate price competition and increase our customer acquisition costs and other operating expenses, and thereby adversely affect our financial condition, results of operations and growth prospects.

Failure to respond to technological and industry developments in a timely and effective manner or failure to continually optimize, expand and upgrade our networks and infrastructure could materially and adversely affect our competitive position and hinder our growth.

The telecommunications industry in China and elsewhere in the world has been experiencing rapid and significant changes in the diversity and sophistication of the technologies and services offered. Such changes may render our existing services or technologies inadequate or obsolete. We cannot assure you that we will be able to respond to technological and industry developments in a timely and cost-effective manner, or at all. Our inability to respond successfully to technological or industry developments may adversely affect our financial condition, results of operations and growth prospects. Furthermore, if the new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth may decline and our competitive position may be adversely affected.

In addition, the growth of our business depends on whether we are able to continue to optimize the capacity, expand the coverage and improve the quality of, and upgrade our existing networks and infrastructure in a timely and effective manner. Our ability to expand and upgrade our networks and infrastructure is subject to a number of uncertainties, including our ability to achieve the following on a timely basis and on acceptable terms:

- manage technology migration in an effective manner, including effectively responding to a shortage of available Internet Protocol version 4 addresses and timely developing mobile network long-term evolution;
- obtain adequate financing;
- obtain relevant government licenses, permits and approvals;
- obtain adequate network equipment and software;
- retain experienced management and technical personnel;
- obtain sufficient spectrum frequencies, network numbers and other telecommunications resources controlled by the PRC Government;
- gain access to the sites for network construction or upgrade; and
- enter into interconnection and other arrangements with other operators.

If we are not able to timely and effectively overcome the uncertainties and difficulties we may encounter in expanding and upgrading our networks and infrastructure, our competitive position, financial condition, results of operations and growth prospects may be materially and adversely affected.

Because we rely on arrangements with other telecommunications operators, changes to the terms or availability of these arrangements may result in disruptions to our services and operations and may result in customer dissatisfaction and materially and adversely affect our financial condition, results of operations and growth prospects.

Our ability to provide telecommunications services depends upon arrangements with other telecommunications operators. In particular, interconnection is necessary to complete all calls between our subscribers and subscribers of other telecommunications operators. We, either through ourselves or through Unicom Group, have established interconnection and transmission line leasing arrangements with other telecommunications operators, including our parent company, as required to conduct our current business. Any disruption to our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect may affect our operations, service quality and customer satisfaction, thus adversely affecting our business. Furthermore, we are generally not entitled to collect indirect or consequential damages resulting from disruptions in the networks with which we are interconnected. Any disruption in existing interconnection arrangements and leased line arrangements or any significant change of their terms, as a result of natural events or accidents or for regulatory, technical, competitive or other reasons, may lead to temporary service interruptions and increased costs that can seriously jeopardize our operations and adversely affect our financial condition, results of operations and growth prospects. Difficulties in executing alternative arrangements with other operators on a timely basis and on acceptable terms, including the inability to promptly establish additional interconnection links or increase interconnection bandwidths as required, could also materially and adversely affect our financial condition, results of operations and growth prospects.

Interruptions to our networks and operating systems or to those with which we interconnect, including those caused by natural disaster and service maintenance and upgrades, may disrupt our services and operations and may result in customer dissatisfaction and materially and adversely affect our financial condition, results of operations and growth prospects.

Our network infrastructure and the networks with which we interconnect are vulnerable to potential damages or interruptions from floods, wind, storms, fires, power loss, severed cables, acts of terrorism and similar events. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other failure of our networks or systems, or the networks to which we are interconnected, may result in consequential interruptions in services across our telecommunications infrastructure. In 2015, certain areas of China suffered from natural disasters including typhoons, floods, mountain torrents, mudslides and landslides, and these natural disasters caused extensive damage to our network equipment, including our base stations and optical fiber networks, in the affected areas. As a result, we experienced service stoppage and other disruptions in our operations in those areas and also sustained economic losses. Any future natural disasters may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our services and operations. Moreover, our networks and systems and the networks with which we interconnect also require regular maintenance and upgrades. Such maintenance and upgrades may cause service disruptions. Network or system failures, as well as high traffic volumes, may also affect the quality of our services and cause temporary service interruptions. Any such future occurrence may result in customer dissatisfaction and materially and adversely affect our financial condition, results of operations and growth prospects.

If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be materially and adversely affected.

We continue to have a significant level of capital expenditure and debt service requirements necessary to implement our business strategies. We incurred capital expenditure of RMB133.88 billion in 2015. To the extent these capital expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. We cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms. Even if we obtain such financing, our financing cost may increase significantly as a result of additional financing or higher interest rate. See “Liquidity and Capital Resources” under Item 5. Our failure to do so may adversely affect our financial condition, results of operations and growth prospects. Our ability to obtain acceptable financing at any time may depend on a number of factors, including, among others:

- our financial condition and results of operations;
- our creditworthiness and relationship with lenders;
- changes in credit policies, other government or banking policies that may affect credit markets in China;
- conditions of the economy and the telecommunications industry in China;
- conditions in relevant financial markets in China and elsewhere in the world; and
- our ability to obtain any required government approvals for our financings.

We may continue to experience declines in ARPU for our telecommunications services.

In 2015, the overall ARPU for our mobile services decreased by 7.5% from 2014, primarily due to (i) the implementation of VAT to replace business tax relating to the telecommunications services in China; (ii) the implementation of the PRC Government’s policy of increasing network speed and reducing tariffs in 2015 as well as our mobile data carry-over programs launched in October 2015, which allows subscribers of our data plans with pre-determined monthly data limit to carry over their unused data to the following month with no extra charge; (iii) our late entry into the 4G services market in the PRC compared to a major telecommunications operator and the intensifying competition with other telecommunications operators, both of which had a negative effect on our ability to attract or retain 4G subscribers or other subscribers with higher usage of telecommunications services and (iv) many of our new subscribers who are users with lower usage of telecommunications services. We may continue to experience declining ARPU in the foreseeable future, which could have a material adverse effect on our financial condition and results of operations. Although we have been making efforts to manage those effects by allocating more resources to diversify our service offerings, particularly the value-added services, promote our integrated mobile and fixed-lined services to encourage more usage of our services, and develop our high-end customers, we cannot assure you that these efforts will be able to achieve the anticipated results.

Adjustments in our tariff plans may have a material adverse effect on our financial condition and results of operations.

From time to time, we adjust our tariff plans by taking into account various factors, including the market conditions and policies of the PRC Government, and such adjustments may have a material negative effect on our revenue and profitability. In May 2015, the PRC government introduced a policy of increasing network speed and reducing tariffs. Since May 2015, in order to expand our customer base as well as to comply with the relevant policies, we have, in addition to continuing increasing our network speed, offered discounts to our tariff plans. In addition, in October 2015, we launched an mobile data carry-over programs, which allow subscribers of our data plans with pre-determined monthly data limit to carry over their unused data to the following month with no extra charge. Furthermore, in light of the governmental policy of achieving coordinated development of Beijing Municipality, Tianjin Municipality and Hebei Province issued in April 2015 by the PRC Government, we cancelled the long-distance and roaming tariffs for voice services within the tariff zones of Beijing Municipality, Tianjin Municipality and Hebei Province so that our customers are only charged with local usage tariff for our voice services provided within the tariff zones. See “B. Business Overview — Regulatory and Related Matters — Tariff Setting” under Item 4. Such measures have resulted in reduced tariffs of our voice services in 2015, which in turn had a negative impact on our revenue and profitability. These policies have had an adverse impact on our results of operations. Any future governmental policies in China or market conditions that require us to further reduce our tariffs could materially and adversely affect our financial condition and results of operations.

Our business relies on the usage arrangements with the Tower Company as to telecommunications towers, and we may not be able to achieve the expected benefits from the establishment of the Tower Company.

In July 2014, we, China Mobile and China Telecom, the three major telecommunications operators in China, jointly established China Tower Company Limited, or the Tower Company (formerly known as China Communications Facilities Services Corporation Limited), which engages primarily in the construction, maintenance and operation of telecommunications towers in China and other ancillary facilities, including base station control rooms, power supplies, air conditioning and interior distribution systems, as well as the provision of maintenance services of base station equipment. In October 2015, the Tower Company completed the acquisition of telecommunications towers and related assets from us, China Mobile and China Telecom. As of April 14, 2016, we owned 28.1% equity interest in the Tower Company. We are in the process of negotiating the final arrangements with the Tower Company with respect to our use of telecommunications towers and related assets of the Tower Company. See “B. Business Overview — The Tower Company” under Item 4.

The main purpose of establishing the Tower Company is to consolidate the telecommunications towers of the three major telecommunications operators in China so as to enhance the efficiency of their capital expenditure, to improve the network coverage and to reduce competition on sites of telecommunications towers. However, there is no assurance that these benefits will be achieved as expected, or at all. In addition, as we do not control the Tower Company, the Tower Company may not act in the best interest of us. As such, we cannot assure you that our investment in the Tower Company will achieve the anticipated results in the near future as expected, or at all.

Furthermore, since it is expected that none of us, China Mobile or China Telecom will construct any telecommunications towers in the future, our business will rely on the usage arrangements with the Tower Company as to telecommunications towers and related assets. There is no assurance that the usage arrangements will be on terms commercially favorable or reasonable to us. In particular, according to our preliminary negotiation results, certain factors affecting usage pricing to be set forth in the usage agreement are beyond our control, including inflation, real estate market and steel price fluctuation. In addition, the usage agreement may provide for a pricing adjustment mechanism which allows the Tower Company to adjust the fees charged to us if there is a material change in the actual operations, operating data and forecast of the Tower Company. Therefore, the usage fees with respect to telecommunications towers and related assets of a certain financial year may exceed the depreciation expenses and the maintenance costs we would incur if we own and operate the telecommunications towers and related assets by ourselves in the same period.

We face risks associated with our Internet-related services.

We have been proactively exploring and developing certain innovative and Internet-related services, including mobile Internet, digital services and big data services. We face a number of risks in providing these services.

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We cannot assure you that the security measures we have implemented will not be circumvented or otherwise can fully protect the integrity of our network, including our mobile network. Unauthorized access could jeopardize the security of confidential information stored in our customers' computer systems and mobile phone systems and may subject us to litigation, liabilities for information loss and/or reputational damage. Eliminating computer viruses and other security problems may also require interruptions, delays or suspension of our services, reduce our customer satisfaction and cause us to incur costs.

In addition, because we provide connections to the Internet and host websites for customers and develop Internet content and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We cannot and do not screen all of such content and may face litigations due to a perceived association with such content. These types of litigations have been brought against other providers of online services in the past. Regardless of the merits of the litigations, they can be costly to defend, divert management resources and attention, and may damage our reputation.

Our controlling shareholder, Unicom Group, can exert influence on us and cause us to make decisions that may not always be in the best interests of us or our other shareholders and may fail to provide services and facilities that we rely on to operate our business.

Unicom Group indirectly controlled an aggregate of approximately 74.36% of our issued share capital as of April 14, 2016 and all of our executive directors also serve as directors or executive officers of Unicom Group. As our controlling shareholder, subject to our articles of association and applicable laws and regulations, Unicom Group is effectively able to control our management, policies and business by controlling the composition of our board of directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. The interests of Unicom Group as our controlling shareholder may conflict with our interests or the interests of our other shareholders. As a result, Unicom Group may cause us to enter into transactions or take (or fail to take) other actions or make decisions that may not be in our or our other shareholders' best interests.

In addition, our operations depend on a number of services and facilities provided by Unicom Group. For example, Unicom Group provides us with international gateway services, interconnection services, sales agency and collection services and provision of premises. See "B. Related Party Transactions" under Item 7. The interests of Unicom Group as provider of these services and facilities may conflict with our interests. Failure by Unicom Group to fulfill its obligations under any of these arrangements may have a material adverse effect on our business operations. We currently have limited alternative sources of supply for these services and facilities and, as a result, may have limited ability to negotiate with Unicom Group regarding the terms for providing these services and facilities. Changes in the availability, pricing or quality of these services or facilities may have a material adverse effect on our business and profitability.

The previous internal reorganization of Unicom Group for the A Share offering created a two-step voting mechanism that requires the approval of the minority shareholders of both our Company and China United Network Communications Limited (formerly known as China United Telecommunications Corporation Limited), or the A Share Company, for significant related party transactions between us and Unicom Group.

In October 2002, Unicom Group completed an internal reorganization of its shareholding in our company and the initial public offering in China of its then newly established subsidiary, the A Share Company. As part of this restructuring, a portion of Unicom Group's indirect shareholding in our company was transferred to the A Share Company, whose business is limited to indirectly holding the equity interest of our company without any other direct business operations. A voting mechanism was established to allow public shareholders of the A Share Company to indirectly participate in our shareholders' meetings and a two-step voting mechanism was established for the approval of related party transactions. As a result, any significant related party transaction between us or our subsidiaries and Unicom Group or its other subsidiaries will require the separate approval of the independent minority shareholders of both our company and the A Share Company. Related party transactions approved by our independent minority shareholders nevertheless cannot proceed if they are not approved by the independent minority shareholders of the A Share Company. This adds another necessary step of approval process for those transactions. See "A. History and Development of the Company — Two-Step Voting Arrangements" under Item 4.

Investor confidence and the market prices of our shares and ADSs may be materially and adversely impacted if we are or our independent registered public accounting firm is unable to conclude that our internal control over financial reporting is effective in future years as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are a public company in the United States that is subject to the Sarbanes-Oxley Act of 2002. Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we include in this annual report a report of management on our internal control over financial reporting and an attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting as of December 31, 2015 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by KPMG, an independent registered public accounting firm, as stated in their report appearing on page F-2. However, we cannot assure you that, in the future, our management will continue to conclude that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective for future periods, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our controls are documented, designed, operated, reviewed or evaluated, or if the independent registered public accounting firm interprets the relevant requirements, rules or regulations differently from us, then it may issue an adverse opinion. Any of these possible outcomes in the future could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which could materially and adversely affect the market prices of our shares and ADSs.

Moreover, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including through a failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on the market prices of our shares and ADSs.

Certain misconducts or alleged misconducts by our executive officers or employees may not be detected or prevented in a timely manner, and such misconduct may damage our reputation and cause the trading price of our ordinary shares and ADSs to decrease.

As a state-owned enterprise of the PRC, we and our directors, officers and employees are subject to various periodic inspections, examinations, inquiries and audits by PRC regulatory authorities. In December 2015, the Central Commission for Discipline Inspection of the Communist Party of China and the Ministry of Supervision of the PRC initiated an investigation on our former chairman and chief executive officer, Chang Xiaobing for alleged violations of the disciplinary rules of the Communist Party of the PRC. As of April 14, 2016, the relevant investigating authorities had not notified us of the incidents underlying the investigation. See “C. Board Practices” under Item 6 for more details.

In addition, in the course of investigations conducted jointly by the Central Commission for Discipline Inspection of the Communist Party of China and the Ministry of Supervision of the PRC in November and December 2014, two officers of our Group, who are not directors or members of the senior management of our company, were alleged to have engaged in unlawful conduct and other misconduct. Such allegations of unlawful conduct include the acceptance of bribes. While these incidents have been transferred to the judicial authorities, we believe that they are isolated incidents.

In response to these investigations, we have taken and will continue to take various measures, including enhancing our employee’s compliance awareness and strengthening our risk management and internal control procedures in this regard, to detect and prevent similar misconduct by our employees in the future. However, we cannot assure you that these measures will effectively detect or prevent all misconduct by our employees in a timely manner or at all. If these measures prove ineffective in detecting or preventing employee misconduct, our reputation may be severely harmed, our operations could be disrupted and the trading price of our ordinary shares and ADSs could decrease significantly.

The implementation of VAT to replace business tax relating to the telecommunications services in China has had, and may continue to have, a negative impact on our results of operations.

The PRC Government implemented VAT to replace business tax relating to the telecommunications services in China on June 1, 2014. As opposed to the business tax of 3% imposed on the revenue that was applicable to us prior to June 1, 2014, we are subject to the output VAT at the rate of 11% for our basic telecommunications services (including, among others, voice communication, and lease or sale of network resources) and 6% for our value-added telecommunications services (including, among others, Internet access services, short and multimedia messaging services, and transmission and application service of electronic data and information). Sales of our telecommunications terminals and equipment are subject to the output VAT at the rate of 17% before and after June 1, 2014. The Input VAT rate depends on the type of services received and the assets purchased as well as the VAT rate applicable to the vendors’ specific industry, and ranges from 6% to 17%.

The revenue is presented in our financial statements after excluding any output VAT in accordance with IFRS. Therefore, the implementation of VAT has a negative impact on our revenue, although the implementation of VAT also reduces our costs and expenses to the extent we are entitled to input VAT credits. See “B. Business Overview — Regulatory and Related Matters — VAT Applicable to the Telecommunications Industry” under Item 4 for more details. To the extent that the decrease in revenue is larger than the decrease in our costs and expenses due to the implementation of VAT in the PRC telecommunications industry, the implementation of VAT would have a negative impact on our net income. See “— Operating Results” under Item 5 for more details. We have taken certain initiatives to manage the adverse impact from the implementation of VAT, such as increasing the contribution of the non-voice services to our total revenue, optimizing the marketing models and operations, and enhancing tax planning capabilities. However, we cannot assure you that the measures we take to manage the adverse effect on our net income due to the implementation of the VAT in the PRC telecommunications industry will achieve the anticipated results in the near future.

Risks Relating to the Telecommunications Industry in China

Government regulation of the telecommunications industry in China may affect our ability to respond to market conditions or competition, and may have a material adverse effect on our financial condition, results of operations and growth prospects.

As a telecommunications operator in China, we are subject to regulation by, and under the supervision of, the MIIT, which is the primary regulator of the telecommunications industry in China. The MIIT is responsible for formulating policies and regulations for the telecommunications industry, granting telecommunications licenses, allocating frequency spectrum and numbers, formulating interconnection and settlement arrangements between telecommunications operators, and enforcing industry regulations. Other PRC Governmental authorities also regulate capital investment and foreign investment in the telecommunications industry. See “B. Business Overview — Regulatory and Related Matters” under Item 4. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our ability to respond to market conditions or to changes in our cost structure. Moreover, we operate our businesses pursuant to approvals granted by the State Council of the PRC, or the State Council, and under licenses granted by the MIIT. If these approvals or licenses were revoked or suspended, our business and operations would be materially and adversely affected. In addition, we are subject to various regulatory requirements as to a wide range of matters relating to our business operations, including service quality, pricing, real-name registration for telecommunications service subscribers and other actions, and failure to comply with such requirements may subject us to mandatory penalties or other punitive measures, any of which could have a material adverse effect on our financial condition, results of operations and growth prospects. Furthermore, we cannot assure you that we will not experience any adverse impact on our business during the course of our compliance with regulatory requirements in the PRC telecommunications industry. For instance, in 2016, we will continue to strictly comply with the PRC Government’s policy relating to the real-name registration of telecommunications service subscribers by taking more stringent measures to manage the subscriber accounts that are not real-name registered or inactive. These measures are likely to cause a growth slowdown or a decrease in the number of our subscribers in 2016. Similarly, the PRC regulators may promulgate and implement new regulations, rules and policies on the telecommunications industry from time to time, and we cannot guarantee that any such new regulations, rules or policies will not have a material adverse effect on our financial condition, results of operations and growth prospects.

Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially and adversely affect our financial condition, results of operations and growth prospects.

The PRC Government continues to regulate many aspects of the telecommunications industry in China. Potential changes in regulations and policies and their implementation could lead to significant changes in the overall industry environment and may have a material adverse effect on our financial condition, results of operations and growth prospects. As part of the comprehensive plan to restructure the telecommunications industry in China, the PRC Government has been adjusting and improving its regulatory oversight of the telecommunications industry, including further deregulating telecommunications tariffs.

The MIIT, under the direction of the State Council, is currently preparing a telecommunications law to provide a uniform regulatory framework for the telecommunications industry in China. As of the date of this annual report, the telecommunications law has not yet been officially promulgated by the PRC Government. The promulgation of the telecommunications law and other new telecommunications regulations or rules, or future changes thereto, such as enforcement of existing regulations and policies, may materially and adversely affect our financial condition, results of operations and growth prospects.

Issues may also arise regarding the interpretation and enforcement of China’s WTO commitments regarding telecommunications services. Any future regulatory changes, such as those relating to the issuance of additional telecommunications licenses, interconnection and settlement arrangements, changes in technical and service standards, universal service obligations and spectrum and number allocations, may have a material adverse effect on our business and operations.

The PRC telecommunications industry has been extensively restructured in recent years and may be subject to further restructuring. Such further industry restructuring may materially affect the operations of all telecommunications operators in China, including us. Accordingly, we cannot predict the scope and effect of any further restructuring on our financial condition, results of operations and growth prospects.

The PRC Government may require us, along with other telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government authorities, and the MIIT has the authority to delineate the scope of universal service obligations. The MIIT, together with the finance department and pricing authorities of the State Council, are also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. In December 2015, the Ministry of Finance and the MIIT jointly issued the rules regarding the pilot program for universal services to be implemented in 97 prefecture-level cities across the PRC. Since these rules were recently promulgated, we understand that the local authorities are in the process of formulating detailed plans and guidance to implement such rules.

Pursuant to rules promulgated by the Ministry of Finance and the MIIT in December 2015, telecommunications operators are urged to participate in the bidding process for being selected as providers to provide basic telecommunications services in less economically developed areas in China. In addition, as part of the transitional measures prior to the formalization of a universal service obligation framework, the MIIT has required major telecommunications service providers in China, including Unicom Group, to participate in a project to provide telephone and broadband access services in tens of thousands of remote villages in China. See “B. Business Overview — Regulatory and Related Matters — Universal Services” under Item 4.

We cannot predict whether the PRC Government will specifically require us to undertake universal service obligations in the future. To the extent we are required to do so, it is currently uncertain whether we will be adequately or timely compensated by the PRC Government or by the universal service fund. We cannot assure you that we will be able to realize an adequate return on investments for expanding networks to, and providing telecommunications services in, less economically developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. We also cannot predict whether we will be required to make a contribution to the universal service fund. Any of these events may adversely affect our financial condition and results of operations.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers of our mobile services, reduce mobile service usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, mobile operators have been subject to lawsuits alleging various health consequences as a result of mobile handset usage or proximity to base stations or seeking protective or remedial measures. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with the transmission of electromagnetic signals will not impair our ability to retain customers and attract new customers, reduce mobile service usage or result in litigation.

Risks Relating to Doing Business in China

Our operations may be materially and adversely affected by changes in or deterioration of China’s economic, political and social conditions.

Substantially all of our business operations are conducted in China and substantially all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are affected to a significant degree by economic, political and social conditions in China. The PRC economy differs from the economies of most developed countries in many respects, including with respect to the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past three decades, growth has been uneven across different regions and among various economic sectors. The PRC Government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

The PRC economy has experienced a slowdown for the past few years. The GDP growth rate of China decreased from 11.4% in 2007 to 6.9% in 2015. It's uncertain whether China's economic growth will return to the previous level of growth or it will encounter deterioration. In light of the slowdown of China's economic growth, our subscribers' usage of our services may decrease and we may experience increased difficulties in retaining existing subscribers or acquiring new subscribers, which could materially and adversely affect our business, as well as our financial condition and results of operations.

If the PRC Government revises the current regulations that allow a foreign-invested enterprise to pay foreign exchange in current account transactions, our operating subsidiary's ability to satisfy its foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted.

The ability of our major operating subsidiary, CUCL, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future foreign exchange regulations in China. The Renminbi is currently convertible by foreign-invested enterprises in China to settle transactions under the current account, which include trade- and service-related foreign exchange transactions and payments of dividends. The Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which includes outbound foreign investment and payments on foreign loans. CUCL, which holds substantially all of our assets and through which we conduct substantially all of our business, is a foreign-invested enterprise in China. However, there is no assurance that in the future the relevant PRC government authorities will not impose any limitation on the ability of foreign-invested enterprises to purchase foreign exchange to satisfy their foreign exchange obligations or to pay dividends. In that event, CUCL's ability to satisfy its foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted and the interests of our shareholders may, in turn, be affected.

Fluctuations in the value of the Renminbi could adversely affect the prices of our shares and ADSs as well as our profitability.

Substantially all of our revenue and costs and expenses are denominated in Renminbi, while a portion of our borrowings, equipment purchases and other capital expenditures are denominated in foreign currencies. On July 21, 2005, the PRC Government changed its decade-old policy to permit Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies determined by the People's Bank of China, or the PBOC. On May 19, 2007, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market. With the increased floating range of the Renminbi's value against foreign currencies, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float. Increased fluctuations of the Renminbi could adversely affect the value in foreign currency terms of cash flow generated from our operations or any dividends payable on our shares and ADSs, and therefore the price of our shares and ADSs. Any future Renminbi devaluations could also increase our equipment importation costs or lead to significant fluctuations in the exposure of our foreign-currency-denominated liabilities, thereby adversely affecting our profitability.

Uncertainties in the PRC legal system could limit the legal protections available to us and to foreign investors and materially and adversely affect our financial condition, results of operations and growth prospects.

Our wholly owned operating subsidiary, CUCL, is organized under the laws of PRC and is generally subject to laws and regulations applicable to foreign-invested enterprises in China. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases may be cited for reference but have limited precedential value. Since 1979, the PRC Government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, property, taxation and trade. However, because these laws and regulations are relatively new, and because of the relatively limited volume of published cases and their non-binding nature, interpretation and/or enforcement of these laws and regulations involves uncertainties, which may limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties. In addition, any litigation in China may be protracted and result in costs and diversion of resources and management attention. Therefore, the protection provided by the PRC legal system may not be the same as the legal protection available to investors in the United States or elsewhere. Furthermore, various uncertainties involved in the rulemaking, interpretation and enforcement process of the laws, regulations and rules in China that are related to our business operations, in particular, those in respect of telecommunications and enterprise income tax, may also materially and adversely affect our financial condition, results of operations and growth prospects.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Most of our current operations are conducted in China and most of our assets are located in China. In addition, four out of nine of our current directors and all of our current executive officers reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court judgments. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in China of judgments of a court of the United States or any other jurisdiction, including judgments against us or our directors, executive officers, underwriters or experts, may be difficult or impossible.

Natural disasters and health hazards in China may severely disrupt our business and operations and may severely restrict the level of economic activities in affected areas which in turn may have a material adverse effect on our financial condition and results of operations.

Natural disasters such as earthquakes, snowstorms and floods may result in significant and extensive damage to our base stations and network equipment. Moreover, certain countries and regions, including China, have encountered incidents of bird flu, or avian flu, as well as severe acute respiratory syndrome, or SARS, and the outbreak of influenza A (H1N1) in the past. In 2015, certain areas of China suffered from severe floods. We are unable to predict the effect, if any, that any other future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, natural disasters and health hazards may severely restrict the level of economic activities in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in China may have a material adverse effect on our financial condition and results of operations.

Our investors do not have the benefit to rely on the Public Company Accounting Oversight Board inspection of our independent registered public accounting firm.

As a company registered with the U.S. Securities and Exchange Commission, or the SEC, and traded publicly in the United States, our independent registered public accounting firm is required by the laws of the United States to be registered with the Public Company Accounting Oversight Board, or the PCAOB, and undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. The PCAOB, however, is currently unable to inspect a registered public accounting firm's audit work relating to a company's operations in China where the documentation of such audit work is located in China. Accordingly, our independent registered public accounting firm's audit of our operations in China is not subject to the PCAOB inspection. As a result, our investors do not have the benefit of the PCAOB inspection of our independent registered public accounting firm's audit works and quality control procedures.

KPMG, our independent registered public accounting firm, relies on the Chinese member firm of the KPMG network for assistance in completing the audit work on us. If an order is imposed on the Chinese member firm of the KPMG network suspending its practice before the SEC, KPMG's audit work may be delayed and, as a result, we may be unable to timely file future financial statements in compliance with the requirements of the Exchange Act of 1934, as amended.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the “Big Four” accounting firms, including KPMG network, from, among other things, practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of “Big Four” accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of “Big Four” accounting firms agreed to settlement terms that include a censure; undertakings to make a payment to the SEC; procedures and undertakings as to future requests for documents by the SEC; and possible additional proceedings and remedies should those undertakings not be adhered to.

Our independent registered public accounting firm currently relies on the Chinese member firm of the KPMG network for assistance in completing the audit work associated with our operations in China. If the settlement terms are not adhered to, Chinese member firms of “Big Four” accounting firms may be suspended from practicing before the SEC which could in turn delay the timely filing of our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent auditor to replace KPMG. A delinquency in our filings with the SEC may result in NYSE initiating delisting procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospect.

Risk Relating to our ADSs

Holders of our ADSs will not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise their right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares represented by our ADSs on an individual basis. Holders of our ADSs will receive proxy materials with respect to matters to be voted on at a meeting of shareholders through the depository and may only exercise voting rights by appointing the depository or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. Consequently, if the materials to be forwarded to holders of ADSs by the depository are delayed or if the depository sets deadlines by which holders of ADSs must give their instructions regarding how to vote that fall too soon after mailing of the proxy materials, the holders of our ADSs may not receive voting materials in time to instruct the depository to vote. Thus, it is possible that such holders, or persons who hold their ADSs through brokers, dealers or other third parties, may not have the opportunity to exercise a right to vote.

Item 4. Information on the Company

A. History and Development of the Company

We were incorporated under the laws of Hong Kong on February 8, 2000 under the predecessor of the Companies Ordinance as a company limited by shares under the name “China Unicom Limited”. In connection with the telecommunications industry restructuring initiated by the MIIT, the NDRC and the MOF in 2008 as discussed below, we merged with China Netcom and changed our name to “China Unicom (Hong Kong) Limited” with effect from October 15, 2008. Following our merger with China Netcom, we became an operator providing a full range of telecommunications services, including mobile and fixed-line services, in China.

Our registered office and principal executive offices are located at 75th Floor, The Center, 99 Queen’s Road Central, Hong Kong (telephone number: 852-2126-2018).

Restructurings of the Telecommunications Industry

Since 1993, the PRC Government has implemented a number of measures to restructure and introduce competition in the telecommunications industry. Prior to July 1994, China Telecom was the sole provider of telecommunications services in China. In July 1994, Unicom Group was established in accordance with the State Council’s approval to introduce orderly competition in the telecommunications industry. Since then, the PRC Government has approved Jitong Network Communications Company Limited, or Jitong, and China Netcom Corporation Ltd., or CNCL, to provide Internet protocol, or IP, telephony, Internet and data services. It has also approved China Tietong to provide most telecommunications services other than mobile services.

In 1999, the State Council approved a plan to restructure the former China Telecom along four business lines: fixed-line, mobile, paging and satellite communications. As a result of the restructuring, China Telecom retained the fixed-line, data and Internet businesses, while China Mobile assumed the mobile business previously operated by China Telecom. In 2002, the PRC Government further separated China Telecom into two companies, with the southern company retaining the name of China Telecom and assets and businesses in 21 provinces in southern China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with CNCL and Jitong to form China Netcom. As a result of the PRC Government's efforts to introduce competition in the telecommunications industry, there are currently more than one service providers in most of the sectors within the telecommunications industry.

On May 24, 2008, the MIIT, the NDRC and the MOF issued a joint announcement relating to the further reform of the PRC telecommunications industry. According to the joint announcement, the principal objectives of such further reform included, among others: (i) supporting the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications services providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom of the CDMA network (including both assets and subscriber base) then owned by Unicom Group; (b) the merger between China Unicom and China Netcom; (c) the transfer of the basic telecommunications services business operated by China Satellite into China Telecom; and (d) the consolidation of China Tietong into China Mobile. The detailed implementation plans relating to these restructuring transactions were subsequently formulated by the relevant parties and, as a result, China Mobile, China Telecom and we became the current three major telecommunications operators in China, each providing a full range of telecommunications services nationwide.

Sale of CDMA Business, Merger with China Netcom and Related Transactions

Disposal of CDMA Business and Related Transactions

Pursuant to the 2008 telecommunications industry restructuring announcement, on June 2, 2008, we, CUCL and China Telecom entered into a CDMA business disposal framework agreement, under which CUCL agreed to sell, and China Telecom agreed to purchase, the CDMA business of CUCL, including (i) the entire CDMA business, which is owned and operated by CUCL, together with the assets of CUCL that are relevant to the CDMA operations and the rights and liabilities of CUCL relating to its CDMA subscribers; (ii) the entire equity interest in China Unicom (Macau) Company Limited, our wholly owned subsidiary; and (iii) all of the 99.5% equity interest in Unicom Huasheng Telecommunications Technology Company Limited, a limited liability company incorporated under the laws of the PRC, held by CUCL.

On July 27, 2008, we, CUCL and China Telecom further entered into a CDMA business disposal agreement which set out the detailed terms and conditions of the CDMA business disposal. The consideration for the CDMA business disposal was RMB43.8 billion in cash, payable in three installments. While the consideration was subject to a price adjustment mechanism based on the CDMA service revenue generated by us for the six months ended June 30, 2007 and June 30, 2008, as agreed with China Telecom, there was no subsequent adjustment to the consideration as a result of the price adjustment mechanism.

On July 27, 2008, in connection with the CDMA business disposal, CUCL agreed (i) to waive its right to exercise its option to purchase the CDMA network from Unicom New Horizon, a wholly owned subsidiary of Unicom Group, and (ii) to terminate the CDMA lease pursuant to which CUCL leased capacity on the CDMA network from Unicom New Horizon, in each case with effect upon the completion of the CDMA business disposal.

At our shareholders' meeting held on September 16, 2008, our shareholders approved the CDMA business disposal and our independent shareholders approved the waiver by CUCL of the option to purchase the CDMA network and the termination of the CDMA lease. As all of the conditions of the CDMA business disposal as specified in the CDMA business disposal agreement had been satisfied or deemed to have been satisfied, the CDMA business disposal was completed on October 1, 2008. On that date, China Telecom became the legal owner of the CDMA business and all the rights, interests, obligations and liabilities in relation to the CDMA business have been borne by China Telecom with effect from October 1, 2008. We recognized in our statements of income for the year ended December 31, 2008 a gain on disposal of the CDMA business of approximately RMB26.1 billion, net of corresponding income tax of approximately RMB9.0 billion.

In connection with the CDMA business disposal, we had been notified by Unicom Group that on June 2, 2008 and July 27, 2008, Unicom Group, Unicom New Horizon and China Telecom entered into a CDMA network framework agreement and a CDMA network disposal agreement, respectively, which set out the terms and conditions, under which Unicom Group and Unicom New Horizon agreed to sell, and China Telecom agreed to purchase, the CDMA network at a consideration of RMB66.2 billion. The disposal of the CDMA network was completed concurrently with our CDMA business disposal, on October 1, 2008.

Merger with China Netcom and Related Transactions

Merger with China Netcom

On October 15, 2008, following the approval of the merger by our shareholders and the shareholders of China Netcom at shareholders' meetings held on September 16, 2008 and September 17, 2008, respectively, and the satisfaction of all other conditions, the merger between China Unicom and China Netcom by way of a scheme of arrangement of China Netcom under Section 166 of the predecessor of the Companies Ordinance became effective. Upon the merger becoming effective, all ordinary shares of China Netcom outstanding at 5:00 p.m., Hong Kong time, on October 14, 2008 and all outstanding options to acquire China Netcom shares granted under the share option scheme of China Netcom were cancelled and new China Netcom shares were issued to us. As a result, China Netcom became our wholly owned subsidiary and the listings of China Netcom's ordinary shares and ADSs on the HKSE and the NYSE, respectively, were withdrawn.

In connection with our merger with China Netcom, each holder of China Netcom shares was entitled to receive 1.508 of our new ordinary shares for every cancelled China Netcom share and each holder of Netcom ADSs was entitled to receive 3.016 of our new ADSs for every cancelled China Netcom ADS. A total of 10,102,389,377 of our new ordinary shares (including ordinary shares underlying our newly issued ADSs) were issued to China Netcom's shareholders as consideration for the cancellation of the China Netcom shares held by China Netcom shareholders.

Furthermore, we adopted a special purpose share option scheme, pursuant to which we have granted new Unicom options to the holders of China Netcom options in consideration for the cancellation of their outstanding Netcom options (whether vested or not). The number of Unicom options granted and the exercise price of such options were determined in accordance with a formula which ensures that the value of the Unicom options received by a holder of Netcom options is equivalent to the value determined by deducting the exercise price of the relevant Netcom option from the value of HK\$27.87 per Netcom share. The special purpose share option scheme expired on February 14, 2015.

As a result of our merger with China Netcom, we have become an operator providing a full range of telecommunications services to our customers, including mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services. Following the merger, we have taken measures to combine the respective experience and technologies of Unicom and China Netcom and develop business strategies, taking into account current market developments, to promote business innovation and competitiveness and to improve operating and financial performance. By combining the resources and business strengths of Unicom and China Netcom in different areas, we seek to become a world-class provider of telecommunications services, in particular in fixed-line broadband communications and information services, establish competitive advantages in our technologies, products and services and provide professional and multi-tiered information services to satisfy the changing and diverse needs of the telecommunications market in China.

Change of Company Name

Upon our merger with China Netcom becoming effective on October 15, 2008, our name changed from “China Unicom Limited” to “China Unicom (Hong Kong) Limited”. Our stock trading code on the HKSE and our ticker symbol on the NYSE remain unchanged.

Related Transactions

As part of our integration with China Netcom, our wholly owned subsidiary, CUCL, merged with China Netcom (Group) Company Limited, or CNC China, a wholly owned subsidiary of China Netcom, in January 2009, and upon that merger becoming effective, CUCL assumed all the rights and obligations of CNC China, and all the assets, liabilities and business of CNC China were vested in CUCL. In addition, in January 2009, Unicom Group, our parent company, merged with and absorbed Netcom Group, the parent company of China Netcom. Upon completion of the merger between Unicom Group and Netcom Group, Unicom Group assumed all the rights and obligations of Netcom Group, and all the assets, liabilities and business of Netcom Group have vested in Unicom Group.

History and Corporate Development of China Netcom

China Netcom was incorporated in Hong Kong on October 22, 1999, under the predecessor of the Companies Ordinance as a company limited by shares under the name Target Strong Limited. The company changed its name to China Netcom (Hong Kong) Corporation Limited on December 9, 1999, to China Netcom Corporation (Hong Kong) Limited on August 4, 2000, and to China Netcom Group Corporation (Hong Kong) Limited on July 23, 2004 (the last name change in anticipation of its IPO in 2004).

China Netcom’s principal operating subsidiary, CNC China, which merged with, and was absorbed by, CUCL in January 2009, was incorporated as a PRC limited liability company in August 1999 by its four founders and shareholders, the Academy of Sciences, INC-SARFT, CRTC and Shanghai Alliance, as a facilities-based telecommunications operator in China. China Netcom was established in October 1999 to facilitate investments by foreign investors, including CNC Fund, L.P., in CNC China. Shortly thereafter, the four founders, using their respective equity interests in CNC China as capital contributions, established China Netcom (Holdings) Company Limited which in turn contributed its entire interests in CNC China through CNC BVI to China Netcom. China Netcom, through China Netcom Corporation International Limited, established Asia Netcom in 2002. Asia Netcom remained inactive until it acquired substantially all the assets, including cash, and most of the subsidiaries, of the former Asia Global Crossing Ltd. by the end of 2003.

China Netcom successfully completed its IPO in November 2004 with the listing of its ordinary shares on the HKSE and ADSs, each representing 20 of its ordinary shares, on the NYSE.

In October 2005, China Netcom acquired from CNC BVI the entire equity interests of China Netcom Group New Horizon Communications Corporation (BVI) Limited, or CNC New Horizon BVI, which merged into CNC China in November 2006. As a result of the merger, China Netcom acquired the fixed-line telecommunications assets and related liabilities in Heilongjiang Province, Jilin Province, the Inner Mongolia Autonomous Region and Shanxi Province. In August 2006, China Netcom sold the entire equity interest in Asia Netcom, which then provided international telecommunications services in the Asia-Pacific region, to Connect Holdings Limited. In February 2007, China Netcom sold its telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality to Netcom Group. In December 2007, China Netcom’s wholly owned subsidiary, China Netcom Group System Integration Limited Corporation, or China Netcom System Integration, acquired the entire equity interest in Design Institute from China Netcom Group Beijing Communications Corporation, a wholly owned subsidiary of Netcom Group, in order to develop two of its key information and communication technologies, or ICT, services.

Our Parent Company and Our Initial Public Offering

Our ultimate controlling shareholder is Unicom Group, a company incorporated under the laws of the PRC and majority-owned by the PRC Government. Unicom Group was established in accordance with the State Council’s approval to introduce orderly competition in the telecommunications industry in 1994.

Unicom Group transferred certain of its telecommunications assets, rights and liabilities to CUCL (which became our wholly owned subsidiary in China) in April 2000 in preparation for our IPO. In June 2000, we successfully completed our IPO. Our ordinary shares are listed on the HKSE and our ADSs, each representing 10 of our ordinary shares, are listed on the NYSE.

Unicom Acquisitions and Sales

In December 2002 and December 2003, respectively, we completed our acquisitions from Unicom Group of 100% of the equity interests in Unicom New Century and Unicom New World, both of which held mobile telecommunications operations (including GSM assets and business and CDMA business) in various provinces and autonomous regions in China. Subsequent to the completion of those acquisitions, Unicom New Century and Unicom New World merged into CUCL in July 2004 and September 2005, respectively.

In March 2003, we completed the sale to Unicom Group of the entire equity interest of Guoxin Paging Corporation Ltd., which at the time of transfer was engaged in paging business.

In September 2004, we acquired from Unicom Group of 100% of the equity interest in China Unicom International Limited, or Unicom International, a limited liability company established in Hong Kong and engaged in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services. In September 2009, the name of China Unicom International Limited was changed to China Unicom (Hong Kong) Operations Limited. Unicom International's wholly owned U.S. subsidiary, China Unicom USA Corporation, is engaged in the wholesale business of voice traffic between the United States and PRC. In August 2009, the name of China Unicom USA Corporation changed into China Unicom (Americas) Operations Limited upon the completion of its merger with China Netcom (USA) Operations Limited, a subsidiary of China Netcom.

In October 2004, we established China Unicom (Macau) Company Limited, or Unicom Macau, in Macau, which then provided CDMA mobile services to local CDMA users in Macau. In connection with the disposal of our CDMA business in October 2008, we sold the entire equity interest in Unicom Macau to China Telecom along with our other CDMA business and certain related assets.

In July 2005, CUCL and Unicom Xingye Science and Technology Trade Co., Ltd., or Unicom Xingye, a subsidiary of Unicom Group, incorporated Unicom Huasheng. Unicom Huasheng was principally engaged in the sales of CDMA handsets and telecommunications equipment and the provision of technical services for us. In connection with the disposal of our CDMA business in October 2008, CUCL sold all of the 99.5% equity interest it held in Unicom Huasheng to China Telecom.

In December 2007, we completed the acquisition from Unicom Group of the mobile telecommunications operations (including GSM assets and business and CDMA business) of its Guizhou Province branch. As a result of the acquisitions of Unicom New Century, Unicom New World and Unicom Guizhou, we extended our GSM and CDMA mobile businesses to all provinces, autonomous regions and municipalities across China.

On August 19, 2008, CUCL established a wholly owned subsidiary, Unicom Huakai Telecommunications Company Limited, or Unicom Huakai, as a limited liability company under the laws of the PRC. Unicom Huakai is principally engaged in the sales of handsets and telecommunications equipment and the provision of technical services. The paid-in capital of Unicom Huakai is RMB500 million. On December 26, 2008, the name of Unicom Huakai was changed to Unicom Vsens Telecommunications Company Limited.

Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China

Following the approval by our independent shareholders and the shareholders of the A Share Company and upon the satisfaction of all other conditions, in January 2009, we completed our acquisitions, through CUCL, of certain telecommunications business and assets from Unicom Group and Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009), including:

- the fixed-line business across 21 provinces in southern China operated by Unicom Group and Netcom Group and/or their respective subsidiaries and branches (but not the underlying fixed assets) and the local access telephone business in Tianjin Municipality operated by Unicom Group and related fixed assets (other than land and buildings) necessary for the operation of such local access telephone business and/or respective subsidiaries and branches;
- the backbone transmission assets in 10 provinces in northern China owned by Netcom Group and/or its subsidiaries;
- 100% of the equity interest in Unicom Xingye, a limited liability company incorporated under the laws of the PRC and a wholly owned subsidiary of Unicom Group;
- 100% of the equity interest in China Information Technology Designing & Consulting Institute Company Limited, or CITC, a limited liability company incorporated under the laws of the PRC and a wholly owned subsidiary of Unicom Group; and
- 100% of the equity interest in New Guoxin Telecom Corporation of China Unicom, or New Guoxin, a limited liability company incorporated under the laws of the PRC and a wholly owned subsidiary of Unicom Group.

The total consideration for the above acquisitions is approximately RMB4.43 billion, payable in cash. Following the completion of these acquisitions, the coverage of our fixed-line services expanded to all 31 provinces, autonomous regions and municipalities across China. We believe that these acquisitions will help integrate and optimize our business and resources and enhance our overall competitive position.

In addition, in order to operate the fixed-line business in the 21 provinces in southern China, on December 16, 2008, CUCL entered into a network lease agreement, or the initial network lease agreement, with Unicom Group, Netcom Group and Unicom New Horizon, a wholly owned subsidiary of Unicom Group, to lease on an exclusive basis the telecommunications networks in those provinces, which are held by Unicom New Horizon and are necessary for the operation of the fixed-line business in southern China. The initial network lease agreement became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China and was for an initial term of two years effective from January 2009. On October 29, 2010, CUCL entered into a network leasing agreement, or the 2011-2012 network lease agreement, with Unicom New Horizon, which was for an initial term of two years effective from January 1, 2011 and was renewable at the option of CUCL with at least two months' prior notice on the same terms and conditions, except for the future lease fee which will remain subject to further negotiations between the parties. The annual lease fee paid by CUCL under the 2011-2012 network lease agreement for the years ending December 31, 2011 and 2012 was RMB2.4 billion and RMB2.6 billion, respectively. In December 2012, CUCL acquired the entire equity interest in Unicom New Horizon. See "— 2012 Acquisition".

Mutual Investment with Telefónica, S.A.

On September 6, 2009, we entered into a share subscription agreement with Telefónica, S.A., or Telefónica, one of our shareholders, to strengthen our cooperation. Pursuant to this agreement, we and Telefónica agreed to make a mutual investment in the amount of the equivalent of US\$1 billion in each other through acquisitions of shares in the other party. On October 21, 2009, we and Telefónica completed such mutual investments which were implemented by way of the subscription by Telefónica of 693,912,264 new ordinary shares in the capital of our company at a price of HK\$11.17 each and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica at a price of Euro17.24 each to us. In addition, on September 6, 2009, we entered into a strategic alliance agreement with Telefónica, pursuant to which Telefónica and we agreed to establish a strategic alliance to strengthen the business of each party and achieve synergies by cooperation in various fields based on our respective networks, business model and experience.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares in the capital of Telefónica for aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica, through its wholly owned subsidiary, Telefónica International, acquired 282,063,000 ordinary shares in the capital of our company for aggregate consideration of approximately US\$500,000,000 in several transactions executed in the period between January 25, 2011 and September 7, 2011. In addition, Wang Xiaochu, our Chairman and Chief Executive Officer, as our designated representative, was appointed in September 2015 as a director on the board of directors of Telefónica.

On June 10, 2012, China Unicom Group Corporation (BVI) Limited, or Unicom Group BVI, a wholly owned subsidiary of Unicom Group, entered into the Share Purchase Agreement for the Sale and Purchase of Shares in China Unicom (Hong Kong) Limited, as amended, pursuant to which it acquired from Telefónica an aggregate of 1,073,777,121 ordinary shares in the capital of our company at a price of HK\$10.02 per share and for an aggregate consideration of HK\$10,759,246,752.42 in July 2012.

On November 13, 2014, Telefónica, through Telefónica International, completed the sale of 597,844,100 ordinary shares in the capital of our company for an aggregate consideration of HK\$6,660 million, and upon the completion of such transaction, Telefónica held less than 5% ordinary shares in the capital of our company.

2011 Acquisition

In December 2011, we completed our acquisitions through Broadband Online, a wholly owned subsidiary of CUCL, of the entire equity interest in Unicom NewSpace from Unicom Group for a total cash consideration of RMB158 million. Unicom NewSpace primarily engages in mobile value-added business in China.

2012 Acquisition

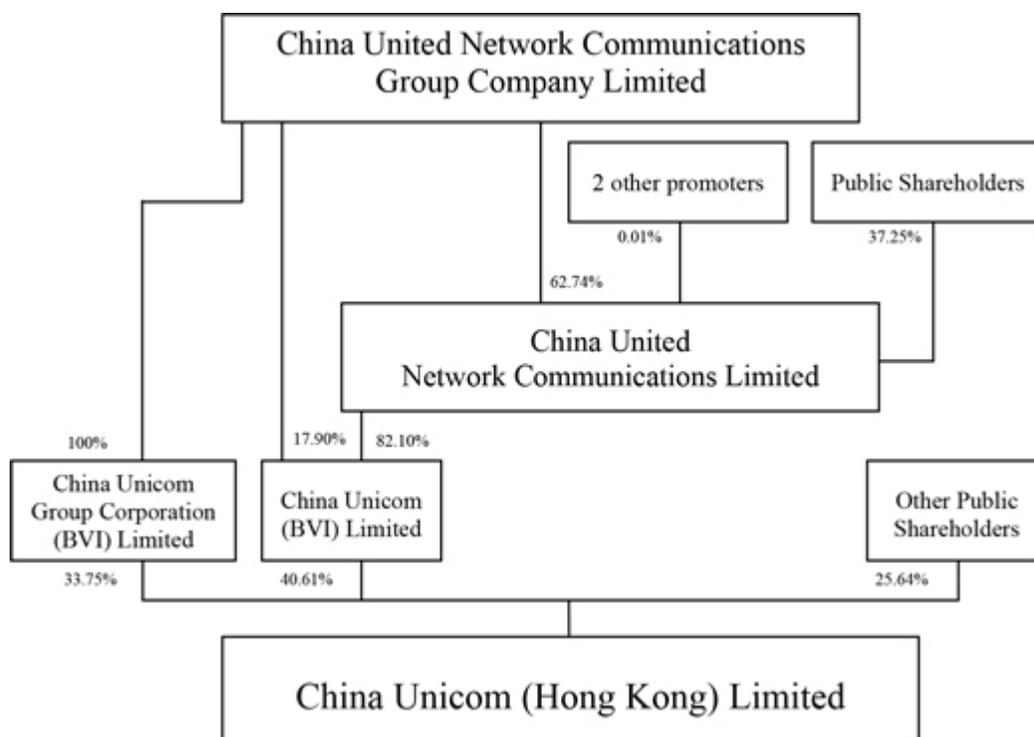
In December 2012, we completed our acquisition through CUCL of the entire equity interest in Unicom New Horizon from Unicom Group for a total cash consideration of RMB12,165,750,000. The assets of Unicom New Horizon consist of fixed-line telecommunications network assets located in 21 provinces in southern China and the rights and liabilities of Unicom New Horizon relating to its business operations.

Our Relationship with Unicom Group

Unicom Group holds the licenses required for our telecommunications businesses and we derive our rights to operate our businesses from our status as a subsidiary of Unicom Group. Unicom Group undertook to hold and maintain all licenses received from the MIIT in connection with our businesses solely for our benefit during the term of such licenses and at no cost to us. In addition, Unicom Group undertook to take all actions necessary to obtain and maintain for our benefit such governmental licenses or approvals as we shall require to continue to operate our businesses. Unicom Group also agreed not to engage in any business which competes with our businesses other than the then-existing competing businesses of Unicom Group and to grant us a right of first refusal in relation to any government authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service. Finally, Unicom Group also gave us an undertaking not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future, except through us.

In connection with the restructuring of Unicom Group and the acquisitions of Unicom New Century, Unicom New World and Unicom International, we entered into a number of agreements with Unicom Group pursuant to the two-step process described in “A. Development and History of the Company — Two-Step Voting Arrangements” below. These agreements expired on December 31, 2010. On October 29, 2010, CUCL and Unicom Group entered into a new comprehensive services agreement, or the 2010 comprehensive services agreement, to provide certain services and facilities to each other for a term of three years commencing on January 1, 2011. The 2010 comprehensive services agreement expired on December 31, 2013, and was renewed on October 24, 2013 through a new comprehensive services agreement, or the 2013 comprehensive services agreement, for a term of three years commencing on January 1, 2014 and expiring on December 31, 2016. See “B. Related Party Transactions” under Item 7 for a detailed description of our agreements with Unicom Group.

Set forth below is our shareholding structure as of April 14, 2016.



Two-Step Voting Arrangements

As a result of a series of internal restructurings of Unicom Group's shareholding in us following our IPO, Unicom BVI became our direct controlling shareholder, which in turn is directly controlled by the A Share Company and indirectly controlled by the Unicom Group. The A Share Company's business is limited to indirectly holding the equity interest in Unicom without any other direct business operations. The A Share Company was listed on the Shanghai Stock Exchange in 2002. In order to allow public shareholders of the A Share Company to indirectly participate in our shareholders' meeting, a voting mechanism was designed in accordance with the articles of association of Unicom BVI and the A Share Company. Under this voting mechanism, before Unicom BVI votes on certain proposals at our shareholders' meeting, the A Share Company must first convene a shareholders' meeting to consider the same proposals in order to direct Unicom BVI to vote the shares in our company indirectly held by the A Share Company through Unicom BVI. Unicom Group can similarly direct the voting in respect of its direct equity interest in Unicom BVI.

The voting mechanism described above, however, will not apply to the approval process for any related party transaction between us or our subsidiaries and Unicom Group or its subsidiaries, on which Unicom BVI will not be permitted to vote under the Rules Governing the Listing of Securities on HKSE, or the HKSE Listing Rules. Those related party transactions would require the separate approvals of the public shareholders of each of our company and the A Share Company. We and the A Share Company therefore created the two-step voting arrangements, pursuant to which each related party transaction between us or our subsidiaries and Unicom Group or its subsidiaries will consist of an initial agreement and a further agreement. The initial agreement would be entered into by Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) on the one hand and the A Share Company or Unicom BVI on the other hand. The initial agreement would contain the following terms:

- the closing of the initial agreement would be subject to (i) the successful transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries, and (ii) the approval of the further agreement by our independent shareholders; and
- Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) would agree and acknowledge that all rights and obligations under the initial agreement can be transferred to us or our subsidiaries without any further consent requirements.

The initial agreement will constitute a related party transaction of the A Share Company and, if certain thresholds are met, will require the approval of the public or independent shareholders of the A Share Company under the rules of the Shanghai Stock Exchange. The further agreement would be entered into by the A Share Company or Unicom BVI, on the one hand, and us or our subsidiaries, on the other hand, and will provide for the transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries. The further agreement will constitute a related party transaction of our company and, if certain thresholds are met, will require the approval of our public or independent shareholders under the HKSE Listing Rules. We expect, to the extent the nature of a particular related party transaction allows, the two-step voting arrangements to apply as described above. However, when we or our subsidiaries are the providers, rather than recipients, of certain services, the two-step voting arrangements will need to be adjusted so that the process as described above is effectively reversed, such that the initial agreement is entered into by us or our subsidiaries rather than Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) with the A Share Company or Unicom BVI. Accordingly, Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries), rather than us or our subsidiaries, will be a party to the further agreement. The arrangements (including the conditions) will apply correspondingly. This two-step structure will be applied in all related party transactions between us or our subsidiaries and Unicom Group or its subsidiaries and will effectively require the separate approvals of the public or independent shareholders of each of Unicom and the A Share Company for such related party transactions.

Capital Expenditures and Divestitures

See “Liquidity and Capital Resources — Capital Expenditures” under Item 5 for information concerning our principal capital expenditures for the previous two years and those planned for 2016. We currently do not have any significant divestiture in progress.

B. Business Overview

General

We are an integrated telecommunications operator in China providing mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services to our customers. We, China Mobile and China Telecom are the three major telecommunications operators in China. See “— A. History and Development of the Company — Restructurings of the Telecommunications Industry”.

In 2015, service revenue from mobile services continued to constitute a substantial portion of our total telecommunications service revenue. The service revenue from our mobile services was RMB142.62 billion, representing 60.6% of our total telecommunications service revenue. Our service revenue from mobile services in 2015 declined by 8.0% from RMB155.10 billion in 2014. The number of mobile services subscribers also declined by 4.16% from 299.10 million in 2014 to 286.66 million in 2015. Nevertheless, the total number of our 4G subscribers substantially increased from 2.11 million in 2014 to 44.16 million in December 2015. 4G subscribers are referred generally to subscribers who possess 4G handsets, use our 4G networks and have revenue contribution in the relevant month indicated.

In addition, our fixed-line broadband services continued to grow in 2015. Service revenue from fixed-line broadband services increased by 7.5% compared with 2014, accounting for 59.1% of total service revenue from the fixed-line services.

Mobile Services

Our mobile services consist of GSM, 3G and 4G services. In 2015, we focused on 4G services. MIIT granted our parent company, Unicom Group, the licenses to operate 4G services adopting the two major variants of 4G LTE technologies, being the Time Division LTE technology, or TD-LTE, and the Frequency-Division LTE technology, or LTE FDD, in December 2013 and February 2015, respectively. Unicom Group authorized our wholly owned subsidiary, CUCL, to operate the 4G services. Our mobile services primarily consist of mobile voice services and mobile non-voice services. Our mobile voice services enable our subscribers to make and receive phone calls, including local calls, domestic long-distance calls, international long-distance calls, intra-provincial roaming, inter-provincial roaming and international roaming, with a mobile handset at any point within the coverage area of our mobile telecommunications networks. Our mobile non-voice services primarily include wireless Internet, mobile reading, mobile music, “WO App Store”, SMS, “Cool Ringtone” (a personalized ring-back tone service) and other wireless information services.

Although our 4G services grew significantly in 2015, our service revenue from mobile services and number of mobile services subscribers declined in 2015. This was primarily because we entered into the 4G services market later than a major competitor. In addition, the implementation of VAT in the PRC telecommunications industry, the PRC Government’s policies of increasing the network speed and reducing tariffs and our mobile data carry-over programs launched on October 1, 2015 also had a negative effect on our mobile service revenue. Total revenue from our mobile services was RMB184.29 billion in 2015, of which service revenue from our mobile services decreased by 8.0% from RMB155.10 billion in 2014 to RMB142.62 billion in 2015. Such service revenue from mobile services accounted for 63.3% and 60.6% of our total service revenue in 2014 and 2015, respectively.

The following table sets forth selected historical information for our mobile operations and our subscriber base for the periods indicated.

	As of or for the year ended December 31,		
	2013	2014	2015
Number of subscribers (in thousands)	280,983	299,098	286,657
Number of mobile billing subscribers (in thousands) ⁽¹⁾	n.a.	266,579	252,317
Estimated market share for our mobile operations in our service areas ⁽²⁾	22.8%	23.2%	21.9%
Estimated market share of mobile billing subscribers ⁽¹⁾⁽³⁾	n.a.	20.7%	19.8%
Average minutes of usage per subscriber per month (MOU) ⁽⁴⁾	296.1	278.1	261.0
Mobile billing subscribers MOU ⁽¹⁾⁽⁵⁾	n.a.	299.8	293.4
Average revenue per subscriber per month (ARPU) (in RMB) ⁽⁶⁾	48.2	44.1	40.8
Mobile billing subscribers ARPU ⁽¹⁾⁽⁷⁾	n.a.	47.8	46.3

- (1) Mobile billing subscribers are referred generally to subscribers who have revenue contribution in the relevant month indicated. The number of mobile billing subscribers as of December 31, 2014 and December 31, 2015 was the number of mobile billing subscribers who had revenue contribution in December 2014 and December 2015, respectively. Since January 2016, we have been reviewing and analyzing our mobile billing subscribers data as we believe such data provides more meaningful information to measure our performance in accordance with our operating strategy. The number of mobile billing subscribers as of December 31, 2014 and December 31, 2015 has been generated for our management’s review of the trend of performance.
- (2) Market share in a given area is determined by dividing the number of our mobile subscribers in the area by the total number of our mobile subscribers and mobile subscribers of our major competitors in the area. The number of mobile subscribers of our major competitors is publicly disclosed by the mobile operators.
- (3) Market share in a given area is determined by dividing the number of our mobile billing subscribers in the area by the total number of our mobile billing subscribers and mobile subscribers of our major competitors in the area. The number of mobile subscribers of our major competitors is publicly disclosed by the mobile operators.
- (4) We calculate the monthly MOU by dividing the total minutes of usage during a month by the number of our mobile services subscribers during such month. The MOU set forth in this table is the average monthly MOU in the relevant period.
- (5) We calculate the monthly MOU by dividing the total minutes of usage during a month by the number of our mobile services billing subscribers during such month. The MOU set forth in this table is the average monthly MOU in the relevant period.
- (6) We calculate the monthly ARPU by dividing the sum of revenue from mobile services during a month by the number of our mobile services subscribers during such month. The ARPU set forth in this table is the average monthly ARPU in the period.
- (7) We calculate the monthly ARPU by dividing the sum of revenue from mobile services during a month by the number of our mobile services billing subscribers during such month. The ARPU set forth in this table is the average monthly ARPU in the period.

Subscribers of Mobile Services

Our total number of mobile subscribers decreased by 4.2% from 299.10 million as of December 31, 2014 to 286.66 million as of December 31, 2015, and our total number of mobile billing subscribers decreased by 5.4% from 266.58 million as of December 31, 2014 to 252.32 million as of December 31, 2015. Mobile billing subscribers are referred generally to subscribers who have revenue contribution in the relevant month indicated. The decreases in the total numbers of mobile subscribers and mobile billing subscribers were primarily due to our late entry into the 4G services market compared to a major competitor, the adjustments in our sales and marketing model and our initiatives to reduce our sales and marketing expenses, which posed significant challenges for us to retain or attract mobile subscribers. In addition, the decline in our mobile subscriber was also due to our strict implementation of certain PRC Government's policies, such as the real-name registration of telecommunications service subscribers. See "D. Risk Factors — Risks Relating to the Telecommunications Industry in China — Government regulation of the telecommunications industry in China may affect our ability to respond to market conditions or competition, and may have a material adverse effect on our financial condition, results of operations and growth prospects" under Item 3.

The total number of our 4G subscribers reached 44.16 million as of December 31, 2015. 4G subscribers are referred generally to subscribers who possess 4G handsets, use our 4G networks and have revenue contribution in the relevant month indicated. The increase in our total number of 4G subscribers was primarily due to (i) our proactive marketing of our 4G services; (ii) the increasing penetration rate of smart phones in the PRC market; and (iii) our efforts in the establishment of an integrated and centralized business operation management system along with innovations on distribution channels, pricing and service packages.

MOU and ARPU of Mobile Services

The MOU of our mobile services decreased from 278.1 minutes in 2014 to 261.0 minutes in 2015, and the MOU of our mobile billing subscribers decreased from 299.8 minutes in 2014 to 293.4 minutes in 2015. The overall ARPU of our mobile services decreased by 7.5% from RMB44.1 in 2014 to RMB40.8 in 2015, and the ARPU of our mobile billing subscribers decreased by 3.1% from RMB47.8 in 2014 to RMB46.3 in 2015. The declines in the MOU were mainly due to (i) our late entry into the 4G services market in China compared to a major telecommunications operator and the intensifying competition with other telecommunications operators, both of which had a negative effect on our ability to attract or retain 4G subscribers or other subscribers with higher usage of telecommunications services; and (ii) many of our new subscribers who are users with lower usage of telecommunications services. The decreases in our ARPU were mainly due to: (i) the decrease in our MOU; (ii) the implementation of VAT to replace business tax relating to the telecommunications services in China; and (iii) the implementation of the PRC Government's policy of increasing network speed and reducing tariffs, as well as our mobile data carry-over programs launched on October 1, 2015, which allow subscribers of our data plans with pre-determined monthly data limit to carry over their unused data to the following month with no extra charge.

Fixed-Line Services

We are a leading fixed-line broadband and communications operator in northern China. Following our merger with China Netcom in October 2008, which previously provided mainly fixed-line services in 10 provinces in northern China, and our acquisition of the fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we offer a wide range of fixed-line services nationwide in China, including (i) fixed-line broadband services and data communications services, (ii) fixed-line voice services, include local and long-distance fixed-line voice services and value-added services and (iii) other services.

Our total revenue from fixed-line services was RMB91.37 billion in 2015, of which service revenue from our fixed-line services increased by 3.1% from RMB88.48 billion in 2014 to RMB91.26 billion in 2015, accounting for 36.1% and 38.8% of our total service revenue in 2014 and 2015, respectively. In 2015, we achieved stable increase in total revenue from our fixed-line services, mainly attributable to the proactive implementation of fiber-optic broadband network upgrade, the improvement of our network speed, and the promotion of the development of integrated mobile and fixed-line services.

Fixed-Line Broadband Services and Data Communications Services

Fixed-Line Broadband Services

Fixed-line broadband services are one of our emphases as part of our strategy to focus on high growth services and also the foundation for the development of our mobile network and services. The growth in fixed-line broadband services has been driven by the increasing affordability and rising use of personal computers and other Internet access devices, gradual recognition by businesses of the importance of information and the proliferation of content and applications, such as online games and video-on-demand. We are a leading provider of fixed-line broadband services in our fixed-line northern service region and we seek to maintain this leading position by capitalizing on our extensive fixed-line network, large customer base, experienced sales force, established brand and strategy of multi-service bundling.

In 2015, we continued to upgrade our fiber-optic transmission network and improved access speed. Through strengthening the marketing of integrated mobile and fixed-line services, we promoted IPTV/Internet TV services, which effectively developed fixed-line broadband subscribers and enhanced customer loyalty by creating more value for them. As of December 31, 2015, our fixed-line broadband subscribers increased by 5.1% to 72.33 million, of which subscribers with 4M-and-above bandwidth accounted for 90.4% of all fixed-line broadband subscribers, representing an increase of 2.2 percentage points from the end of 2014. Our fixed-line broadband ARPU increased by 2.3% from RMB62.2 in 2014 to RMB63.6 in 2015.

The following table sets forth the information of our fixed-line broadband subscribers as of the dates indicated:

	As of December 31,		
	2013	2014	2015
Number of fixed-line broadband subscribers (in thousands)	64,647	68,790	72,330

Data Communications Services

We are a leading provider of data communications services in our fixed-line northern service region. We offer data products, such as those based on digital data networks, or DDN, frame relay, asynchronous transfer mode, or ATM, and Internet protocol-virtual private network, or IP-VPN. We also offer leased line products, including domestic and international leased circuits. Our customers for these services include government entities, large financial institutions and other domestic and multinational businesses, Internet service providers and other telecommunications operators. In 2015, we continued to offer full-scale data communications services to international operators and domestic and international corporate customers. We have also improved our capabilities to offer cross-border data communications and integrated information services.

Fixed-Line Voice Services

Our fixed-line voice services consist of local voice, domestic long-distance, international long-distance, interconnection and PHS services. As domestic mobile operators launched service packages at competitive prices, mobile roaming tariffs were lowered, and the migration of voice usage from fixed-line to mobile continued. In 2015, leveraging on our company's full-service advantage, we enhanced market development in areas of customer premises network, or CPN, and rural markets, as well as strengthened the marketing of integrated services.

The number of our fixed-line subscribers (including PHS subscribers) was 87.64 million, 82.06 million and 73.86 million as of December 31, 2013, 2014 and 2015, respectively. The decrease in the recent years was primarily due to a decrease in the number of our fixed-line telephone service subscribers and our PHS subscribers.

Local Voice Services

As a result of mobile substitution, our fixed-line local voice traffic has continued to decrease in recent years. As fixed-line broadband services further develop, our Internet dial-up usage has also continued to decrease. The total usage of our local calls were 64,793 million times, 69,879 million times and 59,084 million times in 2013, 2014 and 2015, respectively.

Long-Distance Voice Services

We offer traditional long-distance services and VoIP long-distance services. In recent years, due to the general decline of our fixed-line services and competition from software applications that allow users to make long-distance calls over the Internet, our long-distance services has been adversely affected.

Total minutes of domestic long-distance calls carried through our long-distance networks for the year ended December 31, 2013, 2014 and 2015 were 15,590, 14,198 and 12,707 million, respectively.

The following table sets forth certain information related to the usage of our international long-distance services for the periods indicated:

	For the Year Ended December 31,		
	2012	2013	2014
International long-distance outbound call minutes (minutes in millions)⁽¹⁾⁽²⁾			
Traditional	197	74	53
VoIP	199	100	62
Total	396	174	115

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our international long-distance networks.

(2) Includes long-distance outbound calls made to Hong Kong, Macau and Taiwan.

Fixed-Line Value-Added Services

In addition to fixed-line telephone voice services, we offer a wide range of value-added services on our fixed-line networks. Our value-added services generate additional usage on our networks and increase our average revenue per fixed-line subscriber. Our major fixed-line value-added services include “Personalized Ring” and caller-identification services. “Personalized Ring” services enable our fixed-line subscribers to personalize the ring-back tone for incoming calls.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to the arrangements that permit the connection of our telecommunications networks with other networks. Our mobile and fixed-line networks interconnect with Unicom Group’s networks. Under current arrangements, settlement between Unicom Group and us is based on an internal settlement standard that takes into account either the internal costs of the relevant networks or the government standard applicable between third-party operators, whichever is the more favorable to us.

We earn interconnection fees for terminating or transiting calls that originate from other domestic telecommunications operators’ networks and pay interconnection fees to other operators for calls originating from our networks that are terminated on their networks. We earn and pay such fees in respect of mobile calls, local and domestic and international long-distance calls and Internet services. We are required to pay the interconnection fees regardless of our ability or inability to collect the tariff from our subscribers. Interconnection charges are accrued on a monthly basis based on the actual call volume and applicable tariff rates.

All interconnection and settlement arrangements among domestic telecommunications operators in China are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MIIT. Some of the agreements pursuant to which we interconnect with other domestic operators were entered into by Unicom Group. We have entered into an agreement with Unicom Group pursuant to which we have agreed with Unicom Group that the costs and benefits arising under these agreements, as they relate to our operations, will be incurred to our account.

For additional information about our domestic and international interconnection arrangements, see “B. Business Overview — Regulatory and Related Matters” under Item 4 and “B. Related Party Transactions” under Item 7.

Roaming

We provide roaming services, which allow our subscribers to access our mobile services while they are physically outside of their registered service area or in the coverage areas of other mobile networks in other countries and regions with which we have roaming arrangements. As of March 31, 2016, we had roaming arrangements for (i) GSM international voice and SMS services with 596 operators in 251 countries and regions, (ii) GPRS international inbound data services with 518 operators in 208 countries and regions and for GPRS international outbound data services with 465 operators in 191 countries and regions, (iii) 3G services with 378 WCDMA operators in 142 countries and regions, and (iv) 4G international inbound data services with 65 operators in 38 countries and regions and for 4G international outbound data services with 55 operators in 33 countries and regions.

A mobile subscriber using roaming services is charged at our roaming usage rate for both incoming and outgoing calls, plus applicable long-distance tariffs. With respect to international roaming, we settle roaming charges with international operators in accordance with roaming agreements between Unicom Group and each of the international operators.

Networks

We operate an advanced network system to support our integrated operations. The backbone of the system is a nationwide fiber-optic transmission network, which serves as the common platform for our mobile, fixed-line telephone, broadband and data services. We generally utilize a centralized network planning and equipment selection process, which ensures uniform nationwide design and network compatibility. After our merger with China Netcom in October 2008, we have actively integrated our network resources to improve our network quality and capacity.

Mobile Networks

Our mobile network generally consists of:

- base station sites, which are physical locations, each equipped with a base station that houses transmitters, receivers and other equipment used to communicate through radio channels with subscribers’ mobile handsets within the range of a cell;
- base station controllers, which connect to, and control, the base stations;
- mobile switching centers, which control the base station controllers and the routing of telephone calls; and
- a transmission network, which links the mobile switching centers, base station controllers, base stations and the public switched telephone network.

We have deployed GSM, WCDMA and LTE mobile networks. Our GSM mobile network mainly operates at 900 MHz and 1800 MHz. We use 2x6 MHz of spectrum in the 900 frequency band and 2x15 MHz of spectrum in the 1800 frequency band for our GSM network in most of our service areas. With the licenses from MIIT to operate the 4G technologies consisting of TD-LTE and LTE FDD technologies in December 2013 and February 2015, respectively, we have deployed TD-LTE networks using 2300-2320 MHz and 2555-2575 MHz of spectrum, with 40 MHz frequency resources in total. The 2300-2320 MHz of spectrum only applies to indoor networks. We have also deployed LTE-FDD networks using 2x15 MHz LTE-FDD frequency resources (uplink frequency of 1750-1765 MHz and downlink frequency of 1845-1860 MHz of spectrum).

We have devoted significant resources in developing and improving our 4G networks to enhance our customer experience and continued to expand our network coverage. As of December 31, 2015, our 4G network base stations reached 399,000 with an increase of 306,000 base stations and our other mobile service base stations reached 1,238,000.

Fixed-Line Networks

We operate fixed-line networks which provide extensive coverage in China. These networks are technologically advanced and conducive to the introduction of the next generation fixed-line network and mobile technologies. These networks support a wide range of end-to-end fixed-line telecommunications services and enable customized products to be delivered to meet a variety of telecommunications needs in “real-time”.

Our fixed-line networks consist of fixed-line telephone networks, broadband Internet and data networks, transmission networks, value-added service platforms, IT support systems and related infrastructures. Our transmission networks consist primarily of fiber-optic based networks, which cover our major service regions, supplemented by satellite transmission and digital microwave links.

We have integrated our resources to optimize and improve the transport capabilities of our IP networks and improved our long-distance soft-switch network capability. In addition, by adding seven national Internet backbone nodes, we further increased our Internet bandwidth, and our broadband network capacity was substantially enhanced. By the end of 2015, the number of fixed-line broadband access ports increased by 30.03 million to 164.83 million, up by 22.2% from the end of 2014, of which the number of access ports with FTTX accounted for 93% of total broadband access ports. Our international Internet outbound bandwidth reached 1,278G, our submarine cable capacity reached 5,511G, and our international cross-continental cable capacity reached 2,802G.

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide sales and distribution network. We implement our marketing and sales strategies under a single unified brand “WO”, and establish a unified operating marketing system based on our online business-to-business platform Woego, and distribute our services through a variety of distribution channels, consisting of (i) self-owned channels, including proprietary sales outlets and direct sales forces targeting retail and corporate customers, (ii) social channels, including cooperative sales outlets, exclusive sales outlets and agency sales outlets, and (iii) electronic distribution channels, including self-owned and third-party channels online e-stores. In recent years, we have continued developing our self-owned sales channels and strategically expanding our social channels. In particular, for our mobile services, in addition to the full use of our self-owned channels, we have also focused on using high-quality social channels, such as large brand name electronics retail chains and electronics outlets in China, to achieve better sales results. Furthermore, we continued promoting and optimizing our nationwide e-sales system, which has effectively supplemented our traditional sales channels and improved our service quality. In recent years, we have conducted extensive 4G promotion activities to further enhance “WO” brand value and corporate brand value. In 2014, we established a B2B e-commerce platform “Woego”, so as to further enhance the productivity and efficiency of our distribution channels. In 2015, we focused on development and expansion of our 4G services, accelerated the network construction and the upgrade of fiber broadband network, launched the “WO 4G+” initiatives in addition to our “Smart WO Family” services, to enhance our integrated brand recognition and service quality.

Customer Service

We provide customer services through our nationwide sales outlets, hotline number “10010”, online sales outlets, SMSs, handset online stores, self-service service platforms, official micro-blog and other channels. Our customer services typically include inquiries, service initiation and termination, and response to reports of mechanical malfunction as well as customer complaints and suggestions. We provide customer services to our customers travelling outside of China via a dedicated international roaming service hotline number “18618610010” 24 hours per day, seven days per week. We implement relevant procedures to ensure that our customer service is provided in a timely manner. For instance, to the extent that we are unable to address certain of our customer’s inquiries via our customer hotline, we will make commitments to our customers that we will provide response to their inquiries within a specified timeframe.

We proactively develop and improve our Internet-based customer services. We also continue to improve our customer service system and operations, customer retention and customer service quality. We launch various initiatives to enhance our customer experience by customer service follow-up calls and regular greetings to customers. In addition, we promote the transparency of our broadband services by keeping our customers apprised of each key stage of the service installation process, which includes the service initiation, schedule for installation, and commencement and completion of installation.

Information Systems

We have established multiple information technology support systems at the headquarters level and comprehensive information systems in each province, autonomous region and municipality to support our business and management. For business support, we have established core systems composed of a customer relationship management system and a comprehensive billing and accounting system to support our business operations. In addition, we have established integrated systems, such as integrated ECS, integrated electronic sales management system featuring full services, integrated business support system for corporate group customers, integrated channels management system, integrated account settlement system and integrated partnership management system to achieve integrated and centralized management of our businesses and enhance our sales and services capabilities through electronic channels. For our management support, we focused on the construction and optimization of a comprehensive enterprise resource planning system to optimize our resource allocations and enhance our operational efficiency. For our internal data service capabilities, we have established an integrated data analysis system and launched the construction of a large data platform to support our appraisal management and operational analysis with data. For the application of new technologies, we have launched the construction of our private “cloud” and tried to enhance the performance of the systems with new technologies to lower the overall cost of information technology.

Research and Development

We focus on technology innovation in coordination with our various business departments in order to provide technical support for our business development. Our research and development activities are focused primarily on fixed-line and mobile technologies and their further development, cloud computing, big data, Internet of things, intelligent channels, SDN and NFV, network and information safety, data center, next generation Internet technologies and businesses, operational planning and development of value-added services. In addition, part of our research and development requirements is fulfilled by our parent company, Unicom Group, in return for a service fee. See “B. Related Party Transactions” under Item 7 below. We also participate in the national research project on the fifth generation mobile telecommunications, or 5G, closely follow the development of 5G technologies and standards, proactively carry out 5G technology related researches and experiments.

Competition

As a result of the telecommunications industry restructuring in 2008, the Chinese telecommunications market now has three key providers of basic telecommunications service — China Telecom, China Mobile and us — in addition to thousands of value-added service providers and other companies that provide telecommunications or related services. We compete with China Mobile and China Telecom in virtually all aspects of our services, including mobile services, fixed-line voice services, broadband services and data communications services. As Unicom Group, China Mobile and China Telecom were granted the license to operate TD-LTE mobile service by the PRC Government in December 2013, and Unicom Group and China Telecom were granted the license to operate LTE-FDD mobile service in February 2015, we face intensive competition in the 4G services. In addition, the PRC Government recently published a series of regulations to encourage non-State-owned companies to enter PRC telecommunications industry, including the pilot program to permit companies engaged in the resale of mobile communications services to acquire mobile communications services from China Mobile, China Telecom or us and repackaging and rebranding such services for resale to end-users, and we may face competition from these non-State-owned companies. We also face increasing competition from other service providers, such as cable television companies and Internet service providers, which compete against our broadband access, voice and messaging services and other services by offering telecommunications or related services. See “D. Risk Factors — Risks Relating to Our Business — We face intense competition from other telecommunications operators, including China Mobile and China Telecom, and other companies that provide telecommunications or related services, which may materially and adversely affect our financial condition, results of operations and growth prospects” and “D. Risk Factors — Risks Relating to Our Business — Competition from foreign-invested operators may further increase the competition for employees, exacerbate price competition and increase our operating expenses, thereby adversely affecting our financial condition, results of operations and growth prospects” under Item 3, respectively.

The Tower Company

In July 2014, we, through CUCL, entered into a promoters’ agreement with a subsidiary of China Mobile and China Telecom to jointly establish China Tower Company Limited (formerly known as “China Communications Facilities Services Corporation Limited”), or the Tower Company, with a registered capital of RMB10 billion. Pursuant to the promoters’ agreement, we subscribed for 3.01 billion shares at a par value of RMB1.00 per share in the registered capital of the Tower Company in cash, representing 30.1% of the registered capital of the Tower Company, while the remaining 40.0% and 29.9% of the registered capital of the Tower Company are beneficially held by China Mobile and China Telecom, respectively. The Tower Company will be primarily engaged in the construction, maintenance and operation of telecommunications towers. It will also be engaged in the construction, maintenance and operation of ancillary facilities including base station control rooms, power supplies, air conditioning and interior distribution systems, as well as the provision of maintenance services of base station equipment.

In October 2015, we, through our wholly own subsidiaries, CUCL and Unicom New Horizon entered into a transfer agreement with (i) China Mobile Communication Company Limited, a wholly owned subsidiary of China Mobile, (ii) China Telecom, (iii) China Reform Holding Company Limited, a wholly state-owned company, and (iv) the Tower Company, pursuant to which we, China Mobile and China Telecom sold certain telecommunications towers and related assets to the Tower Company, and the Tower Company would issue and allot shares in the Tower Company and/or pay certain cash as consideration for such transfers. As of April 14, 2016, we, through CUCL, owned approximately 28.1% equity interest in the Tower Company, while China Mobile, China Telecom and China Reform Holding Company Limited owned approximately 38.0%, 27.9% and 6.0% equity interest in the Tower Company, respectively. We are in the process of negotiating the final arrangements with the Tower Company with respect to our use of telecommunications towers and related assets of the Tower Company.

Strategic Alliances with Telefónica

On January 30, 2009, we entered into a business cooperation framework agreement with Telefónica. Pursuant to the framework agreement, Telefónica and we agreed to share business experience and strengthen cooperation in the areas of mobile communications, broadband applications, international business, marketing and sales and telecommunications services to corporate clients. On September 6, 2009, we entered into a strategic alliance agreement with Telefónica, pursuant to which Telefónica and we agreed to establish a strategic alliance to strengthen the business of each party and achieve synergies by cooperation in various fields based on our respective networks, business models and experience. On October 21, 2009, we and Telefónica completed a mutual investment in the amount of the equivalent of US\$1 billion in each other, which was implemented by way of the subscription by Telefónica of 693,912,264 new shares in our Company and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica to us.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares in the capital of Telefónica for aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica, through its wholly owned subsidiary, Telefónica International, acquired 282,063,000 ordinary shares in the capital of our company for an aggregate consideration of approximately US\$500,000,000 in several transactions executed in the period between January 25, 2011 and September 7, 2011. In addition, Wang Xiaochu, our Chairman and Chief Executive Officer, as our designated representative, was appointed in September 2015 as a director on the board of directors of Telefónica.

On June 10, 2012, Unicom Group BVI, a wholly owned subsidiary of Unicom Group, entered into the Share Purchase Agreement for the Sale and Purchase of Shares in China Unicom (Hong Kong) Limited, as amended, pursuant to which it acquired from Telefónica an aggregate of 1,073,777,121 ordinary shares in the capital of our company at a price of HK\$10.02 per share and for an aggregate consideration of HK\$10,759,246,752.42 in July 2012.

On November 13, 2014, Telefónica completed the sale of 597,844,100 ordinary shares in the capital of our company for an aggregate consideration of HK\$6,660 million, and upon the completion of such transaction, Telefónica held less than 5% ordinary shares in the capital of our company.

In addition, in December 2015, we and Telefónica established a joint venture company, Smart Steps Digital Technology Co., Ltd., to engage in big data application services in China.

Strategic Cooperation with China Telecom

In January 2016, we entered into a strategic cooperation agreement with China Telecom in relation to resource-sharing and joint investments. Under the strategic cooperation, we expect that we will share certain telecommunications facilities such as mobile networks and transmission networks with each other, jointly carry out certain network maintenance services and certain marketing initiatives, as well as seek and explore opportunities in joint investments in innovative and emerging business areas. We expect that our strategic cooperation will enhance our service qualities and operating efficiency, and thus improving our customer experience and contributing to our market recognition.

Trademarks

We conduct our businesses under the Unicom name and logo. Unicom Group is the registered proprietor in China of the “Unicom” trademark in English and the trademark bearing the Unicom logo. Unicom Group is also the registered proprietor of the trademark of the word “Unicom” in Chinese (“联通”). Unicom Group has granted us the right to use these trademarks on a royalty-free basis with periodic renewals, and licensed us any trademark that it registers in China in the future which incorporates the word Unicom.

Regulatory and Related Matters

The telecommunications industry in China is subject to a high degree of government regulation. The primary regulatory authority of the Chinese telecommunications industry is the MIIT, established in 2008 as a new ministry under the PRC State Council and the successor of the former Ministry of Information Industry. The NDRC, the Ministry of Commerce and other governmental authorities also maintain regulatory responsibilities over certain aspects of the Chinese telecommunications industry.

The MIIT, under the supervision of the State Council, is responsible for, among other things:

- formulating and enforcing industry policies and regulations, as well as technical standards;
- granting telecommunications service licenses;
- supervising the operations and quality of services of telecommunications service providers;

- allocating and administering telecommunications resources such as spectrum and number resources;
- formulating interconnection and settlement policies between telecommunications networks; and
- maintaining fair and orderly market competition among service providers.

The MIIT has established a Telecommunications Administration in each province, autonomous region and municipality in China to oversee the implementation of the MIIT's policies and regulations and exercising regulatory authority delegated by the MIIT within that province, autonomous region or municipality.

The MIIT is in the process of drafting a telecommunications law that, once adopted by the National People's Congress of the PRC, will become the basic telecommunications statute and provide the principal legal framework for telecommunications regulations in China. It is currently uncertain when the law will be adopted and become effective. See "D. Risk Factors — Risks Relating to the Telecommunications Industry in China — Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially and adversely affect our financial condition, results of operations and growth prospects" under Item 3.

Telecommunications Regulations

On September 25, 2000, the PRC State Council promulgated the Telecommunications Regulations of the People's Republic of China, which came into effect on the same date. All telecommunications activities and related activities within China are subject to the Telecommunications Regulations. On August 15, 2014, the PRC State Council amended the Telecommunications Regulations of the People's Republic of China.

According to the PRC Government, its administration and regulation of the Chinese telecommunications industry is based on the principles of the separation of governmental regulation from enterprise management, the elimination of monopolistic behavior, the encouragement of competition and the promotion of the development of the Chinese telecommunications industry, while also taking into account the principles of openness, equality and fairness. The Telecommunications Regulations regulate all major aspects of the telecommunications industry, including licensing, interconnection, tariffs, resources, services, security, facility construction and access to networks.

Licensing

The PRC Government licenses telecommunications businesses in accordance with their classification. Telecommunications businesses are currently classified into two broad categories of basic services and value-added services. An appendix to the Telecommunications Regulations divides each of the two categories into further sub-categories. On December 28, 2015, the MIIT promulgated the Telecommunications Services Catalogue (2015 edition), or the 2015 Catalogue, which took effect on March 1, 2016. According to the 2015 Catalogue:

- basic telecommunications services are classified into Category I basic telecommunications services and Category II basic telecommunications services.
 - Category I basic telecommunications services include fixed-line telecommunications services (including fixed-line local, domestic long-distance and international long-distance telecommunications services and services related to maintaining international telecommunications facilities), cellular mobile telecommunications services (including 2G digital cellular mobile telecommunications services, 3G digital cellular mobile telecommunications services and LTE/4G digital cellular mobile telecommunications services), Category I satellite telecommunications services (including satellite mobile telecommunications and satellite fixed-line telecommunications services), Category I data communications services (including Internet international data telecommunications, Internet domestic long-distance data telecommunications, Internet local data telecommunications and International data communications services) and IP telephone services (including domestic and international IP telephone services).

- Category II basic telecommunications services include trunking telecommunications services (including digital trunking telecommunications services), wireless paging services, Category II satellite telecommunications services (including lease and sales of satellite transponders and very-small-aperture-terminal, or VSAT, telecommunications services), Category II data telecommunications services (including fixed-line domestic data transmission services), services related to network access facilities (including services related to wireless network access facilities and cable network access facilities, and network services from customer premises), services related to maintaining domestic telecommunications facilities and network hosting services.
- value-added telecommunications services are classified into Category I value-added telecommunications services and Category II value-added telecommunications services.
 - Category I value-added telecommunications services include Internet data center, or IDC, content distribution network, domestic Internet virtual private network and Internet access services.
 - Category II value-added telecommunications services include on-line data processing and interchange, domestic multi-party telecommunications, store-and-forward, call center (including domestic and offshore call centers), information and coding and protocol conversion (including domain name system) services.

On March 1, 2009, the MIIT promulgated the Measures on the Administration of Telecommunications Business Licenses, which took effect on April 10, 2009 and superseded the previous measures promulgated by the former Ministry of Information Industry on December 26, 2001.

The measures govern the application for, approval of and regulation of telecommunications business licenses in China. The operation of any basic telecommunications business is subject to the MIIT's approval and grant of License for Operation of Basic Telecommunications Businesses. The operation of any value-added business in two or more provinces, autonomous regions or municipalities is subject to the MIIT's approval and grant of License for Inter-Provincial Operation of Value-Added Telecommunications Businesses. The operation of value-added businesses within a single province, autonomous region or municipality is subject to the approval of the telecommunications authority of the relevant province, autonomous region or municipality in China and the grant of the License for Operation of Value-Added Telecommunications Businesses. The measures, among other things, lowered the minimum amount of registered capital required for an applicant to enter the basic telecommunications business in China.

After the PRC's accession to the WTO, on December 11, 2001, the PRC State Council promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investments, which took effect on January 1, 2002, and were amended on September 10, 2008, to implement China's commitments to the WTO. Those commitments include the gradual reduction of restrictions on foreign ownership in telecommunications enterprises in China and the step-by-step opening-up of the Chinese telecommunications market to foreign enterprises. In recent years, China gradually lifted restrictions for foreign investors in telecommunications enterprises in China and fulfilled its commitment to open up the Chinese telecommunications market. However, the following restrictions on investments in mobile, value-added telecommunications and fixed-line services remain:

- for fixed-line services, there is no longer any geographic restriction and foreign ownership may be no more than 49%;
- for mobile voice and data services, there is no longer any geographic restriction and foreign ownership may be no more than 49%; and
- for value-added telecommunications services, there is no longer any geographic restriction and foreign ownership may be no more than 50%.

Spectrum and Network Number Resources

The MIIT is responsible for the management of the wireless radio frequency spectrum and the allocation of frequencies within the spectrum. The frequency assigned to a telecommunications operator may not be leased or transferred without the MIIT's approval. Standard fees for usage of the frequencies assigned to cellular telecommunications are charged to telecommunications operators: (i) for the nationwide GSM network frequency, an annual rate of RMB17 million per MHz is charged for the 900 MHz band and an annual rate of RMB14 million per MHz is charged for the 1800 MHz band; (ii) for the nationwide WCDMA network frequency, a standard fee at an annual rate of RMB3.75 million per MHz in 2011, RMB7.5 million per MHz in 2012, RMB11.25 million per MHz in 2013 and RMB15 million per MHz in 2014 and onwards will be charged for the 2100 MHz band; (iii) for any local telecommunications network frequency, an annual rate of RMB1.7 million per MHz is charged for each province for the 900 MHz band, an annual rate of RMB1.4 million per MHz is charged for each province for the 1800 MHz band and an annual rate of RMB1.5 million will be charged for each province for the 2100 MHz band. The standard tariffs for TD-LTE and LTE-FDD network frequency have not been announced by the PRC Government.

The MIIT is also responsible for the administration of China's telecommunications network number resources. The telecommunications network number resources are owned by the State, which shall charge fees for the use of such resources. Application for the use of number resources by any telecommunications operator is subject to the approval of the MIIT or the relevant provincial telecommunications authority and the payment of certain usage fees. The measures also provide for the procedures for the application, usage and record-keeping for the telecommunications operators' use of number resources.

Tariff Setting

Prior to January 2014, the levels and categories of telecommunications tariffs were subject to regulation by various government authorities, including the MIIT, the NDRC, and, at the local level, the relevant provincial Telecommunications Administration Bureaus and price regulatory authorities.

In January 2014, the State Council announced the removal of the MIIT's approval requirement on the tariff standard of telecommunications services. In addition, pursuant to the amendments to the Telecommunications Regulations dated August 15, 2014, the telecommunications tariffs shall be set by the telecommunications operators based on costs and market conditions.

In May 2015, the PRC government introduced the PRC Government's policy of increasing network speed and reducing tariffs. In response to such policy, we have since then offered discounts to our tariff plans. In addition, in October 2015, we launched our mobile data carry-over programs, which allow subscribers of our data plans with pre-determined monthly data limit to carry over their unused data to the following month with no extra charge. Furthermore, in light of the national policy of achieving coordinated development of Beijing Municipality, Tianjin Municipality and Hebei Province issued in April 2015 by the PRC Government, we cancelled the long-distance and roaming tariffs for voice services within the tariff zones of Beijing Municipality, Tianjin Municipality and Hebei Province so that our customers are only charged with local usage tariff for our voice services provided within the tariff zones.

The following tables set forth the tariff rates of certain services provided by us:

Mobile Services

Generally, the categories of tariffs we charge our mobile subscribers include, among others, basic monthly fees and local usage charges, roaming charges, long-distance-call charges and charges for value-added services. The following table summarizes the current tariffs for post-paid and pre-paid mobile services:

	<u>Post-paid Services</u> (RMB)	<u>Pre-paid Services</u> (RMB)
Basic monthly fee	45-50	0
Local usage charge (per minute)	0.36-0.40	0.54-0.6
Domestic roaming charge (per minute)	0.6 for caller 0.4 for receiver	0.6 for caller 0.4 for receiver

Intensifying competition in our mobile service areas has resulted in tariff discounts and service promotions offered by us and our main competitors from time to time, which may reduce the effective tariffs. These discounts and promotions have taken many forms, including promotional tariff rates, free call minutes, reduced roaming charges, off-peak discounts or discounts for high-usage subscribers and package service plans with fixed monthly fees.

We have introduced a number of package service plans. Under these plans, subscribers typically pay a fixed monthly fee for a specified number of call minutes. The plans vary at the levels of fixed monthly fee, number of specified call minutes and tariff rates for call minutes in excess of the specified call minutes. The terms of these plans also vary depending on the local markets.

Fixed-Line Voice Services

For our local voice services, we charge an installation and testing fee that varies depending on whether the subscriber is a residential or a business customer, a fixed monthly fee, local call usage fees based on call duration and fees for certain value-added services. For our domestic long-distance services, our revenue from domestic long-distance services consist of charges based on the duration, time of day and day of the week a call is placed.

The following table sets forth our current tariffs for (i) local voice services provided on our traditional and PHS network, (ii) domestic long-distance telephone services using our traditional network and (iii) our international long-distance telephone services using our traditional network:

	Tariff (RMB)
Local Voice Services	
Monthly fee:	
Residential subscribers in:	
Provincial capitals	20.00 to 25.00
Other cities and counties	12.00 to 18.00
Rural areas	10.00 to 15.00
Business subscribers	25.00 to 35.00
Usage fee:	
Intra-district	0.18 to 0.22 for the first two pulses (first three minutes or less) and 0.09 to 0.11 for each additional pulse (one-minute intervals)
Inter-district	up to 0.30 per pulse (one-minute intervals)
Communication fee:	
Internet dial-up	0.02 per pulse (one-minute intervals)
Domestic long-distance services on our traditional network⁽¹⁾	0.07 per six seconds
International long-distance services on our traditional network⁽¹⁾:	
To Hong Kong, Macau and Taiwan	0.20 per six seconds
To all international destinations	0.80 per six seconds

(1) Subject to filing with the provincial telecommunications administrations, our provincial level headquarters may apply a 10% to 50% discount rate to calls made during off-peak hours.

Data Services

Set forth below are the tariffs for our data services consisting of DDN services and frame relay services.

DDN services. The following table sets forth the monthly fees for DDN services at the bandwidths of 64kbps, 128kbps, 512kbps and 1Mbps:

	Monthly Fee			
	64kbps	128kbps	512kbps	1Mbps
	(RMB)			
Intra-district	1,500	2,000	3,800	5,000
Inter-district	2,000	2,500	5,200	7,500
Domestic long-distance	3,500	5,000	7,000	9,000

Frame relay services. The following tables set forth the monthly fees for frame relay services, which include monthly fees for port access and permanent virtual circuits, or PVCs⁽¹⁾:

	Monthly Fee			
	64kbps	256kbps	512kbps	1Mbps
	(RMB)			
Port access				
Monthly fees	260	400	500	750
PVC				
Intra-district	550	800	1,000	1,250
Inter-district	800	1,150	1,450	2,000
Domestic long-distance	1,700	2,200	2,500	3,000

(1) One-way tariff for PVCs frame relay services.

Leased Line Services

We charge monthly fees for subscribers to our leased line services based on guidance tariffs set by the PRC Government, which vary based on bandwidth and whether the leased line is local or long-distance. Leased line tariffs have generally decreased in recent years.

The following table sets forth the tariffs for 2Mbps, 8Mbps, 34Mbps and 155Mbps digital circuits:

	Monthly Fee			
	2Mbps	8Mbps	34Mbps	155Mbps
	(RMB)			
Intra-district	2,000	6,000	16,000	44,000
Inter-district	4,000	11,000	31,000	88,000
Domestic long-distance ⁽¹⁾	6,000	17,000	47,000	132,000

(1) Does not include the tariffs for local digital circuits and access lines.

Interconnection Arrangements

In October 2003, the former Ministry of Information Industry issued Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees, which superseded the Measures on the Settlement of Call Charges between Telecommunications Networks issued by the former Ministry of Information Industry in 2001. These regulations contain specific provisions regarding, among other things, revenue-sharing methods and settlement mechanisms and interconnection agreements among telecommunications service providers. Since November 2005, the former Ministry of Information Industry (or the MIIT after March 2008) has issued a number of administrative measures to adjust the settlement arrangement standards with respect to interconnection fees for certain network interconnections between telecommunications operators. In accordance with various administrative measures, Unicom Group or we, as the case may be, have entered into agreements on interconnection with other telecommunications operators, including China Telecom and China Mobile.

The following table sets forth selected interconnection revenue-sharing and settlement arrangements for local calls:

<u>Operator from Whose Network Calls Are Originated</u>	<u>Operator at Whose Network Calls Are Terminated</u>	<u>Current Main Settlement Arrangement</u>
Mobile operator	Local fixed-line operator	<p>(1) Mobile operator collects the usage fees from its subscribers;</p> <p>(2) Mobile operator pays RMB0.06 per minute to local fixed-line operator. For calls originated from “157” or “188” prefix phone numbers (TD users) during the period from January 1, 2010 to December 31, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to fixed-line operator. From January 1, 2011, for calls originated from “157” or “188” prefix phone numbers (TD users), mobile operator (China Mobile) continues to pay RMB0.012 per minute to fixed-line operator.</p>
Local fixed-line operator	Mobile operator	<p>(1) Local fixed-line operator collects the usage charge from its subscribers;</p> <p>(2) No revenue-sharing or settlement prior to June 1, 2010. Local fixed-line operator pays RMB0.001 per minute to mobile operator after June 1, 2010.</p>
Mobile operator A	Mobile operator B	<p>(1) Mobile operator A collects the cellular usage charge from its subscribers;</p> <p>(2) Mobile operator A pays RMB0.06 per minute to mobile operator B. For calls originated from a mobile user of China Telecom or Unicom to a mobile user of China Mobile (not including “157” or “188” prefix phone numbers (TD users)) during the period from January 1, 2014, Mobile operator A (China Telecom or Unicom) pays RMB0.04 per minute to mobile operator B (China Mobile). For calls originated from “157” or “188” prefix phone numbers (TD users) during the period from January 1, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B (China Telecom or Unicom).</p>
Local fixed-line operator A	Local fixed-line operator B	<p>(1) Operator A collects the usage fees from its subscribers;</p> <p>(2) In the case of intra-district calls, operator A pays operator B 50% of the intra-district usage fees;</p> <p>(3) (i) In the case of local inter-district calls from operator A using operator B’s local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays RMB0.06 per minute to operator B; (ii) In the case of local inter-district calls from operator A not using operator B’s local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays operator B 50% of the intra-district usage fees.</p>

The following table sets forth selected current major main interconnection revenue-sharing and settlement arrangements for domestic long-distance calls:

<u>Operator at Whose Network Calls Are Originated</u>	<u>Operator at Whose Network Calls Are Terminated</u>	<u>Current Main Settlement Arrangement</u>
Local fixed-line or mobile operator A (through the long-distance network of operator A)	Local fixed-line or mobile operator B	For calls originated from a mobile user of China Telecom or Unicom to a mobile user of China Mobile (not including “157” or “188” prefix phone numbers (TD users)) during the period from January 1, 2014, Mobile operator A (China Telecom or Unicom) pays RMB0.04 per minute to mobile operator B (China Mobile). Other than the above, operator A pays RMB0.06 per minute to operator B.
Fixed-line or mobile operator A	Domestic long-distance calls made without using the carrier identity code of operator B (through the long-distance network of operator B)	(1) Operator A collects the tariff from the subscribers; (2) If Operator A is a fixed-line operator, operator A retains RMB0.06 per minute; if operator A is a mobile operator, operator A retains local usage fee and RMB0.06 per minute; and (3) Operator A pays operator B the rest of the domestic long-distance tariff. Note: Domestic long-distance calls shall be charged at the domestic long-distance call tariff of operator B.
Local fixed-line or mobile operator A	Domestic long-distance calls made by using the carrier identity code of operator B (through the long-distance network of operator B)	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

The following table sets forth selected current main interconnection revenue-sharing and settlement arrangements for public switched telephone network international long-distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

<u>Operator at Whose Network Calls Are Originated</u>	<u>Operator at Whose Network Calls Are Terminated</u>	<u>Current Main Settlement Arrangement</u>
Local fixed-line or mobile operator A	International long-distance calls (including to Hong Kong, Macau and Taiwan) made without using the carrier identity code of operator B and directed by operator A from the originating network to operator B.	(1) Operator A collects the tariff from the subscribers; (2) If operator A is a fixed-line operator, operator A retains no more than RMB0.54 per minute with the remaining paid to operator B; and (3) If operator A is a mobile operator, operator A retains local usage fees and no more than RMB0.54 per minute with the remaining paid to operator B. Note: International long-distance calls shall be charged at the international long-distance call tariff of operator B.
Local fixed-line or mobile operator A	International long-distance calls made by using the carrier identity code of operator B and through the domestic and international long-distance networks of operator B.	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

The following table sets forth selected current main interconnection revenue-sharing and settlement arrangements for VoIP long-distance calls:

<u>Operator from Whose Network Calls Are Originated</u>	<u>Operator at Whose Network Calls Are Terminated</u>	<u>Current Main Settlement Arrangement</u>
Fixed-line or mobile operator A	Fixed-line or mobile operator B through the VoIP network of operator C	(1) Operator A collects local usage fees; (2) Operator C collects the VoIP long-distance usage fees from its subscribers; (3) Operator C pays RMB0.06 per minute to operator B on the terminating end; (4) No settlement between operator C and operator A on the originating end.

The following table sets forth selected current main interconnection revenue-sharing and settlement arrangements for SMS:

<u>Network from Which SMS Originated</u>	<u>Network at Which SMS Terminated</u>	<u>Current Main Settlement Arrangement</u>
Fixed-line or mobile operator A	Fixed-line or mobile operator B	(1) Operator A collects the tariff from its subscribers; (2) Operator A pays RMB0.01 (RMB0.03 during the period from January 1, 2010 to December 31, 2013; RMB0.05 prior to January 1, 2010) per SMS to Operator B

The following table sets forth selected current main interconnection revenue-sharing and settlement arrangements for MMS:

<u>Network from Which MMS Originated</u>	<u>Network at Which MMS Terminated</u>	<u>Current Main Settlement Arrangement</u>
Mobile operator A	Mobile operator B	(1) Operator A collects the tariff from its subscribers; (2) Operator A pays RMB0.05 (RMB0.10 during the period from January 1, 2010 to December 31, 2013; RMB0.15 prior to January 1, 2010) per MMS to Operator B

Technical Standards

The MIIT is responsible for promulgating the technical standards for China’s telecommunications industry and establishing the technical requirements and testing parameters for telecommunications equipment (including network and end-user equipment). The MIIT is also responsible for designating qualified institutes to test telecommunications equipment, which would grant network access licenses (or product standard certificates) for the equipment that has successfully passed the relevant tests. Only telecommunications equipment for which a network access license (or a product standard certificate) has been granted may be sold and used in China.

Most of the standards used in the Chinese telecommunications industry are generally based on the standards issued by the International Telecommunications Union, or ITU, 3rd Generation Partnership Project, Open Mobile Alliance, World Wide Web Consortium, and other international organizations for telecommunications standards, with more specific requirements made in light of China’s particular telecommunications industry. On the basis of the technical standards used in China’s telecommunications industry, we may formulate our own technical standards based on our own needs and issue additional requirements for telecommunications equipment in order to meet our operational needs. All telecommunications equipment purchased by China’s telecommunications operators must have been granted a network access license issued by the MIIT and must meet the standards set forth by the relevant operators.

Quality of Service

Under the Telecommunications Regulations, the MIIT and the relevant provincial telecommunications administrations are responsible for supervising and monitoring the quality of services provided by telecommunications operators in China. Under the Telecommunications Regulations, customers of telecommunications operators have the right to submit their complaints to the MIIT and the relevant provincial telecommunications administrations or other relevant government authorities. In addition, the MIIT, together with other governmental authorities, has taken measures to prompt telecommunications operators to screen indecent contents carried through their networks.

Universal Services

Telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government, and the MIIT has the authority to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with the finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and we expect to perform our duties thereunder accordingly. In December 2015, the Ministry of Finance and the MIIT jointly issued the rules regarding the pilot program for universal services to be implemented in 97 prefecture-level cities across the PRC. Since these rules were recently promulgated, we understand that the local authorities are in the process of formulating detailed plans and guidance to implement such rules.

The MIIT has required major Chinese telecommunications service providers, including Unicom Group and former Netcom Group, to participate in a project to provide telecommunications services in tens of thousands of remote villages in certain designated provinces in China as transitional measures prior to the formalization of a universal service obligation framework. In participating in this project, Unicom Group has undertaken the universal service obligation to extend telecommunications service coverage to all administrative-level villages primarily through its transmission networks. Currently, with our assistance, Unicom Group is further extending telecommunications service coverage to natural villages in remote areas in China as designated by the MIIT. We have been assisting Unicom Group in providing mobile telecommunications services to these remote villages and are responsible for the operation and maintenance of the relevant network facilities in our service areas. See “D. Risk Factors — Risks Relating to the Telecommunications Industry in China — The PRC Government may require us, along with other telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services” under Item 3.

Convergence Policy of Telecom, Broadcasting and Internet Networks

In January 2010, the PRC Government announced its decision to accelerate the advancement of convergence of television broadcast, telecommunications and Internet access networks to realize interconnection and resource-sharing among the three networks and further develop the provision of voice, data, television and other services. After the implementation of the three-network convergence policy on a trial basis in selective geographic locations during the period from 2010 to 2012, the PRC Government has started to fully implement such policy across-the-board starting from 2013. The PRC Government may amend relevant policies or promulgate new regulations corresponding to the implementation of the three-network convergence policy in the future.

Mobile Telecommunications Resale Business

In May 2013, the MIIT issued the pilot program for mobile telecommunications resale business that permit non-State-owned companies to purchase mobile services from telecommunications operators and provide mobile services to end-customers after repackaging and rebranding. The trial period ended on December 31, 2015, subject to further adjustment by the MIIT based on the trial results.

VAT Applicable to the Telecommunications Services

The PRC Government implemented VAT to replace business tax relating to the telecommunications services in China on June 1, 2014. As opposed to the business tax of 3% imposed on the revenue that was applicable to us prior to June 1, 2014, we are subject to the output VAT at the rate of 11% for our basic telecommunications services (including, among others, voice communication, and lease or sale of network resources) and 6% for our value-added telecommunications services (including, among others, Internet access services, short and multimedia messaging services, and transmission and application service of electronic data and information). Sales of our telecommunications terminals and equipment are subject to the output VAT at the rate of 17% before and after June 1, 2014. The Input VAT rate depends on the type of services received and the assets purchased as well as the VAT rate applicable to the vendors' specific industry, and ranges from 6% to 17%.

Output VAT is excluded from operating revenues while input VAT, which is incurred as a result of our receipt of services and purchases of telecommunications equipment and materials, is excluded from operating expenses or the original cost of equipment purchased and can be netted against the output VAT, arriving at the net amount of VAT recoverable or payable. Such net amount of VAT is recorded in the line item of prepayments and other current assets and taxes payable, respectively, on the face of consolidated statements of financial position.

The application of the VAT to the telecommunications industry has had, and is expected to continue to have, an adverse effect on our revenues and operating profits in the short term. See “D. Risk Factors — Risks Relating to Our Business — The implementation of VAT to replace business tax relating to the telecommunications services in China has had, and may continue to have, a negative impact on our results of operations” under Item 3. We strive to reduce the adverse effect of the application of VAT to the telecommunications industry on our revenues and profits by taking various measures, including, among other things, optimizing our development and sales models, implementing stringent cost control measure, and enhancing control on purchasing and vendors' tax profiles. Following the optimization of our business development and sales models, the proportion of revenues generated from value-added telecommunications services is expected to increase, resulting in a lower effective output VAT rate. As the implementation of VAT to replace business tax is expected to expand to other industries nationwide during 2016, we expect that we may be able to reduce operating costs by claiming input VAT credits in the future. In addition, we will receive a benefit of claiming input VAT credits on our capital expenditures for purchasing certain assets, which resulted in a lower depreciation.

Others

As a company with substantially all of our operations in China, we, along with our controlling shareholder, Unicom Group, are subject to various regulations of the PRC Government in addition to those regulating the telecommunications industry. PRC regulatory authorities, such as the State Bureau of Taxation, National Audit Office and SAIC, exercise extensive oversight over various aspects of our businesses and conduct various regular inspections, examinations and/or audits on us and Unicom Group. As required by the relevant PRC laws and regulations, Unicom Group, as one of the key State-owned enterprises under the direct supervision of the SASAC, is also subject to routine audits by the National Audit Office, or the NAO as well as other PRC regulatory authorities.

In addition, the SASAC has an indirect influence over us as our controlling shareholder, Unicom Group, is under the direct supervision of the SASAC. In particular, the SASAC may designate certain nominees and request Unicom Group to propose the appointment of such nominees as our directors and senior management. The SASAC may also request Unicom Group to remove our directors and senior management in accordance with relevant procedures provided by applicable law and our articles of association.

Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act of 1934, as amended. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

As of the date of this report, we are not aware of any activity, transaction or dealing by us or any of our affiliates in 5that requires disclosure in this under Section 13(r) of the Exchange Act of 1934, as amended, except as set forth below.

Our ultimate controlling shareholder, Unicom Group, is a party to the international roaming agreements with Mobile Company of Iran, or MCI, and MTN Irancell, or MTN, respectively. We have been informed by Unicom Group that, in 2015, the estimated gross revenue Unicom Group generated from such inbound international roaming traffic with MCI and MTN was approximately RMB137,500 and RMB300, respectively, and the estimated total amount paid by Unicom Group to MCI and MTN for the outbound international roaming traffic was approximately RMB32,400 and approximately RMB19,200, respectively. Unicom Group does not customarily allocate net profit on a country-by-country or activity-by-activity basis, and therefore it is not possible to determine accurately the precise net profits attributable to such transactions with MCI and MTN. Unicom Group estimates that the net profits attributable to the transactions with MCI and MTN were negligible relevant to its overall net profits. We understand that Unicom Group intends to continue these activities in the future.

C. Organizational Structure

We are incorporated in Hong Kong and as of April 14, 2016, we were 40.61% owned by Unicom BVI, which was 17.90% owned by Unicom Group and 82.10% owned by the A Share Company, which in turn was 62.74% owned by Unicom Group, 33.75% owned by Unicom Group BVI, which in turn was 100% owned by Unicom Group, and 25.64% owned by public shareholders. See “— A. History and Development of the Company” above. Set forth below are details of our wholly owned significant subsidiaries:

<u>Name of Subsidiary</u>	<u>Place of Incorporation</u>	<u>Ownership Interest</u>
China United Network Communications Corporation Limited	China	100%
Unicom Vsens Telecommunications Company Limited	China	100%
Unicom New Horizon Telecommunications Corporation Limited	China	100%
China Unicom (Hong Kong) Operations Limited	Hong Kong	100%
China Unicom (Americas) Operations Limited	United States	100%
China Unicom (Singapore) Operations Pte. Ltd.	Singapore	100%
China Unicom (Europe) Operations Limited	United Kingdom	100%
China Unicom (Japan) Operations Corporation	Japan	100%
Billion Express Investments Limited	British Virgin Islands	100%
China Unicom (South Africa) Operations (Pty) Limited	South Africa	100%
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar	100%
China Unicom (Australia) Operations Pty Limited	Australia	100%
China Unicom Global Limited	Hong Kong	100%

D. Properties

Our principal executive offices are located in Hong Kong. We also maintain executive offices in Beijing. We own and lease a large number of offices, retail outlets, equipment rooms and base stations throughout China. In some cases, we have not entered into formal lease agreements with the lessors or the lessors may not possess requisite title certificates. We believe that it is unlikely that we would be denied our right to use a large number of these properties at any given time.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis in conjunction with the selected financial data set forth in Item 3 and our consolidated financial statements, together with the related notes, included elsewhere in this annual report on Form 20-F.

Overview

We are an integrated telecommunications operator in China providing mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services to our customers. In recent years, we have continued to extend the coverage of all of our services nationwide. We, China Mobile and China Telecom are the three major telecommunications operators in China. See “A. History and Development of the Company — Restructurings of the Telecommunications Industry” under Item 4.

Prior to January 1, 2012, we had two major operating segments, the mobile business and the fixed-line business, and our chief operating decision-maker, or the CODM, evaluated the results of operating segments based on revenue and costs that were directly attributable to them. However, with the continuing integration of our mobile and fixed-line business and the sharing of resources by the two business lines, there have been increasingly significant common costs and expenses that are not attributable directly to any of these two business lines. Therefore, we changed our management structure by centralized functions instead of business lines in 2012. Since January 1, 2012, as a result of the integration of our business lines and new management structure based on function lines, the CODM has no longer assessed our business performance based on the results of operations of each of the mobile services and fixed-line services, i.e., revenue and costs that are directly attributable to each of the two business lines. Instead, the CODM has been making resources allocation decisions based on internal management functions and assessed our business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, we have had only one operating segment since January 1, 2012.

The table below sets forth revenue from our major services and their respective percentage of our total revenue in 2013, 2014 and 2015.

	For the Year Ended December 31,					
	2013		2014		2015	
	RMB in millions	As % of Total	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue	295,038	100.0	284,681	100.0	277,049	100.0
Total service revenue	238,567	80.9	244,878	86.0	235,278	84.9
Include: Mobile services	151,133	51.2	155,095	54.5	142,620	51.5
Fixed-line services	86,487	29.3	88,481	31.1	91,261	32.9
Out of which:						
Broadband service	45,991	15.6	50,201	17.6	53,960	19.5
Total sales of telecommunications products	56,471	19.1	39,803	14.0	41,771	15.1

Our service revenue primarily consists of the following:

- usage fees and monthly fees for our mobile and fixed-line telephone services, which are recognized when we render the service to our customers;
- revenue from the provision of value-added services, which is recognized when we render the services to our customers;
- revenue from the provision of broadband, data and other Internet-related services, which are recognized when the services are provided to customers;
- revenue from interconnection with other telecommunications operators for calls made from their networks to our networks. We recognize interconnection revenue when the relevant calls are made by subscribers;
- revenue for offerings which include the bundled sale of mobile handsets and provision of services. The total contract consideration of such bundled sale is allocated to service revenue and sales of handsets based on their relative fair values. We recognize revenue allocated to the sale of handset when the title of the handset is passed to the customer and recognize revenue allocated to the service element based upon the actual usage of telecommunications services. The cost of the mobile handset sold is expensed immediately to the statement of income;
- revenue from information communications technology services are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided is recoverable, service revenue should be recognized only to the extent of reasonable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred, or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and service revenue should not be recognized;

- revenue from sales of telecommunications products (which mainly represent handsets and accessories) that are not bundled with mobile services are recognized when title of such products has been passed to the buyers; and
- rental income from leases of customer-end equipment and transmission lines on our networks to business customers and other telecommunications carriers in China. We recognize leased line rental revenue on a straight-line basis over the relevant lease term.

The following table sets forth our major costs and expenses items and income before income tax, both in terms of amount and as a percentage of total revenue in 2013, 2014 and 2015.

	For the Year Ended December 31,					
	2013		2014		2015	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue	295,038	100.0	284,681	100.0	277,049	100.0
Costs, expenses and others	281,324	95.4	268,750	94.4	263,014	94.9
Interconnection charges	20,208	6.8	14,599	5.1	13,093	4.7
Depreciation and amortization	68,196	23.1	73,868	25.9	76,738	27.7
Network, operation and support expenses	33,704	11.4	37,851	13.3	42,308	15.3
Employee benefit expenses	31,783	10.8	34,652	12.2	35,140	12.7
Selling and marketing	42,991	14.6	40,193	14.1	31,965	11.5
General, administrative and other expenses	18,973	6.4	21,218	7.5	22,995	8.3
Cost of telecommunications products sold	63,416	21.5	43,397	15.2	44,046	15.9
Finance costs, net of interest income	2,940	1.0	4,334	1.5	6,496	2.3
Other income-net	(887)	(0.3)	(1,362)	(0.5)	(9,767)	(3.5)

Our major costs and expenses include the following:

- interconnection expenses, representing amounts paid to other operators for calls from our networks to their networks and for calls made by our subscribers roaming in their networks;
- depreciation and amortization expenses, mainly relating to our property, plant and equipment and other assets;
- network, operation and support expenses (including usage fees for telecommunications towers and related assets), mainly relating to lease, repair, maintenance and operations of our networks;
- employee benefit expenses, representing staff salaries and wages, bonuses and medical benefits, contributions to defined contribution pension schemes, housing benefits and share-based compensation costs amortized over the vesting period of options;
- selling and marketing expenses, including commissions, promotion and advertising expenses, direct incremental costs for activating subscriber services and customer retention costs;
- general, administrative and other expenses, primarily including provision for doubtful debts, utilities, general office expenses and travel expenses;

- cost of telecommunications products sold; and
- finance costs, net of interest income, primarily including interest expenses, net of interest income.

Critical Accounting Policies

The preparation of our financial statements and this annual report on Form 20-F requires us to make estimates and judgments that affect the reported and disclosed amounts of assets and liabilities, including contingent assets and liabilities, as of the relevant dates and revenue and expenses for the relevant periods. We have identified below the areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the accounting policies and estimates, as critical to our business operations and an understanding of our results of operations and financial position. The impact and any associated risks related to these policies on our business operations are discussed throughout this Item 5 where such policies affect our reported and expected financial results. For a discussion of the application of these and other accounting policies, see Note 2 and Note 4 to our consolidated financial statements included elsewhere in this annual report on Form 20-F. There can be no assurance that actual results will not differ from those estimates and assumptions.

Significant Accounting Policies

Revenue Recognition

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

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

Sales of services and goods

- Usage fees and monthly fees are recognized when the service is rendered;
- Revenue from the provision of broadband, data and other Internet-related services is recognized when the services are provided to customers;
- Lease income from leasing of lines and customer-end equipment are treated as operating leases with rental income recognized on a straight-line basis over the lease term;
- Interconnection fees, which represent revenue received or receivables from other domestic and foreign telecommunications operators for the use of our telecommunications network, are recognized when service is rendered;
- Value-added services revenue, which mainly represents revenue from the provision of services such as SMSs, Cool Ringtone, personalized ring, caller number display and secretarial services to subscribers, is recognized when service is rendered;
- Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognized when title has been passed to the buyers;

- For offerings of preferential packages to the customers, which include the bundled 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 relative fair values. Revenue relating to the sale of the handset is recognized when the title is passed to the customer whereas service revenue is recognized based upon the actual usage of telecommunications services. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition; and
- Revenue from information communications technology services is recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognized only to the extent of recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and services revenue should not be recognized.

Dividend income

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

Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

Deferred revenue

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

Advances from customers

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

Subscriber points reward program

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

Critical Accounting Estimates and Judgments

Depreciation on Property, Plant and Equipment

Depreciation on our 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. We review the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. We estimate the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

Impairment of Non-Financial Assets

We test whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.12 to the audited consolidated financial statements contained elsewhere in this annual report on Form 20-F. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and our results would be significantly affected. Such impairment losses are recognized in the statement of income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

Write-Down of Inventories

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

Allowance for Doubtful Debts

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

Subscriber Points Reward Program

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

Income Tax and Deferred Taxation

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

For temporary differences which give rise to deferred tax assets, we have assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to unrecognized revaluation surplus on prepayments for the leasehold land determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, and allowance for doubtful debts. Due to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to approximately RMB5,642 million as of December 31, 2015. Deferred tax assets are recognized based on our estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

We believe we have recorded adequate income tax provision and deferred taxes based on the prevailing tax rules and regulations and our current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to income tax and deferred taxation may be necessary which would impact our results or financial position.

Recently Issued International Financial Reporting Standards

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period commencing January 1, 2015 or are available for early adoption. See Note 2.2(d) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Up to the date of issue of our 2015 financial statements, the following amendments and new standards have been issued but not yet effective for the annual accounting period ended December 31, 2015 and has not been adopted by us:

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

Operating Results

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenue

In 2015, we continued to actively develop full-service operation with a focus on 4G services and fixed-line broadband services. Revenue in 2015 was RMB277.05 billion, representing a decrease of 2.7% from RMB284.68 billion in 2014, of which our service revenue was RMB235.28 billion in 2015, representing a decrease of 3.9% from RMB244.88 billion in 2014. As our revenue is presented after excluding any output VAT in accordance with IFRS and we do not pass on the cost of any VAT to our subscribers for telecommunications services, the implementation of VAT in the PRC telecommunications industry since June 1, 2014 has had a negative impact on our revenue recognized afterwards.

Mobile Services Revenue

Total revenue from our mobile services decreased by 5.4% from RMB194.84 billion in 2014 to RMB184.29 billion in 2015. Of the total revenue from our mobile services in 2014 and 2015, RMB155.10 billion and RMB142.62 billion, respectively, was from service revenue. Service revenue from our mobile services as a percentage of our total service revenue was 63.3% and 60.6% in 2014 and 2015, respectively. The overall ARPU for our mobile subscribers decreased from RMB44.1 in 2014 to RMB40.8 in 2015. The decrease in total revenue from our mobile services was primarily driven by a decrease in our usage fees and monthly fees. The decrease in ARPU for our mobile subscribers also contributed to the decrease of our mobile service revenue. The decrease in ARPU for our mobile subscribers was primarily due to the factors including (i) the implementation of VAT in the PRC telecommunications industry; (ii) the implementation of the PRC Government's policy of increasing network speed and reducing tariffs, as well as our mobile data carry-over programs launched on October 1, 2015, which allow subscribers of our data plans with pre-determined monthly data limit to carry over their unused data to the following month with no extra charge; (iii) our late entry into the 4G services market in the PRC compared to a major telecommunications operators and the intensifying competition with other telecommunications operators, both of which had a negative effect on our ability to attract or retain 4G subscribers or other subscribers with higher usage of telecommunications services; and (iv) many of our new subscribers who are users with lower usage of telecommunications services.

The table below sets forth the revenue composition of our mobile services and each revenue item's respective share of total revenue for the years ended December 31, 2014 and 2015.

	2014		2015	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile services	194,838	100.0	184,285	100.0
Service revenue	155,095	79.6	142,620	77.4
Usage fees and monthly fees	62,152	31.9	45,901	24.9
Value-added services revenue	79,814	41.0	83,529	45.3
Interconnection fees	12,398	6.4	11,847	6.4
Other service revenue	731	0.4	1,343	0.7
Sales of mobile telecommunications products	39,743	20.4	41,665	22.6

Usage Fees and Monthly Fees. Primarily as a result of (i) the implementation of VAT in the PRC telecommunications industry (ii) the intensifying competition among the major PRC telecommunications operators and (iii) the implementation of the PRC Government's policy of increasing the network speed and reducing tariffs, as well as our mobile data carry-over programs starting from October 1, 2015, usage fees and monthly fees for our mobile services were RMB45.90 billion in 2015, representing a decrease of 26.1% from RMB62.15 billion in 2014.

Value-Added Services Revenue. Value-added services revenue consists primarily of revenue from our mobile value-added services. Due to our active promotion of mobile data services of our 4G services, revenue from our mobile value-added services was RMB83.53 billion in 2015, representing an increase of 4.7% from RMB79.81 billion in 2014. The increase was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry, the implementation of the PRC Government's policy of the raising network speed and reducing tariffs and our unused mobile data carry-over policy. As a percentage of total revenue from mobile services, revenue from our mobile value-added services increased from 41.0% in 2014 to 45.3% in 2015. Of the total revenue from mobile value-added services, revenue from mobile Internet services increased by 17.2% from RMB49.84 billion in 2014 to RMB58.39 billion in 2015, revenue from our SMS services decreased by 20.2% from RMB7.61 billion in 2014 to RMB6.07 billion in 2015, and revenue from "Cool Ringtone" services decreased by 18.6% from RMB2.40 billion in 2014 to RMB1.96 billion in 2015.

Interconnection Fees. Our interconnection fees decreased by 4.4% from RMB12.40 billion in 2014 to RMB11.85 billion in 2015, and represented 6.4% of total revenue from mobile services in 2015, remaining stable compared with 2014. The decrease in our interconnection fees was primarily as a result of (i) the implementation of VAT in the PRC telecommunications industry; (ii) the decrease in the volume of the interconnection voice calls primarily due to a substitution trend that mobile subscribers use certain value-added telecommunications applications or services in lieu of voice calls for communication purposes; and (iii) the decrease in the number of our mobile subscribers.

Sales of Telecommunications Products. Revenue from our sales of mobile telecommunications products increased by 4.8% from RMB39.74 billion in 2014 to RMB41.67 billion in 2015, mainly due to the increase in the sales amount of telecommunications products.

Fixed-Line Services Revenue

In 2015, we continued to develop our fixed-line broadband services and promoted our mobile and fixed-line bundled services. The trend of mobile substitution continued to have a negative impact on the growth of revenue from our fixed-line voice services. Our total revenue from fixed-line services increased by 3.2% from RMB88.54 billion in 2014 to RMB91.37 billion in 2015, of which service revenue increased by 3.1% from RMB88.48 billion in 2014 to RMB91.26 billion in 2015. The increase of our total revenue from fixed-line services was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry. See “D. Risk Factors — Risks Relating to Our Business — The industry trends of mobile service substitution and mobile service migration from old generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and old generations mobile services, which may materially and adversely affect our financial condition, results of operations and growth prospects” under Item 3.

The table below sets forth the revenue composition of our fixed-line services and each revenue item’s respective share of total revenue from our fixed-line services for the years ended December 31, 2014 and 2015.

	For the Year Ended December 31,			
	2014		2015	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line services	88,541	100.0	91,367	100.0
Service revenue	88,481	99.9	91,261	99.9
Usage fee and monthly fee	14,357	16.2	11,130	12.2
Broadband, data and other Internet-related services revenue	52,579	59.4	56,629	62.0
Interconnection fees	3,979	4.5	3,667	4.0
Value-added services revenue	4,324	4.9	5,132	5.6
Leased line income	8,879	10.0	9,404	10.3
Information communication technology services revenue	3,469	3.9	4,334	4.7
Other service revenue	894	1.0	965	1.1
Sales of fixed-line telecommunications products	60	0.1	106	0.1

Usage Fees and Monthly Fees. Usage fees include local usage fees charged for local telephone calls and VoIP long-distance calls, long-distance usage fees for domestic and international long-distance calls originated by our fixed-line subscribers, users of our pre-paid phone cards and certain other customers. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

In 2015, we experienced continuing decline in the number of fixed-line local telephone subscribers and revenue due to the continuing effect of mobile substitution. Our local telephone subscribers decreased in 2015 by 10.0% from 82.06 million at the end of 2014 to 73.86 million at the end of 2015. ARPU of the local telephone services decreased by 5.4% from RMB18.5 in 2014 to RMB17.5 in 2015. Total usage of local calls decreased by 15.4% from 69.78 billion pulses in 2014 to 59.03 billion pulses in 2015 (excluding Internet dial-up usage) and total usage of long-distance calls decreased by 10.9% from 14.44 billion minutes in 2014 to 12.88 billion minutes in 2015. Revenue from our usage fees and monthly fees in 2014 decreased by 22.5% from RMB14.36 billion in 2014 to RMB11.13 billion in 2015.

Broadband, Data and Other Internet-Related Services Revenue. Revenue from our broadband, data and other Internet-related services include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our broadband, data and other Internet-related services increased by 7.7% from RMB52.58 billion in 2014 to RMB56.63 billion in 2015, primarily as a result of the increase in revenue from fixed-line broadband services. The increase of our revenue from our broadband, data and other Internet-related services was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry.

In light of the continuing effect of mobile substitution, fixed-line broadband service has become the main growth driver of our total revenue from fixed-line services. In 2015, our fixed-line broadband services continued to maintain growth as a result of our efforts in improving broadband access speed, adopting multi-service bundling strategy, enriching application contents and implementing diversified sales strategies. The number of our fixed-line broadband subscribers increased by 5.1% from 68.79 million in 2014 to 72.33 million in 2015. ARPU of our fixed-line broadband services increased by 2.3% from RMB62.2 in 2014 to RMB63.6 in 2015. Revenue from our fixed-line broadband services increased by 7.5% from RMB50.20 billion in 2014 to RMB53.96 billion in 2015, and as a percentage of the total fixed-line revenue increased from 56.7% in 2014 to 59.1% in 2015. Revenue from our data and other Internet-related services increased by 12.2% from RMB2.38 billion in 2014 to RMB2.67 billion in 2015.

Interconnection Fees. Our interconnection fees consist of interconnection fees charged to other domestic telecommunications operators, principally China Mobile and China Telecom, for both local and long-distance calls. Our interconnection fees decreased by 7.8% from RMB3.98 billion in 2014 to RMB3.67 billion in 2015. The decrease in our interconnection fees was primarily due to (i) the implementation of VAT in the PRC telecommunications industry; and (ii) the decrease in the volume of the interconnection voice calls primarily as a result of the mobile substitution effect.

Value-Added Services Revenue. Revenue from our value-added services consists of fees that we charge our customers for the provision of caller-identification, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services increased by 18.7% from RMB4.32 billion in 2014 to RMB5.13 billion in 2015.

Leased Line Income. Our leased line income consists of fees that we receive from our government, corporate and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers. Our leased line income increased by 5.9% from RMB8.88 billion in 2014 to RMB9.40 billion in 2015, which was primarily due to the increased demand of leased line services from our local government and corporate customers. The increase of our leased line income was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry.

Information Communication Technology Services Revenue. Information communication technology services revenue increased by 24.9% from RMB3.47 billion in 2014 to RMB4.33 billion in 2015, mainly as a result of our growing information communication technology services with new system integration projects in 2015 for government and large corporate customers.

Other Service Revenue. Other service revenue mainly consists of miscellaneous revenue items. Other service revenue increased by 7.8% from RMB0.89 billion in 2014 to RMB0.96 billion in 2015.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products increased by 76.7% from RMB60 million in 2014 to RMB106 million in 2015, mainly due to the increase in the sales amount of telecommunications products such as optical network unit terminals.

Costs, Expenses and Others

Total costs, expenses and others in 2015 were RMB263.01 billion, representing a decrease of 2.1% from RMB268.75 billion in 2014. The implementation of VAT in the PRC telecommunications industry reduced our costs and expenses to the extent we are entitled to claim certain input VAT credits for the purchase of goods and services. In addition, we receive a benefit of claiming input VAT credits on our capital expenditures for purchasing certain assets, which resulted in a lower depreciation. However, certain costs and expenses, such as employee benefit expenses and finance costs are not subjected to VAT and therefore do not qualify for input VAT credits. For the year ended December 31, 2015, the decrease in our costs and expenses was smaller than the decrease in our revenue due to the implementation of VAT in the PRC telecommunications industry.

The table below sets forth the major items of costs, expenses and others and their respective percentage of the total telecommunications services revenue for the years 2014 and 2015:

	For the Year Ended December 31,			
	2014		2015	
	RMB in millions	% of Total	RMB in millions	% of Total
Total telecommunications services revenue	244,878	100.0	235,278	100.0
Costs, expenses and others	268,750	109.7	263,014	111.8
Interconnection charges	14,599	6.0	13,093	5.6
Depreciation and amortization	73,868	30.2	76,738	32.6
Network, operation and support expenses	37,851	15.5	42,308	18.0
Employee benefit expenses	34,652	14.2	35,140	14.9
Selling and marketing	40,193	16.4	31,965	13.6
General, administrative and other expenses	21,218	8.7	22,995	9.8
Cost of telecommunications products sold	43,397	17.7	44,046	18.7
Finance costs, net of interest income	4,334	1.8	6,496	2.8
Other income-net	(1,362)	(0.6)	(9,767)	(4.2)

Interconnection Charges. Interconnection charges were RMB13.09 billion in 2015, down by 10.3% from 2014, primarily due to (i) the decrease in volume of the interconnection voice calls and (ii) the implementation of VAT in the PRC telecommunications industry to the extent that we are entitled to input VAT credits. Interconnection charges as a percentage of telecommunications service revenue decreased from 6.0% in 2014 to 5.6% in 2015.

Depreciation and Amortization. Our depreciation and amortization expenses were RMB76.74 billion in 2015, up by 3.9% from 2014. The increase was primarily due to an increase in our capital expenditures in connection with the expansion of our 4G and fixed-line broadband network coverage and improvement of our network quality in 2015, partially offset by the decrease in the depreciation and amortization expenses as a result of the disposal of telecommunications towers and related assets to the Tower Company in October 2015. As a percentage of telecommunications service revenue, our depreciation and amortization expenses increased from 30.2% in 2014 to 32.6% in 2015.

Network, Operation and Support Expenses. We incurred network, operation and support expenses of RMB42.31 billion in 2015, up by 11.8% from 2014, primarily due to (i) the usage fees payable to the Tower Company with respect to certain telecommunications towers and related assets; (ii) the expansion of networks, facilities and base stations and (iii) the increases in other rental expenses and utilities charges. In general, the implementation of VAT in the PRC telecommunications industry reduces our network, operation and support expenses to the extent we are entitled to the input VAT credits. Network, operation and support expenses, as a percentage of telecommunications service revenue, increased from 15.5% in 2014 to 18.0% in 2015. With the expansion of our network, we had an increased demand of leased lines and the related telecommunications line leasing fees was RMB3.35 billion, up by 22.3% from 2014.

Employee Benefit Expenses. Due to the increases in salaries and wages as well as contributions to defined contribution pension schemes, medical insurance and housing benefits, our employee benefit expenses increased by 1.4% from RMB34.65 billion in 2014 to RMB35.14 billion in 2015, and as a percentage of telecommunications service revenue, increased from 14.2% in 2014 to 14.9% in 2015.

Selling and Marketing Expenses. Primarily due to (i) our strengthened management of the selling and marketing expenses and the adjustment of our sales and marketing model and (ii) the implementation of VAT in the PRC telecommunications industry, our selling and marketing expenses were RMB31.97 billion in 2015, down by 20.5% from 2014, and as a percentage of telecommunications service revenue, decreased from 16.4% in 2014 to 13.6% in 2015.

General, Administrative and Other Expenses. Our general, administrative and other expenses were RMB23.00 billion in 2015, up by 8.4% from 2014, and as a percentage of telecommunications service revenue, increased from 8.7% in 2014 to 9.8% in 2015, primarily due to the increases in expenses associated with disposals of our fiber-optic transmission assets and costs relating to information communications technologies services.

Cost of Telecommunications Products Sold. In 2015, the cost of telecommunications products sold amounted to RMB44.05 billion, up by 1.5% from 2014, primarily due to the increase in sales of telecommunications terminal products in 2015.

Finance Costs, Net of Interest Income. Our finance costs, net of interest income, increased by 49.9% from RMB4.33 billion in 2014 to RMB6.50 billion in 2015, which was primarily due to losses of foreign exchange settlement as a result of fluctuations in exchange rate of Renminbi against the other currencies.

Other Income-Net. In 2015, other income-net was RMB9.77 billion, representing a significant increase from 2014, primarily as a result of the one-off effect of the net gain in an amount of RMB9.25 billion (before tax) on disposal of telecommunication towers to the Tower Company, which was completed by October 31, 2015.

Income Before Income Tax

In 2015, our income before income tax was RMB14.04 billion, down by 11.9% from 2014, mainly due to (i) the decrease in service revenue from our mobile services as a result of the impact of the implementation of the PRC Government's policy of increasing network speed and reducing tariffs, our mobile data carry-over programs launched in October 2015, the implementation of VAT to replace business tax relating to the telecommunications services in China, the intensifying competition with other major telecommunications operators and (ii) exchange loss incurred in 2015.

Income Tax

Our income tax was RMB3.47 billion in 2015, down by 10.4% from 2014, and our effective tax rate in 2015 was 24.7%, slightly up by 0.4 percentage point from 2014. The decrease in our income tax was largely due to the decrease in our income before income tax.

Net Income for the Year

In 2015, our net income reached RMB10.56 billion, down by 12.4% from 2014. Our basic earnings per share was RMB0.44 in 2015, down by 12.7% from 2014.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue

In 2014, we continued to actively develop full-service operation with a focus on mobile broadband services that include our 3G and 4G services, and fixed-line broadband services. Revenue for 2014 was RMB284.68 billion, representing a decrease of 3.5% from RMB295.04 billion for 2013, of which our service revenue was RMB244.88 billion in 2014, representing an increase of 2.6% from 2013. As our revenue is presented after excluding any output VAT in accordance with IFRS and we do not pass on the cost of any VAT to our subscribers for telecommunications services, the implementation of VAT in the PRC telecommunications industry has a negative impact on our revenue.

Mobile Services Revenue

Total revenue from our mobile services decreased by 6.1% from RMB207.53 billion in 2013 to RMB194.84 billion in 2014. Of the total revenue from our mobile services in 2013 and 2014, RMB151.13 billion and RMB155.10 billion, respectively, was from service revenue. Service revenue from our mobile services as a percentage of our total service revenue was 63.4% and 63.3% in 2013 and 2014, respectively. The overall ARPU for our mobile subscribers decreased from RMB48.2 in 2013 to RMB44.1 in 2014. The decrease in total revenue from our mobile services was primarily driven by a decrease in the revenue of our mobile telecommunications products. The decrease in the ARPU for our mobile subscribers also contributed to the decrease of our mobile service revenue. The decrease in the ARPU for our mobile subscribers was primarily due to the factors including (i) the intensifying competition with other telecommunications operators in China; (ii) the implementation of VAT in the PRC telecommunications industry; (iii) the change in our subsidies towards a model of lesser handset subsidies and more rebates or discounts on service charges to our subscribers, which resulted in a direct reduction of our mobile service revenue; and (iv) many of our new subscribers who are users with lower usage of telecommunications services.

The total number of our mobile subscribers was 299.10 million as of December 31, 2014, with a net addition of 18.11 million subscribers (including a net addition of 26.51 million mobile broadband subscribers) from the end of 2013. ARPU of our mobile broadband services was RMB63.6 in 2014, representing a decrease of 15.3% from RMB75.1 in 2013, primarily due to our business strategy to increase the number of our mobile broadband subscribers, which resulted in an increased proportion of new subscribers who are users with relatively lower usage of mobile broadband services. ARPU of our GSM mobile services was RMB26.6 in 2014, representing a decrease of 15.8% from RMB31.6 in 2013, primarily due to (i) the migration of certain mid- and high-end 2G subscribers to mobile broadband network, (ii) the intensifying competition among the telecommunications operators in China and (iii) the fact that a significant portion of our new users consists of users from rural areas, many of whom tend to have less usage of telecommunications services and to be more cost-sensitive than users from urban areas.

The table below sets forth the revenue composition of our mobile services and each revenue item's respective share of total revenue for the years ended December 31, 2013 and 2014.

	2013		2014	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile services	207,526	100.0	194,838	100.0
Service revenue	151,133	72.8	155,095	79.6
Usage fees and monthly fees	68,626	33.1	62,152	31.9
Value-added services revenue	67,975	32.8	79,814	41.0
Interconnection fees	13,635	6.6	12,398	6.4
Other service revenue	897	0.4	731	0.4
Sales of mobile telecommunications products	56,393	27.2	39,743	20.4

Usage Fees and Monthly Fees. Primarily as a result of (i) the implementation of VAT in the PRC telecommunications industry; and (ii) the intensifying competition among the major PRC telecommunications operators, usage fees and monthly fees for our mobile services were RMB62.15 billion in 2014, representing a decrease of 9.4% from RMB68.63 billion in 2013.

Value-Added Services Revenue. Value-added services revenue consists primarily of revenue from our mobile value-added services. Due to our active promotion of mobile data services of our mobile broadband services as well as the increase in the number of our mobile subscribers, revenue from our mobile value-added services was RMB79.81 billion in 2014, representing an increase of 17.4% from RMB67.98 billion in 2013. The increase was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry. As a percentage of total revenue from mobile services, revenue from our mobile value-added services increased from 32.8% in 2013 to 41.0% in 2014. Of the total revenue from mobile value-added services, revenue from mobile Internet services increased by 29.9% from RMB38.35 billion in 2013 to RMB49.84 billion in 2014, revenue from our SMS services decreased by 1.2% from RMB7.71 billion in 2013 to RMB7.61 billion in 2014, and revenue from "Cool Ringtone" services decreased by 13.9% from RMB2.79 billion in 2013 to RMB2.40 billion in 2014.

Interconnection Fees. Our interconnection fees decreased by 9.1% from RMB13.64 billion in 2013 to RMB12.40 billion in 2014, and represented 6.4% of total revenue from mobile services in 2014 as compared with 6.6% in 2013. The decrease in our interconnection fees was primarily as a result of (i) the downward adjustment of interconnection fee charges by MIIT; and (ii) the implementation of VAT in the PRC telecommunications industry.

Sales of Telecommunications Products. Revenue from our sales of mobile telecommunications products decreased from RMB56.39 billion in 2013 to RMB39.74 billion in 2014, mainly due to the decrease in the sales amount of telecommunications products.

Fixed-Line Services Revenue

In 2014, we continued to develop our fixed-line broadband services and promoted our mobile and fixed-line bundled services. The trend of mobile substitution continued to have a negative impact on the growth of revenue from our fixed-line voice services. Our total revenue from fixed-line services increased by 2.3% from RMB86.57 billion in 2013 to RMB88.54 billion in 2014, of which service revenue increased by 2.3% from RMB86.49 billion in 2013 to RMB88.48 billion in 2014. The increase of our total revenue from fixed-line services was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry. See “D. Risk Factors — Risks Relating to Our Business — The industry trends of mobile service substitution and mobile service migration from old generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and mobile services, which may materially and adversely affect our financial condition, results of operations and growth prospects” under Item 3.

The table below sets forth the revenue composition of our fixed-line services and each revenue item’s respective share of total revenue from our fixed-line services for the years ended December 31, 2013 and 2014.

	For the Year Ended December 31,			
	2013		2014	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line services	86,565	100.0	88,541	100.0
Service revenue	86,487	99.9	88,481	99.9
Usage fee and monthly fee	17,698	20.4	14,357	16.2
Broadband, data and other				
Internet-related services revenue	48,278	55.8	52,579	59.4
Interconnection fees	4,146	4.8	3,979	4.5
Value-added services revenue	3,996	4.6	4,324	4.9
Leased line income	8,389	9.7	8,879	10.0
Information communication technology services revenue	2,991	3.5	3,469	3.9
Other service revenue	989	1.1	894	1.0
Sales of fixed-line telecommunications products	78	0.1	60	0.1

Usage Fees and Monthly Fees. Usage fees include local usage fees charged for local telephone calls and VoIP long-distance calls, long-distance usage fees for domestic and international long-distance calls originated by our fixed-line subscribers, users of our pre-paid phone cards and certain other customers. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

In 2014, we experienced continuing decline in the number of fixed-line local telephone subscribers and revenue due to the continuing effect of mobile substitution. Our local telephone subscribers decreased in 2014 by 6.4% from 87.64 million at the end of 2013 to 82.06 million at the end of 2014. ARPU of the local telephone services decreased by 9.8% from RMB20.5 in 2013 to RMB18.5 in 2014. Total usage of local calls increased by 8.0% from 64.63 billion pulses in 2013 to 69.78 billion pulses in 2014 (excluding Internet dial-up usage) and total usage of long-distance calls decreased by 9.7% from 15.99 billion minutes in 2013 to 14.44 billion minutes in 2014. Revenue from our usage fees and monthly fees in 2014 decreased by 18.9% from RMB17.70 billion in 2013 to RMB14.36 billion in 2014.

Broadband, Data and Other Internet-Related Services Revenue. Revenue from our broadband, data and other Internet-related services include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our broadband, data and other Internet-related services increased by 8.9% from RMB48.28 billion in 2013 to RMB52.58 billion in 2014, primarily as a result of the increase in revenue from fixed-line broadband services. The increase of our revenue from our broadband, data and other Internet-related services was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry.

In light of the continuing effect of mobile substitution, fixed-line broadband service has become the main growth driver of our total revenue from fixed-line services. In 2014, our fixed-line broadband services continued to maintain growth as a result of our efforts in improving broadband access speed, adopting multi-service bundling strategy, enriching application contents and implementing diversified sales strategies. The number of our fixed-line broadband subscribers increased by 6.4% from 64.65 million in 2013 to 68.79 million in 2014. ARPU of our fixed-line broadband services increased by 1.3% from RMB61.4 in 2013 to RMB62.2 in 2014. Revenue from our fixed-line broadband services increased by 9.2% from RMB45.99 billion in 2013 to RMB50.20 billion in 2014, and as a percentage of the total fixed-line revenue increased from 53.1% in 2013 to 56.7% in 2014. Revenue from our data and other Internet-related services increased by 3.9% from RMB2.29 billion in 2013 to RMB2.38 billion in 2014.

Interconnection Fees. Our interconnection fees consist of interconnection fees charged to other domestic telecommunications operators, principally China Mobile and China Telecom, for both local and long-distance calls. Our interconnection fees decreased by 4.0% from RMB4.15 billion in 2013 to RMB3.98 billion in 2014. The decrease in interconnection revenue was mainly due to a decrease in voice traffic from other telecommunications operators as a result of the mobile substitution effect.

Value-Added Services Revenue. Revenue from our value-added services consists of fees that we charge our customers for the provision of caller-identification, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services increased by 8.2% from RMB4.00 billion in 2013 to RMB4.32 billion in 2014.

Leased Line Income. Our leased line income consists of fees that we receive from our government, corporate and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers. Our leased line income increased by 5.8% from RMB8.39 billion in 2013 to RMB8.88 billion in 2014, which was primarily due to the increased demand of leased line services from our local government and corporate customers. The increase of our leased line income was partially offset by the negative effect of the implementation of VAT in the PRC telecommunications industry.

Information Communication Technology Services Revenue. Information communication technology services revenue increased by 16.0% from RMB2.99 billion in 2013 to RMB3.47 billion in 2014, mainly as a result of our growing information communication technology services with new system integration projects in 2014 for government and large corporate customers.

Other Service Revenue. Other service revenue mainly consists of miscellaneous revenue items. Other service revenue decreased by 10.1% from RMB0.99 billion in 2013 to RMB0.89 billion in 2014.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products decreased by 23.1% from RMB78 million in 2013 to RMB60 million in 2014, mainly due to (i) the decrease in the sales of telecommunications terminal products such as telephone sets associated with local voice services in 2014; and (ii) the implementation of VAT in the PRC telecommunications industry.

Costs, Expenses and Others

Total costs, expenses and others in 2014 were RMB268.75 billion, representing a decrease of 4.5% from RMB281.32 billion in 2013. The implementation of VAT in the PRC telecommunications industry reduced our costs and expenses to the extent we are entitled to claim certain input VAT credits for the purchase of goods and services. However, on the one hand, certain costs and expenses, such as employee benefit expenses and finance costs are not subjected to VAT and therefore do not qualify for input VAT credits. On the other hand, the decrease in depreciation and amortization expenses due to the ability to claim input VAT credits is realized over the estimated useful life of such assets. For the year ended December 31, 2014, the decrease in our costs and expenses was smaller than the decrease in our revenue due to the implementation of VAT in the PRC telecommunications industry.

The table below sets forth the major items of costs, expenses and others and their respective percentage of the total telecommunications services revenue for the years 2013 and 2014:

	For the Year Ended December 31,			
	2013		2014	
	RMB in millions	% of Total	RMB in millions	% of Total
Total telecommunications services revenue	238,567	100.0	244,878	100.0
Costs, expenses and others	281,324	117.9	268,750	109.7
Interconnection charges	20,208	8.5	14,599	6.0
Depreciation and amortization	68,196	28.6	73,868	30.2
Network, operation and support expenses	33,704	14.1	37,851	15.5
Employee benefit expenses	31,783	13.3	34,652	14.2
Selling and marketing	42,991	18.0	40,193	16.4
General, administrative and other expenses	18,973	8.0	21,218	8.7
Cost of telecommunications products sold	63,416	26.6	43,397	17.7
Finance costs, net of interest income	2,940	1.2	4,334	1.8
Other income-net	(887)	(0.4)	(1,362)	(0.6)

Interconnection Charges. Interconnection charges were RMB14.60 billion in 2014, down by 27.8% from 2013, primarily due to (i) the downward adjustment of interconnection settlement policy and (ii) the implementation of VAT in the PRC telecommunications industry to the extent that we are entitled to input VAT credits. Interconnection charges as a percentage of telecommunications service revenue decreased from 8.5% in 2013 to 6.0% in 2014.

Depreciation and Amortization. Our depreciation and amortization expenses were RMB73.87 billion in 2014, up by 8.3% from 2013. The increase was primarily due to the increase in our capital expenditures in connection with the expansion of our mobile broadband and fixed-line broadband network coverage and improvement of our network quality in 2014. These capital expenditures increased the relevant fixed assets that are subject to depreciation. As a percentage of telecommunications service revenue, our depreciation and amortization expenses increased from 28.6% in 2013 to 30.2% in 2014.

Network, Operation and Support Expenses. Due to various factors, including the expansion of networks, facilities and base stations and the increases in utilities charges and rental expenses, we incurred network, operation and support expenses of RMB37.85 billion in 2014, up by 12.3% from 2013. In general, the implementation of VAT in the PRC telecommunications industry reduces our network, operation and support expenses to the extent we are entitled to the input VAT credits. Network, operation and support expenses, as a percentage of telecommunications service revenue, increased from 14.1% in 2013 to 15.5% in 2014. With the expansion of our network, we had an increased demand of leased lines, and the related line leasing fees was RMB2.74 billion, up by 14.9% from 2013.

Employee Benefit Expenses. Due to the increases in salaries and wages as well as contributions to defined contribution pension schemes, medical insurance and housing benefits, our employee benefit expenses increased by 9.0% from RMB31.78 billion in 2013 to RMB34.65 billion in 2014, and as a percentage of telecommunications service revenue, increased from 13.3% in 2013 to 14.2% in 2014.

Selling and Marketing Expenses. Primarily due to (i) our strengthened management of the selling and marketing expenses and the adjustment of our sales and marketing model and (ii) the implementation of VAT in the PRC telecommunications industry, our selling and marketing expenses were RMB40.19 billion in 2014, down by 6.5% from 2013, and as a percentage of telecommunications service revenue, decreased from 18.0% in 2013 to 16.4% in 2014.

General, Administrative and Other Expenses. Our general, administrative and other expenses were RMB21.22 billion in 2014, up by 11.8% from 2013, and as a percentage of telecommunications service revenue, slightly increased from 8.0% in 2013 to 8.7% in 2014.

Cost of Telecommunications Products Sold. In 2014, the cost of telecommunications products sold amounted to RMB43.40 billion, down by 31.6% from 2013, primarily due to the decrease in sales of telecommunications terminal products in 2014.

Finance Costs, Net of Interest Income. Our finance costs, net of interest income, increased from RMB2.94 billion in 2013 to RMB4.33 billion in 2014, which was primarily due to a decrease in our gains of foreign exchange settlement.

Other Income-Net. In 2014, other income-net was RMB1.36 billion, up by 53.6% from 2013. The increase was primarily due to (i) the liquidated damages we received from our contract counterparties; and (ii) an increase of dividend income received from our investment in Telefónica and others.

Income Before Income Tax

In 2014, our income before income tax was RMB15.93 billion, up by 16.2% from 2013, mainly due to the decrease in our costs and expenses.

Income Tax

Our income tax was RMB3.88 billion in 2014, up by 17.3% from 2013, and our effective tax rate in 2014 was 24.3%, slightly up by 0.2 percentage point from 2013. The increase in our income tax was largely due to the increase in our income before income tax.

Net Income for the Year

In 2014, our net income reached RMB12.06 billion, up by 15.8% from 2013. Our basic earnings per share was RMB0.51 in 2014, up by 14.8% from 2013.

Liquidity and Capital Resources

Working Capital and Cash Flows

As of December 31, 2015, we had RMB21.76 billion of cash and cash equivalents, as compared with RMB25.31 billion as of December 31, 2014 and RMB21.51 billion as of December 31, 2013. As of December 31, 2015, we had RMB0.2 billion of short-term bank deposits, as compared with RMB0.06 billion as of December 31, 2014 and RMB0.05 billion as of December 31, 2013. As of December 31, 2015, we had a working capital deficit (current liabilities less current assets) of RMB279.40 billion, representing an increase by 18.7% from the working capital deficit of RMB235.35 billion as of December 31, 2014. The increase in working capital deficit in 2015 primarily resulted from an increase of RMB47.03 billion in accounts payable and accrued liabilities resulting from an increase in the investments in fixed assets and a decrease of RMB3.79 billion in our net cash inflow from operating activities.

In recent years, although the PRC Government introduced measures to avoid overheating of the economy, including tightening bank lending policies, we, due to our enterprise nature and our good credit records with PRC banks, generally have not experienced and do not expect to experience in the foreseeable future significant difficulties in obtaining bank financing in China. As of December 31, 2015, we had RMB346.4 billion revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which RMB227.2 billion was unutilized. There is no term of the facilities that materially restricts our ability to draw down the unutilized banking facilities. In addition, we believe we have the ability to raise funds from short-, medium- and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio. Therefore, we believe that we will be able to fund our anticipated capital and liquidity needs with our access to debt and equity financing, in particular bank financing in China, and net cash inflows from our operations.

The following table sets forth cash inflows and outflows in 2013, 2014 and 2015.

	For the Year Ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Net cash inflow from operating activities	78,482	88,094	84,301
Net cash outflow from investing activities	(77,110)	(75,319)	(91,354)
Net cash inflow/(outflow) from financing activities	1,926	(8,973)	3,427
Net increase/(decrease) in cash and cash equivalents	3,298	3,802	(3,626)

Our net cash inflow from operating activities increased by 12.2% from RMB78.48 billion in 2013 to RMB88.09 billion in 2014, primarily due to an increase in cash generated from our growing mobile services and fixed-line broadband services, which was partially offset by the increases in interest paid and income tax paid. Our net cash inflow from operating activities decreased by 4.3% from RMB88.09 billion in 2014 to RMB84.30 billion in 2015, primarily due to a decrease in cash generated from our mobile and fixed-line services.

Our net cash outflow from investing activities decreased by 2.3% from RMB77.11 billion in 2013 to RMB75.32 billion in 2014, mainly due to relatively moderate investment activities, including acquisitions of property, plant and equipment in 2013 and 2014. Our net cash outflow from investing activities increased by 21.3% from RMB75.32 billion in 2014 to RMB91.35 billion in 2015, mainly due to a substantial increase in our capital expenditure mainly as a result of the expansion of our 4G networks.

Our net cash inflow from financing activities was RMB1.93 billion in 2013 and our net cash outflow from financing activities was RMB8.97 billion in 2014, primarily due to our repayment of interest-bearing debts. Our net cash inflow from financing activities was RMB3.43 billion in 2015, primarily due to an increase in the amount of our interest-bearing debts.

Indebtedness and Capital Structure

The following table sets forth the amount of cash, cash equivalents, assets, short-term and long-term debt and equity as well as debt-to-capitalization and debt-to-equity ratios as of the end of 2013, 2014 and 2015.

	As of December 31,		
	2013	2014	2015
	(RMB in millions, except percentages)		
Cash and cash equivalents and short-term bank deposits	21,560	25,364	21,957
Total assets	529,171	545,072	610,346
Short-term debt	130,975	114,679	107,998
Short-term bank loans	94,422	91,503	83,852
Commercial papers	35,000	9,979	19,945
Current portion of long-term bank loans	48	45	84
Amounts due to related parties	—	473	—
Amounts due to ultimate holding company	1,344	1,344	1,344
Current portion of obligations under finance lease included in other obligations	161	168	274
Current portion of promissory notes	—	—	2,499
Current portion of corporate bonds	—	—	—
Convertible bonds	—	11,167	—
Long-term debt	13,639	23,998	40,944
Promissory notes	—	21,460	36,928
Corporate bonds	2,000	2,000	2,000
Convertible bonds	11,002	—	—
Non-current portion of long-term bank loans	481	420	1,748
Non-current portion of obligations under finance lease included in other obligations	156	118	268
Equity attributable to equity shareholders	218,899	227,541	231,216
Debt-to-capitalization ratio ⁽¹⁾	39.8%	37.9%	39.2%
Debt-to-equity ratio ⁽²⁾	66.1%	60.9%	64.4%

⁽¹⁾ Debt-to-capitalization ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/(long-term interest-bearing debt + short-term interest-bearing debt + equity attributable to equity shareholders).

⁽²⁾ Debt-to-equity ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/(equity attributable to equity shareholders).

Our debt-to-capitalization ratio was 39.2% at the end of 2015, compared to 37.9% at the end of 2014 and 39.8% at the end of 2013. Our debt-to-equity ratio was 64.4% at the end of 2015, compared to 60.9% at the end of 2014 and 66.1% at the end of 2013. The sum of our long-term and short-term interest-bearing debt exceeds the amount of our cash and cash equivalents and short-term bank deposits by RMB126.99 billion as of December 31, 2015, compared to RMB113.31 billion as of December 31, 2014 and RMB123.05 billion as of December 31, 2013. The decreases in our debt-to-capitalization ratio and debt-to-equity ratio from 2013 to 2014 were mainly due to the increase in equity attributable to equity shareholders. The increases in our debt-to-capitalization ratio and debt-to-equity ratio from 2014 to 2015 were mainly due to the increase in the amount of our interest-bearing debts. We continue to seek to optimize our capital structure, develop multiple financing sources and reduce overall financing costs. In addition, we seek to increase our capital turnover ratio and control the amount of monetary assets.

Our outstanding short-term and long-term bank loans, denominated in RMB, U.S. dollar, HK dollar and Euro, was RMB85.68 billion at the end of 2015, compared to RMB91.97 billion at the end of 2014 and RMB94.95 billion at the end of 2013. The decrease from 2013 to 2015 was mainly due to our repayment of certain bank loans. As of December 31, 2015, no short-term bank loans or long-term bank loans were guaranteed by Unicom Group.

In order to further rationalize our debt structure and reduce our interest expense, we may continue to finance a portion of our business operations and capital expenditures through issuance of debt securities. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations and obtain adequate external financing to meet our debt service obligations and planned capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including, but not limited to, decreased demand for our telecommunications services and further intensifying competition. Our ability to obtain external financing also depends on numerous factors, including, but not limited to, our financial condition and creditworthiness as well as our relationship with lenders. See “D. Risk Factors — Risks Relating to Our Business — If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be materially and adversely affected” under Item 3.

On June 8, 2007, we issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a guarantee issued by Bank of China Limited. On September 3, 2008, we issued another RMB5 billion 5-year corporate bonds, bearing interest at 5.29% per annum. The corporate bonds are secured by a guarantee issued by State Grid Corporation of China. The aforementioned corporate bonds were fully repaid in September 2013.

On April 1, 2010, CUCL completed the issue of the first tranche of commercial paper for the year 2010 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 2.64% per annum. The commercial paper was fully repaid in March 2011. On April 2, 2010, CUCL completed the issue of the first tranche of promissory note for the year 2010 in an amount of RMB3 billion, with a maturity period of three years and at an interest rate of 3.73% per annum. The promissory note was fully repaid in April 2013.

On September 20, 2010, CUCL completed the issue of the second tranche of commercial paper for the year 2010 in an amount of RMB8 billion, with a maturity period of 365 days and at an interest rate of 2.81% per annum. The commercial paper was fully repaid in September 2011. On the same date, CUCL completed the issue of the second tranche of promissory note for the year 2010 in an amount of RMB12 billion, with a maturity period of three years and at an interest rate of 3.31% per annum. The promissory note was fully repaid in September 2013.

On October 18, 2010, Billion Express Investments Limited, a wholly owned subsidiary of our company, issued the 2015 Convertible Bonds in aggregate principal amount of US\$1,838,800,000 (at the fixed exchange rate of US\$1 equivalent to HK\$7.7576), which are guaranteed by our company and are exchangeable into ordinary shares of our company. On October 18, 2015, the 2015 convertible bonds matured and all the outstanding amounts were paid in full.

On July 12, 2012, CUCL completed the issue of the first tranche of commercial paper for the year 2012 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 3.45% per annum. The first tranche of commercial paper was fully repaid in July 2013.

On October 24, 2012, CUCL completed the issue of the second tranche of commercial paper for the year 2012 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 4.20% per annum. The second tranche of commercial paper was fully repaid in October 2013.

On October 25, 2012, CUCL completed the issue of the third tranche of commercial paper for the year 2012 in an amount of RMB8 billion, with a maturity period of 365 days and at an interest rate of 4.20% per annum. The third tranche of commercial paper was fully repaid in October 2013.

On July 10, 2013, CUCL completed the issue of the first tranche of super and short-term commercial paper for the year 2013 in an amount of RMB15 billion, with a maturity period of 60 days and at an interest rate of 4.20% per annum. The first tranche of super and short-term commercial paper was fully repaid in September 2013.

On September 17, 2013, CUCL completed the issue of the second tranche of super and short-term commercial paper for the year 2013 in an amount of RMB15 billion, with a maturity period of 180 days and at an interest rate of 4.63% per annum. The second tranche of super and short-term commercial paper was fully repaid in March 2014.

On October 12, 2013, CUCL completed the issue of the third tranche of super and short-term commercial paper for the year 2013 in an amount of RMB10 billion, with a maturity period of 180 days and at an interest rate of 4.68% per annum. The third tranche of super and short-term commercial paper was fully repaid in April 2014.

On October 21, 2013, CUCL completed the issue of the fourth tranche of super and short-term commercial paper for the year 2013 in an amount of RMB10 billion, with a maturity period of 180 days and at an interest rate of 4.68% per annum. The fourth tranche of super and short-term commercial paper was fully repaid in April 2014.

On March 24, 2014, CUCL completed the issue of the first tranche of super and short-term commercial paper for the year 2014 in an amount of RMB10 billion, with a maturity period of 270 days and at an interest rate of 5.10% per annum. The first tranche of super and short-term commercial paper was fully repaid in December 2014.

On April 3, 2014, the Company established a Medium-Term Note Program, or the Program, under which the Company could offer and issue notes of aggregate principal amount of up to RMB10.0 billion. Notes issued under the Program will be denominated in Renminbi and issued to professional investors outside the United States. On April 16, 2014, the Company completed the issue of notes in an aggregate nominal amount of RMB4 billion pursuant to the Program, with a maturity period of three years and at an interest rate of 4.00% per annum.

On April 16, 2014, CUCL completed the issue of the first tranche of promissory note for the year 2014 in an amount of RMB5 billion, with a maturity period of three years and at an interest rate of 5.35% per annum.

On July 14, 2014, CUCL completed the issue of the second tranche of promissory note for the year 2014 in an amount of RMB5 billion, with a maturity period of three years and at an interest rate of 4.84% per annum.

On July 15, 2014, CUCL completed the issue of the first tranche of commercial paper for the year 2014 in an amount of RMB10 billion, with a maturity period of 365 days and at an interest rate of 4.60% per annum. The first tranche of commercial paper was fully repaid in July 2015.

On July 24, 2014, the Company completed the issue of notes in an aggregate nominal amount of RMB2.5 billion pursuant to the Program, with a maturity period of two years and at an interest rate of 3.80% per annum.

On November 28, 2014, CUCL completed the issue of the third tranche of promissory note for the year 2014 in an amount of RMB5 billion, with a maturity period of three years and at an interest rate of 4.20% per annum.

On March 19, 2015, CUCL completed the issue of the first tranche of super and short-term commercial paper for the year 2015 in an amount of RMB10 billion, with a maturity period of 270 days and at an interest rate of 4.40% per annum. The first tranche of super and short-term commercial paper was fully paid in December 2015.

On June 15, 2015, CUCL completed the issue of the first tranche of promissory note for the year 2015 in an amount of RMB4 billion, with a maturity period of three years and at an interest rate of 3.85% per annum.

On June 18, 2015, CUCL completed the issue of the second tranche of promissory note for the year 2015 in an amount of RMB4 billion, with a maturity period of three years and at an interest rate of 3.85% per annum.

On November 20, 2015, CUCL completed the issue of the second tranche of super and short-term commercial paper for the year 2015 in an amount of RMB10 billion, with a maturity period of 270 days and at an interest rate of 3.15% per annum.

On November 27, 2015, CUCL completed the issue of the first tranche of short-term commercial paper for the year 2015 in an amount of RMB10 billion, with a maturity period of 366 days and at an interest rate of 3.15% per annum.

On November 30, 2015, CUCL completed the issue of the third tranche of promissory note for the year 2015 of an amount of RMB3.5 billion, the fourth tranche of promissory note for the year 2015 of an amount of RMB3.5 billion and the fifth tranche of promissory note for the year 2015 of an amount of RMB3 billion, all with a maturity period of three years and at an interest rate of 3.30% per annum.

Contractual Obligations and Commercial Commitments

The following table sets forth the amounts of our outstanding contractual cash obligations as of December 31, 2015.

	<u>Total</u>	<u>Less than 1 year</u>	<u>Between 1 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
	(RMB in millions)				
Short-term bank loans ^{(1)*}	85,095	85,095	—	—	—
Commercial papers ^{(2)*}	20,482	20,482	—	—	—
Long-term bank loans ^{(3)*}	2,574	109	252	249	1,964
Corporate bonds ^{(4)*}	2,129	90	2,039	—	—
Promissory notes ^{(5)*}	42,596	4,071	38,525	—	—
Other obligations*	3,184	2,816	291	11	66
Capital commitments ⁽⁶⁾	39,980	25,599	8,421	5,575	385
Operating leases commitments ⁽⁶⁾	14,141	4,838	6,531	1,041	1,731
Amounts due to ultimate holding company ⁽⁷⁾	1,470	1,470	—	—	—
Amounts due to related parties ⁽⁷⁾	3,930	3,930	—	—	—
Amounts due to domestic carriers	1,300	1,300	—	—	—
Accounts payable and accrued liabilities ⁽⁸⁾	167,396	167,396	—	—	—
Total obligations	<u>384,277</u>	<u>317,196</u>	<u>56,059</u>	<u>6,876</u>	<u>4,146</u>

* Interest included

- (1) See Note 26 “Short-Term Bank Loans” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (2) See Note 27 “Commercial Papers” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (3) See Note 21 “Long-Term Bank Loans” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (4) See Note 24 “Corporate Bonds” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (5) See Note 22 “Promissory Notes” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (6) See Note 41 “Contingencies and Commitments” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (7) See Note 40 “Related Party Transactions” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.
- (8) See Note 28 “Accounts Payable and Accrued Liabilities” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Trend Information

Please refer to the discussion in sections headed “— Overview” and “— Operating Results” under this Item 5.

Off-Balance-Sheet Arrangements

As of December 31, 2015, we did not have any other off-balance-sheet arrangement.

Capital Expenditures

The following table sets forth our historical capital expenditure requirements for the periods indicated.

	For the Year Ended December 31,			
	2014		2015	
	(RMB in billions)	As a Percentage	(RMB in billions)	As a Percentage
Mobile services	36.95	43.5%	61.02	45.6%
Broadband and data services	19.00	22.4%	33.76	25.2%
Infrastructure and transmission network	22.92	27.0%	31.16	23.3%
Others ⁽¹⁾	6.01	7.1%	7.94	5.9%
Total	84.88	100.0%	133.88	100.0%

⁽¹⁾ Other expenditures consist of innovation and value-added platform, IT system, fixed-line services and procurement of miscellaneous assets, equipment and spare parts.

Our capital expenditure totaled RMB133.88 billion in 2015, which mainly consisted of investment in mobile services, broadband and data services, and infrastructure and transmission network. In 2015, capital expenditure attributable to mobile services was RMB61.02 billion; capital expenditure attributable to broadband and data services was RMB33.76 billion; capital expenditure attributable to infrastructure and transmission network was RMB31.16 billion.

We expect to continue incurring significant capital expenditure in 2016. We expect our capital expenditure in 2016 to include primarily investments in 4G services and fixed-line broadband services as well as infrastructure and transmission networks that support the development of our 4G services and fixed-line broadband services.

We expect to fund our capital expenditure needs through a combination of cash generated from operating activities, granted and unused banking facilities and other available financing sources. See “D. Risk Factors — Risks Relating to Our Business — If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be materially and adversely affected” under Item 3.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information concerning our current directors and executive officers.

Name	Age	Position
Wang Xiaochu	57	Chairman of the Board of Directors and Chief Executive Officer
Lu Yimin	52	Executive Director and President
Li Fushen	53	Executive Director and Chief Financial Officer
Zhang Junan	59	Executive Director and Senior Vice President

<u>Name</u>	<u>Age</u>	<u>Position</u>
Cesareo Alierta Izuel	70	Non-Executive Director
Cheung Wing Lam Linus	67	Independent Non-Executive Director
Wong Wai Ming	58	Independent Non-Executive Director
Chung Shui Ming Timpson	64	Independent Non-Executive Director
Law Fan Chiu Fun Fanny	63	Independent Non-Executive Director
Jiang Zhengxin	58	Senior Vice President
Shao Guanglu	51	Senior Vice President
Xiong Yu	46	Senior Vice President

Mr. Wang Xiaochu was appointed in September 2015 as an Executive Director, Chairman and Chief Executive Officer of the Company. Mr. Wang, a professor level senior engineer, graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang province; Director General of the Tianjin Posts and Telecommunications Administration; Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited; Vice President of China Mobile Communications Corporation; an Executive Director, Chairman and Chief Executive Officer of China Telecom Corporation Limited; President and Chairman of China Telecommunications Corporation; and Chairman and a Non-executive Director of China Communications Services Corporation Limited. Mr. Wang has served as a Director of Telefónica (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, A Share Company and CUCL. Mr. Wang has extensive experience in management and telecommunications industry.

Mr. Lu Yimin was appointed as an Executive Director of the Company in October 2008 and President of the Company in February 2009. Mr. Lu, a researcher level senior engineer, graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in 1985 and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University. Mr. Lu joined Netcom Group in December 2007, serving as senior management. Mr. Lu 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. in the U.S.) since May 2008 and the Deputy Chairman of PCCW Limited 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.

Mr. Li Fushen 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 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 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.

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

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

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

Mr. Wong Wai Ming 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 Hong Kong Stock Exchange. 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.

Mr. Chung Shui Ming Timpson was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 12th Chinese People's Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, Henderson Land Development Company Limited, China Construction Bank Corporation, Jinmao Investments and Jinmao (China) Investments Holdings Limited (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an Independent Director of China State Construction Eng. Corp. Ltd. (listed on the Shanghai Stock Exchange). From October 2004 to October 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee, an Independent Non-Executive Director of Nine Dragons Paper (Holdings) Limited, an Independent Director of China Everbright Bank Company Limited and an Outside Director of China Mobile Communications Corporation. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Mr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

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

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

Mr. Shao Guanglu was appointed as Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined China United Telecommunications Corporation in February 1995. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited (Unicom Group). Mr. Shao was Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. Mr. Shao also serves as a Vice President of Unicom Group, and a Director and Senior Vice President of CUCL. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

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

B. Compensation

The aggregate compensation and other benefits paid by us to our directors as a group in 2015 was approximately RMB4.488 million, which included the retirement benefits in the amount of approximately RMB391,000. Each of our executive directors participated in a bonus scheme with us that ties the amount of bonus he or she will receive at the end of a year to our operating results of the year and his or her job performance. As of the date of this annual report, none of our directors hold any outstanding options to purchase shares in our company. See "E. Share Ownership" below for detailed descriptions of our share option scheme.

<u>Name</u>	<u>Compensation for 2015</u> <u>(RMB in thousands)</u>
Directors	
Wang Xiaochu ⁽¹⁾	232
Chang Xiaobing ⁽²⁾	456
Lu Yimin	676
Li Fushen	610
Zhang Junan	610
Cesareo Alierta Izuel	241
Cheung Wing Lam Linus	330
Wong Wai Ming	338

<u>Name</u>	<u>Compensation for 2015</u>
John Lawson Thornton ⁽³⁾	56
Chung Shui Ming Timpson	330
Cai Hongbin	311
Law Fan Chiu Fun Fanny	298
Total	4,488

- (1) Mr. Wang Xiaochu was appointed as executive director on September 1, 2015.
- (2) Mr. Chang Xiaobing resigned as executive director on August 24, 2015 as Mr. Chang was appointed the chairman of China Telecommunications Corporation. In December 2015, the Central Commission for Discipline Inspection of the Communist Party of China and the Ministry of Supervision of the PRC initiated an investigation on Mr. Chang for alleged unlawful conduct and violations of the disciplinary rules of the Communist Party of the PRC. As of April 14, 2016, the relevant investigating authorities had not notified us of the incidents underlying the investigation.
- (3) Mr. John Lawson Thornton resigned as executive director on March 4, 2015.
- (4) Mr. Cai Hong resigned as executive director on November 25, 2015.

C. Board Practices

General

Pursuant to our articles of association, at each annual general meeting, one-third of our directors retire from office by rotation. The retiring directors are eligible for re-election. The Board may at any time appoint a new director to fill a vacancy or as an additional director. The Board may also appoint and remove our executive officers. No benefits are payable to our directors or executive officers upon termination of their service with us in accordance with the provisions of their service agreements, except certain statutory compensation. The following table sets forth certain information concerning our current directors and former directors who resigned in 2015.

<u>Name</u>	<u>Appointment Date</u>	<u>Re-appointment Date</u>	<u>Resignation or Retirement Date</u>
Current Directors			
Wang Xiaochu	September 1, 2015	—	—
Lu Yimin	October 15, 2008	May 26, 2009, May 24, 2011 and April 16, 2014	—
Li Fushen	March 30, 2011	May 24, 2011 and May 21, 2013	—
Zhang Junan	August 8, 2014	May 8, 2015	—
Cesareo Alierta Izuel	October 15, 2008	May 26, 2009, May 24, 2011, May 21, 2013 and May 8, 2015	—
Cheung Wing Lam Linus	May 12, 2004	May 12, 2006, May 16, 2008, May 12, 2010, May 29, 2012 and April 16, 2014	—
Wong Wai Ming	January 19, 2006	May 12, 2006, May 26, 2009, May 24, 2011 and April 16, 2014	—
Chung Shui Ming Timpson	October 15, 2008	May 26, 2009, May 29, 2012 and May 8, 2015	—
Law Fan Chiu Fun Fanny	November 21, 2012	May 21, 2013	—
Former Directors			
Chang Xiaobing ⁽¹⁾	December 21, 2004	May 12, 2006, May 26, 2009, May 29, 2012 and May 8, 2015	August 24, 2015
John Lawson Thornton	October 15, 2008	May 26, 2009, May 29, 2012 and April 16, 2014	March 4, 2015
Cai Hongbin	May 13, 2010	May 24, 2011 and May 21, 2013	November 25, 2015

(1) Mr. Chang Xiaobing resigned as executive director on August 24, 2015 as Mr. Chang was appointed the chairman of China Telecommunications Corporation.

Audit Committee

The audit committee reviews and supervises our financial reporting process, risk management and internal controls. The duties of the audit committee include, among others:

- as the key representative body for overseeing our relationship with the independent auditor, considering and approving the appointment, resignation and removal of our independent auditor and the auditor's fees;
- reviewing our quarterly, interim and annual financial statements before submission to the board of directors;

- coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits;
- reviewing any correspondence from the independent auditor to our management and the responses of our management;
- reviewing the relevant reports concerning our risk management, internal controls and procedures;
- discussing our risk management and internal control system with our management to ensure that our management performs its duties to have effective systems in place;
- pre-approving the audit and non-audit services to be provided by the external auditor, and determining whether any non-audit services would affect the independence of the auditor;
- discussing with our management the schedule and procedures for the rotation of the partner of the auditing firm who will principally be responsible for the audit of our company and the partners who will actively participate in the audit of our company;
- supervising the internal audit department, which will directly report to the committee; and
- having the right to approve the appointment or removal of the head of internal audit department.

As of April 14, 2016, the members of the audit committee were Mr. Wong Wai Ming (Chairman of the audit committee), Mr. Cheung Wing Lam Linus, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive directors of our company.

Remuneration Committee

The remuneration committee meets regularly to consider human resources issues, issuance of options and other matters relating to compensation. The primary duties of the remuneration committee include considering and approving the remuneration policies and structure for directors' and senior management's remuneration, considering and making recommendations to the Board regarding the remuneration packages of the directors and senior management, and considering and approving our Company's share option schemes. The remuneration committee also conducts performance review of the Chief Executive Officer and determines the Chief Executive Officer's year-end bonus pursuant to the performance target contract entered into between the Board and the Chief Executive Officer. The Chief Executive Officer is responsible for the performance review and determination of performance-based year-end bonuses for the other members of our management, which is subject to the review of the remuneration committee. In addition, the remuneration committee consults the Chairman of the Board on the remuneration proposals for other executive directors. As of April 14, 2016, the members of the remuneration committee were Mr. Cheung Wing Lam Linus (Chairman of the remuneration committee), Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson, all being independent non-executive directors of our company.

Nomination Committee

The nomination committee meets regularly to consider the nomination of our directors and senior management personnel. The primary duties of the nomination committee are to (i) review the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement our corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board; (iii) formulate and review the policy of diversity of Board members as appropriate; (iv) give due regards to the benefits of diversity on the Board against the criteria set out in the policy of diversity of Board members when performing its duties; (v) assess the independence of independent non-executive directors; (vi) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors; and (vii) provide opinion to the Board on candidates nominated by our Chief Executive Officer to become our senior management personnel and on changes to our senior management personnel. As of April 14, 2016, the members of the nomination committee were Mr. Chung Shui Ming Timpson (Chairman of the nomination committee), Mr. Wang Xiaochu, and Mrs. Law Fan Chiu Fun Fanny. Except for Mr. Wang Xiaochu, who is our Chairman and Chief Executive Officer, the other members of the nomination committee are independent non-executive directors of our company.

D. Employees

As of December 31, 2013, 2014 and 2015, we had a total number of 283,596, 281,403 and 268,887 employees, respectively. The employees as of December 31, 2015 are classified by function as follows:

<u>By Function</u>	<u>Number of Employees</u>
Employees	231,299
Management and administration	21,956
Sales and customer service	79,075
Product and Marketing	19,467
Network construction and maintenance	76,140
Support	25,715
Others	8,946
Temporary employees	37,588
Total	268,887

E. Share Ownership

As of April 14, 2016, our directors who own shares in our company are listed as follows:

<u>Name</u>	<u>Capacity and Nature</u>	<u>Ordinary Shares Held</u>	<u>Percentage of Total Issued Shares</u>
Cheung Wing Lam Linus	Beneficial Owner (<i>Personal</i>)	200,000	0.0008%
Chung Shui Ming Timpson	Beneficial Owner (<i>Personal</i>)	6,000	0.0000%

Apart from those disclosed herein, as of April 14, 2016, our other directors as a group do not own any shares in our company and none of our directors hold any outstanding options for our shares.

Stock Incentive Scheme

We adopted a share option scheme on April 16, 2014. The scheme provides for the grant of options to our employees, including executive directors and non-executive directors. Any grant of options to a “connected person” (as defined in the HKSE Listing Rules) of Unicom requires approval by our independent non-executive directors, excluding any independent non-executive director who is the grantee of the option. The option period commences on any date after the date on which an option is offered, but may not exceed 10 years from the offer date, after which period no further option may be granted under the share option scheme, but the provisions of the share option scheme will remain in full force and effect to the extent necessary to give effect to the exercise of the options granted prior to the expiry or otherwise as may be required in accordance with the provisions of the share option scheme. The subscription price of a share in respect of any particular option granted under this share option scheme will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the closing price of the shares on the HKSE on the grant date of such option; and (ii) the average closing price of the shares on the HKSE for the five trading days immediately preceding the grant date. As of April 14, 2016, no options had been granted or agreed to be granted by us under the share option scheme.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of April 14, 2016, our controlling shareholder, Unicom Group, through its 17.90% direct interest in Unicom BVI, 62.74% direct interest in the A Share Company (which in turn holds 82.10% of Unicom BVI) and 100% direct interest in Unicom Group BVI, indirectly and beneficially owned approximately 17.8 billion shares of Unicom, or 74.36% of our total outstanding shares. See “A. History and Development of the Company” under Item 4. Unicom Group’s shares are held by the SASAC and a group of companies, most of which are state-owned enterprises in China. Shares beneficially owned by Unicom Group do not carry voting rights different from our other issued shares.

As of April 14, 2016, most of our shareholders of record were located outside of the United States. In addition, as of April 14, 2016, there were approximately 33,648,662 ADSs outstanding, each representing 10 shares and together representing 1.41% of our total outstanding shares or 5.48% of our total outstanding shares not beneficially owned by our controlling shareholder.

B. Related Party Transactions

Establishment of a Finance Company

On December 6, 2013, CUCL and Unicom Group entered into a capital contribution agreement regarding the establishment of a joint venture company, or the JV Company, for the purposes of providing various financial services to our company and subsidiaries.

Pursuant to the capital contribution agreement and the Measures for Administration of Finance Companies of Enterprise Groups issued by China Banking Regulatory Commission, or the CBRC, the JV Company may carry out all or part of the following businesses: to provide financial advice, credit verification and related consultancy services and agency services, to handle payment and collection of transaction money, to conduct approved insurance agency business, to grant guarantees, to handle entrusted loans and entrusted investments, to carry out bill acceptance and discounting businesses, to handle fund transfers and settlement and advise on the relevant settlement options and structures, to accept internal money deposits, to arrange for loans and finance leases, to conduct inter-bank lending and borrowing, and to carry out any other businesses approved by the CBRC. The final scope of business of the JV Company will be subject to the approval by the CBRC and the registration with the relevant departments of SAIC in the PRC.

Pursuant to the capital contribution agreement, the registered capital of the JV Company will be RMB3,000 million, and CUCL and Unicom Group agreed to invest RMB2,730 million and RMB270 million in the JV Company, which represent 91% and 9% of the total registered capital of the JV Company, respectively. The capital contribution agreement became effective upon approval from the CBRC on August 18, 2015.

Continuing Related Party Transactions under the 2010 Comprehensive Services Agreement and the 2013 Comprehensive Services Agreement

Under the two-step approach described under “A. History and Development of the Company — Two-Step Voting Arrangements” under Item 4, the continuing transactions between CUCL and Unicom Group under the comprehensive services agreement entered into in 2006 were amended, or the amended comprehensive services agreement, effective upon the completion of our merger with China Netcom, with CNC China added as party to such transactions. In January 2009, CNC China merged into CUCL. Pursuant to the amended comprehensive services agreement, Unicom Group agreed to provide certain services to CUCL and CNC China, being the supply of telephone cards, the provision of equipment procurement services, interconnection arrangements, the mutual provision of premises, the provision of international telecommunications network gateway, the provision of operator-based value-added services, the provision of value-added telecommunications services, the provision of “10010/10011” customer services, the provision of agency services and the provision of engineering design and technical services, until December 31, 2010.

On October 29, 2010, CUCL and Unicom Group entered into the 2010 comprehensive services agreement to renew certain continuing related party transactions for a term of three years commencing on January 1, 2011 and expiring on December 31, 2013. Unless CUCL notifies Unicom Group at least 60 days prior to the expiration of such agreement of their intention not to renew the 2010 comprehensive services agreement, such agreement shall automatically be renewed for a further period of three years.

On October 24, 2013, CUCL and Unicom Group entered into a new comprehensive services agreement, or the 2013 comprehensive services agreement, to renew the relevant continuing related party transactions under the 2010 comprehensive services agreement for a term of three years commencing on January 1, 2014 and expiring on December 31, 2016.

On August 21, 2015, CUCL and Unicom Group entered into an amendment agreement of the 2013 comprehensive services agreement to change the transaction caps for the comprehensive support services in 2015 and 2016 from RMB1 billion each to RMB2 billion and RMB3.5 billion, respectively. Other provisions of the original agreement remain the same.

Details of the continuing related party transactions under the 2010 comprehensive services agreement and the 2013 comprehensive services agreement are summarized below.

Telecommunications Resources Leasing

Unicom Group agrees to lease to CUCL certain international telecommunications resources and 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 will be responsible for the on-going maintenance of the leased international telecommunications resources. CUCL and Unicom Group will determine and agree which party is to provide maintenance service to the leased telecommunications facilities. 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 leased telecommunications facilities, CUCL will pay to Unicom Group the relevant maintenance service charges which will be determined with reference to market rates, or where there are no market rates, be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Unicom Group for the provision of the leased telecommunications resources leasing will be settled between CUCL and Unicom Group on a quarterly basis. In 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB283 million.

Property Leasing

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

The rental charges payable by CUCL or Unicom Group are based on market rates or the depreciation charges and taxes in respect of each property, provided that such rental charges will not be higher than the market rates. The rental charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year. In 2015, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB929 million and the rental charges paid by Unicom Group to CUCL was negligible.

Provision of Value-added Telecommunications Services

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

CUCL will 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 will be settled on a monthly basis. In 2015, the total revenue allocated to Unicom Group in relation to value-added services amounted to approximately RMB62 million.

Provision of Materials Procurement Services

Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. 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 equipment procurement; and
- (b) up to 1% of the contract value of those procurement contracts in the case of imported equipment procurement.

The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles:

- (A) the government fixed price, if any;
- (B) where there is no government fixed price but a government guidance price exists, the government guidance price;
- (C) where there is neither a government fixed price nor a government guidance price, the market price; or
- (D) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.

The charges for the provision of storage and logistics services are determined by reference to the market price, which is determined by reference to the following:

- (I) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or
- (II) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.

The service charges due to Unicom Group will be settled on a monthly basis. In 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB125 million.

Provision of 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, and development of support systems.

The charges for the provision of engineering design and construction services are determined by reference to the market price, which is determined by reference to the following:

- (a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or
- (b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.

The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. In 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB5,018 million.

Provision of Ancillary Telecommunications Services

Unicom Group agrees 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' services.

The charges payable for the provision of ancillary telecommunications services are determined by reference to the following pricing principles:

- (a) the government fixed price, if any;
- (b) where there is no government fixed price but a government guidance price exists, the government guidance price;
- (c) where there is neither a government fixed price nor a government guidance price, the market price; or
- (d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.

The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. In 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB2,504 million.

Provision of Comprehensive Support Services

Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities which are provided under the paragraph headed "Provision of Telecommunications Resources Leasing" above), vehicle services, health and medical services, labor 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 reference to the following pricing principles:

- (a) the government fixed price, if any;

- (b) where there is no government fixed price but a government guidance price exists, the government guidance price;
- (c) where there is neither a government fixed price nor a government guidance price, the market price; or
- (d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.

The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. In 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB1,455 million and the total services charges paid by Unicom Group to CUCL was RMB12 million.

Provision of 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 central business support services to each other;
- (c) CUCL will provide trust services related to the services referred to in paragraphs (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 central business support services, CUCL will provide support services, such as billing and settlement services provided by the business support center 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 will 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, and 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. In 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB107 million and the total services charges paid by Unicom Group to CUCL was negligible.

Transfer of Telecommunications Tower and Related Assets to the Tower Company

In October 2015, we, through our wholly own subsidiaries, CUCL and Unicom New Horizon entered into a transfer agreement with (i) China Mobile Communication Company Limited, a wholly owned subsidiary of China Mobile, (ii) China Telecom, (iii) China Reform Holding Company Limited, a wholly state-owned company, and (iv) the Tower Company, pursuant to which we, China Mobile and China Telecom sold certain telecommunications towers and related assets to the Tower Company, and the Tower Company would issue and allot shares in the Tower Company and/or pay certain cash as consideration for such transfers. In January 2016, CUCL and the Tower Company entered into a share subscription agreement to settle the number of share subscribed by CUCL and the amount of consideration. As of April 14, 2016, we, through CUCL, owned approximately 28.1% equity interest in the Tower Company, while China Mobile, China Telecom and China Reform Holding Company Limited owned approximately 38.0%, 27.9% and 6.0% equity interest in the Tower Company, respectively.

Arrangement Relating to Telecommunications Towers, Related Assets and Other Services

As of April 14, 2016, we, through CUCL, owned approximately 28.1% equity interest in the Tower Company, and therefore the Tower Company is treated as an related party to us. We are in the process of negotiating the final arrangements with the Tower Company with respect to our use of telecommunications towers and related assets of the Tower Company. Based on the preliminary negotiation results, we estimated that the usage fees to the Tower Company with respect to certain telecommunications towers and related assets in 2015 to be RMB2,926 million. In 2015, we also provided certain engineering design and construction services to Tower Company and the total service fees were RMB50 million.

Certain Agreements Relating to Our Initial Public Offering

The Reorganization Agreement

In relation to the restructuring in connection with our initial public offering, our wholly owned subsidiary, CUCL, entered into a reorganization agreement with Unicom Group, dated April 21, 2000. This agreement includes the following terms:

- Unicom Group's agreement to transfer to CUCL certain assets and liabilities;
- mutual warranties and indemnities given by Unicom Group and CUCL in relation to the assets and liabilities transferred to CUCL and in relation to the restructuring;
- undertakings by Unicom Group in favor of CUCL, including, among other things:
 - to hold and maintain all licenses received from the former Ministry of Information Industry in connection with any of our businesses for our benefit, and to allocate spectrum and to provide other resources to us;
 - subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for our benefit such governmental or regulatory licenses, consents, permits or other approvals as we shall require to continue to operate our businesses;
 - to arrange for us to participate in its international roaming arrangements;
 - not to engage in any business that competes with our businesses, except for the existing competing businesses of Unicom Group;
 - to grant us a right of first refusal in relation to any governmental authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service;
 - to ensure that we can continue to use the premises for which title documentation cannot be obtained at this time, for a period of three years following the restructuring;
 - not to dispose of any of our shares it beneficially owns or to take or permit any other actions, including primary issuances of securities by us or CUCL, which would result in us or CUCL no longer constituting majority-owned subsidiaries of Unicom Group; and
 - not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future except through us;
- an option granted by Unicom Group to us to acquire Unicom Group's interest in any telecommunications interest, such as Unicom Paging, Unicom Xingye and Unicom Group's CDMA telephony license and business; and

- a commitment by Unicom Group that it will provide continuous financial support to us when necessary.

The 2010 comprehensive services agreement provides that the determination of whether we or CUCL would constitute majority-owned subsidiaries of the Unicom Group shall be made in accordance with the PRC Enterprise Accounting Standards, as amended by the MOF from time to time.

Trademark Agreement

Unicom Group is the registered owner of the Unicom trademark in English, the trademark bearing the Unicom logo and the trademark of the word “Unicom” in Chinese (“联通”), which are registered at the PRC State Trademark Bureau. Under a PRC trademark license agreement entered into on May 25, 2000 between Unicom Group and CUCL, CUCL and our affiliates were granted the right to use these trademarks on a royalty-free basis for an initial period of five years, renewable at the option of CUCL. CUCL has elected to renew the trademark license agreement and the trademark license agreement is currently valid. Under the terms of this agreement, we and our affiliates are the exclusive licensees of these trademarks, provided that Unicom Group may also license these trademarks to any of its existing or future subsidiaries. Unicom Group also agreed to license to CUCL any trademark that it registers in China in the future that incorporates the word “Unicom”.

C. Interests of Experts and Counsel

Not Applicable.

Item 8. Financial Information

See Item 18 “Financial Statements”. Other than as disclosed elsewhere in this annual report, no significant change has occurred since the date of the annual financial statements.

Legal Proceedings

We are not involved in any material litigation, arbitration or administrative proceedings. We are not aware of any pending or threatened litigation, arbitration or administrative proceedings expected to have a material effect on our financial condition and results of operations.

Policy on Dividend Distribution

The objective of our dividend policy is to achieve a long-term, sustainable and steadily increasing dividend, with a view to maximizing our 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. We believe such policy will provide our shareholders with a stable return in the long term along with the growth of our company. We may only pay dividends out of our distributable profits.

Based on the Company’s financial position in 2015 and taking into account the development needs of the mobile and fixed-line broadband services, our board of directors recommended the payment of a final dividend of RMB0.17 per share for the year ended December 31, 2015, compared to RMB0.20 per share for the fiscal year ended December 31, 2014.

Item 9. The Offer and Listing

Market Price Information

Our ADSs, each representing 10 ordinary shares, are listed and traded on the NYSE. Our ordinary shares are listed and traded on the HKSE. The NYSE and the HKSE are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

The high and low closing prices of our ordinary shares on the HKSE and of our ADSs on the NYSE since listing are as follows:

	Price per Ordinary Share (HK\$)		Price per ADS (US\$)	
	High	Low	High	Low
Annual:				
2011	17.40	11.04	22.39	14.11
2012	16.78	9.50	21.58	12.26
2013	13.34	9.51	17.40	12.21
2014	14.14	9.17	18.03	11.73
2015	15.46	9.08	19.80	11.53
Quarterly:				
First Quarter, 2014	11.66	9.17	14.83	11.73
Second Quarter, 2014	12.72	10.00	16.27	12.89
Third Quarter, 2014	14.14	11.60	18.03	15.03
Fourth Quarter, 2014	11.82	10.10	15.36	13.11
First Quarter, 2015	13.22	10.40	17.02	13.49
Second Quarter, 2015	15.46	11.90	19.80	15.40
Third Quarter, 2015	12.20	9.55	15.64	12.40
Fourth Quarter, 2015	10.84	9.08	14.69	11.53
First Quarter, 2016	10.24	8.00	13.16	10.38
Monthly:				
October 2015	10.84	9.49	14.69	12.24
November 2015	10.18	9.40	12.99	12.22
December 2015	9.68	9.08	12.45	11.53
January 2016	9.45	8.00	11.80	10.38
February 2016	9.06	8.06	11.71	10.44
March 2016	10.24	8.85	13.16	11.59
April 2016 (through April 14, 2016)	10.06	9.86	13.06	12.59

Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Articles of Association

General

Under our Articles of Association, we have the capacity, rights, powers and privileges of a natural person and, in addition to and without limiting the forgoing, we may do anything which is permitted or required to be done by any enactment or rule of law. The following is a summary of selected provisions of our Articles of Association.

Directors

Material Interests and Voting

A director shall not vote (or be counted in the quorum) on any resolution of our board of directors in respect of any transaction, contract or arrangement or proposal in which he or any of his close associates (and if required by the HKSE Listing Rules, his other associates) (as defined in the HKSE Listing Rules) is materially interested, and if he shall do so, his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition does not apply to any transaction, contract, arrangement or other proposal for or concerning:

- the giving of any security or indemnity either (i) to the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of Unicom or any of its subsidiaries or (ii) to a third party in respect of a debt or obligation of Unicom or any of its subsidiaries for which the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- an offer of shares or debentures or other securities of or by Unicom (or any other company which Unicom may promote or be interested in) where the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) is or will be an interested participant in the underwriting or sub-underwriting of the offer;
- any transaction, contract or arrangement in which the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) is interested in the same manner as other holders of shares or debentures or other securities of Unicom by virtue only of his interest in shares or debentures or other securities of Unicom;
- any other company in which the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) is interested only, whether directly or indirectly, as an officer or shareholder or in which the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) is beneficially interested in shares of that company, provided that he, together with any of his close associates (and if required by the HKSE Listing Rules, his other associates), is not beneficially interested in 5% or more of (i) the issued shares of any class of such company (or of any third company through which such interest is derived), or (ii) the voting rights attached to such issued shares or securities (excluding for the purpose of calculating such 5% interest, any indirect interest of such director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) by virtue of Unicom's interest in such company); or
- the benefit of employees of Unicom or any of its subsidiaries, including (i) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to directors, their close associates (and if required by the HKSE Listing Rules, their other associates) and employees of Unicom or any of its subsidiaries and does not provide in respect of the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or (ii) the adoption, modification or operation of any employee share scheme involving the issue or grant of options over shares or other securities by Unicom to, or for the benefit of, the employees of Unicom or its subsidiaries under which the director or any of his close associates (and if required by the HKSE Listing Rules, his other associates) may benefit.

Remuneration and Pensions

The directors of Unicom are entitled to receive by way of remuneration for their services such sum as is from time to time determined by Unicom in a general meeting. The directors are also entitled to have reimbursed all traveling, hotel and other expenses reasonably incurred by them in or about the performance of their duties as directors. The board of directors may grant special remuneration to any director who performs services that, in the opinion of the board, are outside the scope of the ordinary duties of a director.

The board may establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to, any persons (i) who are or were at any time in the employment or service of Unicom, or of any company which is a subsidiary of Unicom, or is allied or associated with Unicom or with any such subsidiary company, or (ii) who are or were at any time directors or officers of Unicom or of any such other company above, and have or who have had any salaried employment or had held office in Unicom or such other company, and the wives, widows, families and dependents of any such persons. The board may also establish and subsidize or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well being of Unicom or of any such other company above or of any such persons above, and may make payments for or towards the insurance of any such persons, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers

The directors may exercise all the powers of Unicom to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of Unicom and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of Unicom or of any third party.

Qualification of Directors

A director of Unicom is not required to hold any qualification shares.

Rotation of Directors

At every annual general meeting, one-third of the directors for the time being, or, if the number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, except for any director holding office as chairman or chief executive officer. The directors to retire in every year shall be those who have been in office the longest since their last election. In addition, a director appointed by the board to fill in a casual vacancy or as an addition to the board shall retire at the next following annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the number of directors who are to retire by rotation at each annual general meeting. The retiring directors shall be eligible for re-election.

Rights Attached to Ordinary Shares

Voting Rights

Under the Companies Ordinance, any action to be taken by the shareholders at a general meeting requires an affirmative vote by either an ordinary or a special resolution passed at the meeting. An ordinary resolution is one passed by the majority of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. A special resolution is one passed by not less than three-quarters of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. Most shareholders' decisions are passed by ordinary resolutions. However, the Companies Ordinance and our Articles of Association stipulate that certain matters may only be passed by special resolutions.

At any general meeting a resolution put to the vote of the meeting shall be decided on a poll is demanded by:

- the Chairman of the meeting;
- at least five members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the meeting; or
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than five per cent. of the total voting rights of all members having the right to attend and vote at the meeting;

provided that a resolution put to the vote of the meeting may be decided on a show of hands to the extent permitted by the Listing Rules and other applicable laws, rules and regulations.

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a representative duly authorized under Section 606 of the Companies Ordinance at any general meeting shall be entitled, on a show of hands, to one vote only and, on a poll, to one vote for every fully paid-up share of which he is the holder.

On a poll, votes may be given either personally or by proxy and a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Issue of Shares

A general meeting resolving upon the creation of any new shares may direct that the same or any of them shall be offered in the first instance to all the holders for the time being of any class of shares in the capital of Unicom, in proportion to the number of shares of such class held by them respectively, or make any other provisions as to the issue and allotment of the new shares, and in default of any such direction, or so far as the same shall not extend, the new shares shall be at the disposal of the Directors, and Article 10 of our Articles of Association shall apply thereto.

Dividends

Subject to the Companies Ordinance and as set out in our Articles of Association, our shareholders at a general meeting may by ordinary resolution declare dividends but no dividend shall be declared in excess of the amount recommended by our board of directors.

In addition to any dividends declared at a general meeting upon the recommendation of the board of directors, our board of directors may, as they deem appropriate, from time to time resolve to pay to our shareholders such interim dividends as appear to our board of directors to be justified by our financial position. Our board of directors may also pay any fixed dividend that is payable on any of our shares on any other dates, whenever our financial position, in the opinion of our board of directors, justifies such payments.

All dividends unclaimed for one year after having become payable may be invested or otherwise made use of by the board for the benefit of Unicom until claimed. All dividends unclaimed for six years after having become payable may be forfeited by the board and will revert to Unicom.

Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors shall be divided among the shareholders in proportion to the capital paid up on the shares held by them, subject to the rights of the holders of any shares that may be issued on special terms or conditions.

If we are wound up, the liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

Miscellaneous

Shareholders are not entitled to any redemption rights, conversion rights or preemptive rights on the transfer of ordinary shares.

The transfer agent and registrar for the shares is Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Modification of Rights

Whenever the share capital of Unicom is divided into different classes of shares, the special rights attached to any class may, subject to the Company Ordinance, be varied or abrogated either with the consent in writing of the holders of not less than seventy-five per cent. of the total voting rights of holders of the shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst Unicom is a going concern or during or in contemplation of a winding up. To every such separate general meeting, all the provisions of our Articles of Association relating to general meetings and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two persons present in person or by proxy together holding at least one-third of the total voting rights of holders of the shares of the class (but so that, if at any adjourned meeting a quorum as above defined is not present, any one holder of shares of the class present in person or proxy shall be a quorum) and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him.

Annual General and Extraordinary General Meetings

We must hold in each year a general meeting as our annual general meeting in accordance with Section 610 of the Company Ordinance in addition to any other meetings in that year. The annual general meeting is held at such time and place as may be determined by the board of directors and subject to our Articles of Association. All other general meetings are called extraordinary general meetings. The board of directors may call an extraordinary general meeting at any time or upon request from the members in accordance with the Companies Ordinance.

Under the Companies Ordinance, an annual general meeting can be called by not less than 21 days' notice in writing, and any other general meeting can be called by not less than 14 days' notice in writing. The notice must specify the place, date and time of the meeting, and, in the case of special business, the general nature of that business.

Limitations on Rights to Own Securities

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities, imposed by Hong Kong law or by our Articles of Association.

Changes in Capital

We may exercise any powers conferred or permitted by the Companies Ordinance to buy-back our own shares and warrants (including any redeemable share) at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a buy-back made or to be made by any person of any shares or warrants in Unicom. Buy-backs of our own shares may be made either by way of a general offer to all shareholders in proportion to their shareholdings, by purchasing our shares on a stock exchange or by an off-market contract with individual shareholders. Any such share buy-back or financial assistance must be made or given in accordance with any relevant rules or regulations issued by the HKSE or the Securities and Futures Commission of Hong Kong.

We may, from time to time, on more than one occasion or at a specified time or in specified circumstances alter our share capital in accordance with the Company Ordinance and as the resolution shall prescribe. Subject to the Companies Ordinance, we may from time to time by ordinary resolution:

- consolidate all of our shares into smaller number of shares than the existing number;
- divide our shares into several classes and attach to them any preferential, deferred, qualified or special rights, privileges or conditions;
- cancel any shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person, or have been forfeited in accordance with our Articles of Association;

- sub-divide our shares into larger number of shares than the existing number; and
- make provision for the issue and allotment of shares which do not carry any voting rights.

Miscellaneous

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, in accordance with the requirements of the Companies Ordinance. Our company number is 703499.

C. Material Contracts

In addition to the contracts described in "B. Related Party Transactions" under Item 7, Unicom Group, we or our subsidiaries have entered into the following contracts that are not in the ordinary course of business within the two years preceding the date of this annual report that are or may be material:

- the Capital Contribution Agreement, dated December 6, 2013, which became effective upon approval from the CBRC on August 18, 2015, between CUCL and Unicom Group to establish the JV Company;
- the Transfer Agreement, dated October 14, 2015, among CUCL, Unicom New Horizon, China Mobile Communication Company Limited and its related subsidiaries, China Telecom Corporation Limited, China Reform Holding Company Limited and the Tower Company to sell certain telecommunications towers and related assets to the Tower Company; and
- the Share Subscription Agreement, dated January 29, 2016, between CUCL and the Tower Company to subscribe shares of the Tower Company.

D. Exchange Controls

The ability of our operating subsidiary, CUCL, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future exchange control regulations in China. Under the current relevant regulations, Renminbi is convertible under the current account, which includes trade- and service-related foreign exchange transactions, but is not convertible under the capital account, which includes foreign direct investment. CUCL, our wholly owned subsidiary that holds substantially all of our assets, is a foreign investment enterprise. The foreign investment enterprise status will allow it to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the State Administration for Foreign Exchange of the PRC, or the SAFE. These current account transactions include payment of dividends by foreign investment enterprises. However, the relevant PRC Government authorities may in the future limit or eliminate the authorizations for a foreign investment enterprise to retain its foreign exchange to satisfy its foreign exchange obligations or to pay dividends in the future. Furthermore, certain foreign exchange transactions of CUCL under the capital account still require approvals from the SAFE. This requirement affects our subsidiary's ability to obtain foreign exchange through equity financing, including by means of capital contributions from us.

Under existing Hong Kong law, (i) there are no foreign exchange controls or other laws that restrict the import or export of capital and that would affect the availability of cash and cash equivalents for our use, (ii) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of interest, dividends or other payments on our outstanding debt and equity securities to U.S. residents and (iii) there are no limitations on the rights of non-resident or foreign owners to hold our debt or equity securities.

E. Taxation

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of the PRC, Hong Kong and jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-PRC, non-Hong Kong and non-U.S. federal laws. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report.

People's Republic of China

This section describes certain PRC tax consequences of the ownership and disposition of our ordinary shares or ADSs. This section does not address all possible PRC tax considerations that may be relevant to an investment in our ordinary shares or ADSs in light of an investor's specific circumstances, and is based on PRC tax laws and relevant interpretations as in effect as of the date of this annual report on Form 20-F, which are subject to change, possibly with retroactive effect. Accordingly, each prospective investor should consult its own tax advisor regarding the PRC and other tax consequences of an investment in our ordinary shares or ADSs applicable under its particular circumstances.

Taxation of Dividends

Under the PRC Enterprise Income Tax, or the EIT Law and its implementing rules that became effective on January 1, 2008, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, including dividends received from an enterprise that is domiciled in China. The PRC enterprise income tax with respect to such dividends is currently required to be withheld at the rate of 10%, unless there is an applicable tax treaty between China and the jurisdiction in which such non-resident enterprise resides that reduces or exempts the tax.

On April 22, 2009, the SAT issued the Notice Regarding the Determination of Tax Residence Status of Chinese-Controlled Offshore-Incorporated Enterprises on the Basis of De Facto Management Bodies, or the 2009 Notice, which was retroactively effective as of January 1, 2008. Pursuant to the 2009 Notice, an enterprise incorporated under the laws of a foreign country (or region) but controlled by a PRC enterprise or enterprise group may be determined to be a PRC resident enterprise with its de facto management bodies located within China for PRC tax purposes if certain criteria specified under the 2009 Notice are met. Under the 2009 Notice, dividends paid by such an off-shore incorporated enterprise are deemed to be PRC-sourced income and subject to PRC enterprise income tax. On November 11, 2010, we were notified by the PRC tax authorities that we are determined to be a PRC resident enterprise since January 1, 2008 for PRC tax purposes. Accordingly, we are required to withhold the 10% EIT when we distribute dividends to our non-resident enterprise shareholders.

Accordingly, we will withhold the 10% EIT when we distribute our final dividend for the fiscal year ended December 31, 2013 in respect of the non-resident enterprise shareholders for PRC tax purposes whose names appear on our register of members as of the record date for such dividends, and who are not individuals, unless such non-individual shareholders are able to provide documents from the relevant PRC tax authorities confirming that we are not required to withhold the 10% EIT in respect of the dividends that such shareholders are entitled to, on the basis that dividend income between two PRC resident enterprises is exempted from enterprise income tax, subject to certain conditions, under the EIT Law. In addition, certain investors hold our shares or ADSs through custodians, nominees, corporate trustees or other intermediaries and the names of these investors do not appear on our register of members. Payments of dividends to such investors are also subject to the 10% EIT withholding. These investors should enquire about the relevant procedures with the relevant custodians, nominees, trustees or other intermediaries if they wish to change the identities of the shareholders on our register of members.

Taxation of Capital Gains

Under the PRC EIT Law and its implementing rules, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, but there remain substantial uncertainties as to their interpretation and application by the relevant PRC tax authorities. We intend to comply with any interpretation or notice in relation to the taxation of capital gains issued by the PRC tax authorities in the future.

Additional PRC Tax Considerations

Stamp duty. Under the Provisional Regulations of the PRC Concerning Stamp Duty (as amended by the Decision of the State Council to Abolish and Amend Certain Administrative Regulations on January 8, 2011) and its implementing rules, both of which became effective on October 1, 1988, PRC stamp duty should not apply to acquisitions or dispositions of our ordinary shares or ADSs outside of China as the PRC stamp duty is imposed only on documents executed or received within China that are legally binding in China and protected under PRC law.

Estate tax. China does not currently levy estate tax.

Hong Kong

Taxation of Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with dividends paid by us, either by withholding or otherwise, unless such dividends are attributable to a trade, profession or business carried on in Hong Kong.

Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of shares and ADSs. Trading gains from the sale of shares or ADSs by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong income tax rates of 16.5% on corporations and 15.0% on individuals. Gains from sales of shares effected on the HKSE will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares or ADSs realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of 0.1% of the higher of the consideration for or the value of the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares. If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any) and the transferee will be liable for payment of such duty.

The withdrawal of shares upon the surrender of American Depositary Receipts, or ADRs, and the issuance of ADRs upon the deposit of shares, will also attract stamp duty at the rate described above unless such withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADRs upon the deposit of shares issued directly to The Bank of New York, as depositary of the ADSs, or for the account of The Bank of New York does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 became effective on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of a holder of the shares whose death occurs on or after February 11, 2006.

United States

United States Federal Income Taxation

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning shares or ADSs. It applies to you only if you hold your shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a tax-exempt organization,
- an insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds shares or ADSs that are a hedge or as part of a straddle or a conversion transaction,
- a person that purchases or sells shares or ADSs as part of a wash sale for tax purposes, or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the agreement between the United States and the People's Republic of China for the avoidance of double taxation, or the U.S.-PRC Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States,
- a corporation organized under the laws of the United States, any States thereof, or the District of Columbia,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds the shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of its investment in the shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal taxation. If you are a non-corporate U.S. holder, dividends that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains, provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends that are paid with respect to ADSs that are readily tradable on an established securities market in the United States are qualified dividend income. Under this rule, we expect that the dividends we pay with respect to the ADSs will be qualified dividend income. In addition, dividends paid by a non-U.S. corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States will be qualified dividend income. Because our shares are not readily tradable on an established securities market in the United States and because we are uncertain as to whether we are eligible for the benefits of the U.S.-PRC Treaty, it is unclear whether dividends paid with respect to our shares will also be qualified dividend income.

The dividend is taxable to you when you, in the case of shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Hong Kong Dollar payments made, determined at the spot Hong Kong/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates. Dividends will generally be income from sources outside the United States and, depending on your circumstances, will be either “passive” or “general” income for purposes of computing the foreign tax credit allowable to you. If you are subject to PRC withholding tax (as discussed in “People’s Republic of China — Taxation of Dividends” above), you must include any such tax withheld from the dividend payment in your gross income, even though you do not in fact receive it. The PRC tax withheld and paid over to the PRC will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, or to the extent you could have avoided the withholding tax by complying with any certification, identification requirement or by completing any forms, the amount of tax withheld that is refundable or that could have been avoided will not be eligible for credit against your United States federal income tax liability.

Taxation of Capital Gains

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Subject to the paragraph immediately below regarding gain subject to PRC tax, the gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations. Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

It is not clear if PRC tax will be imposed on any gain from the disposition of your shares or ADSs (as discussed above in “People’s Republic of China — Taxation of Capital Gains”). Under the U.S.-PRC Treaty, if PRC tax were to be imposed on any gain from the disposition of your shares or ADSs, then such gain will be treated as PRC source income if you are eligible for the benefits of the U.S.-PRC Treaty. U.S. holders should consult their tax advisors regarding the possibility of PRC tax being imposed on gain from the disposition of their shares or ADSs, the tax consequences if a PRC tax were to be imposed on such dispositions, and the availability of the foreign tax credit under their particular circumstances.

Passive Foreign Investment Company Rules. We believe that we should not be treated as a passive foreign investment company, or PFIC, for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADSs or shares:

- at least 75% of our gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns, directly or indirectly, at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation’s income.

If we are treated as a PFIC and you are a U.S. holder that does not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares or ADSs; and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs;
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and

- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If we are a PFIC and you own ADSs then you can make a mark-to-market election with respect of the ADSs. If we are a PFIC and you own shares then you can make a mark-to-market election if the shares are treated as marketable stock under the applicable regulations. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. Your gain, if any, recognized upon the sale of your shares or ADSs will be taxed as ordinary income.

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, subject to the following sentence, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we are not currently a PFIC. The rule in the preceding sentence will not apply, however, if you had a mark-to-market election in effect with respect to your shares or ADSs in the final year in which we are a PFIC or if you made a special “purging election” with respect to your shares or ADSs. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the preferential rates applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own shares or ADSs during any year that we are a PFIC with respect to you, you may be required to file Internal Revenue Service Form 8621.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

You can read and copy documents referred to in this annual report that have been filed with the U.S. Securities and Exchange Commission at the SEC’s public reference room located at 100 Fifth Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that are filed electronically with the SEC.

The SEC allows us to “incorporate by reference” the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

I. Subsidiary Information

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risks

Our exposure to financial market risks relates primarily to changes in interest rates and currency exchange rates.

Interest Rate Risk

The People's Bank of China has the sole authority in China to establish the official interest rates for Renminbi-denominated loans. Financial institutions in China set their effective interest rates within the range established by the People's Bank of China. Interest rates and payment methods in China on loans denominated in foreign currencies are set by the financial institutions based on interest rate changes in the international financial market, cost of funds, risk levels and other factors. The fair value of our borrowings is approximately the same as the carrying value. These bank loans, denominated in Renminbi, are mainly borrowed from domestic banks at interest rates that vary in accordance with the standard guidance interest rates announced by relevant PRC Government authorities.

We are subject to risks arising from interest-bearing borrowings, including bank loans, commercial papers, promissory notes, convertible bonds, corporate bonds and related party loans. The majority of our interest-bearing borrowings are loans from banks in China, the majority of which bear fixed interest rates. A rise in interest rates will increase the cost of new borrowings and interest expenses of outstanding floating rate debt. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these instruments, and, therefore, could have a material adverse effect on our financial position. To mitigate our exposure to interest rate risks in connection with our borrowings denominated in foreign currencies, we may enter into designed interest rate swap agreements from time to time in the future.

The following table provides information, by maturity date, regarding our interest rate-sensitive financial instruments, including short-term and long-term debt obligations and convertible bonds, as well as the expected maturity profile of such instruments as of December 31, 2015.

	Expected Maturity						Total	As of
	2016	2017	2018	2019	2020	Thereafter		December 31, 2015
	(RMB equivalent in millions, except interest rates)							Fair Value
Liabilities:								
RMB-denominated loans								
Fixed rate	83,890	47	51	57	64	1,142	85,251	85,320
Average rate ⁽¹⁾	3.82%	1.08%	1.08%	1.08%	1.08%	1.08%	3.78%	—
U.S. dollar-denominated loans								
Fixed rate	25	24	27	34	28	187	325	262
Average rate	0.26%	0.22%	0.21%	0.18%	0.13%	0.01%	0.17%	—
Euro-denominated loans								
Fixed rate	21	17	33	4	4	29	108	108
Average rate	2.13%	2.09%	2.03%	1.69%	1.67%	1.43%	1.84%	—
RMB-denominated commercial papers								
Fixed rate	19,945	—	—	—	—	—	19,945	19,945
Average rate	3.15%	—	—	—	—	—	3.15%	—
RMB-denominated corporate bonds								
Fixed rate	—	2,000	—	—	—	—	2,000	2,111
Average rate	4.50%	4.50%	—	—	—	—	4.50%	—
U.S. dollar-denominated finance lease								
Variable rate	45	45	—	—	—	—	90	90
Average rate	3.24%	3.24%	—	—	—	—	3.24%	—
RMB-denominated Amounts due to ultimate holding company								
Fixed rate	1,344	—	—	—	—	—	1,344	1,344
Average rate	4.37%	—	—	—	—	—	4.37%	—
RMB-denominated promissory notes								
Variable rate	2,499	18,977	17,951	—	—	—	39,427	40,659
Average rate	3.80%	4.63%	3.54%	—	—	—	4.08%	—

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2015.

For the year ended December 31, 2015, if there were 50 basis points increase/decrease in interest rates on the floating rate borrowings and short-term fixed rate borrowings while all other variables were held constant, the effect on profit after tax would have been approximately RMB395 million (2014: approximately RMB388 million; 2013: approximately RMB492 million).

Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully convertible currency. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars (which are pegged to the U.S. dollar), of our net assets, earnings and any declared dividends. For a detailed description of the unitary managed floating rate system used by the PRC Government to set foreign exchange rates, see “A. Selected Financial Data — Exchange Rate Information” under Item 3.

We are exposed to foreign currency risk primarily because we receive some of our revenue from our international operations and pay-related expenses in foreign currencies. As a result, our foreign currency exposure relates to our foreign currency-denominated debt and, to a limited extent, cash and cash equivalents denominated in foreign currencies.

The following table provides information regarding our foreign currency-sensitive financial instruments, which consist of cash and cash equivalents, short-term bank deposits, short-term and long-term debt obligations, convertible bonds and capital commitments as of December 31, 2015 and the expected maturity profile of these debt obligations and capital commitments.

	Expected Maturity						Total	As of
	2016	2017	2018	2019	2020	Thereafter		December 31, 2015
	(RMB equivalent in millions)							Fair Value
Assets:								
Cash and cash equivalents								
U.S. dollars	948	—	—	—	—	—	948	948
HK dollars	233	—	—	—	—	—	233	233
Japanese yen	6	—	—	—	—	—	6	6
Euro dollars	60	—	—	—	—	—	60	60
GBP	6	—	—	—	—	—	6	6
Singapore dollars	—	—	—	—	—	—	—	—
Short-term bank deposits								
U.S. dollars	—	—	—	—	—	—	—	—
HK dollars	—	—	—	—	—	—	—	—
Liabilities:								
U.S. dollar-denominated loans	25	24	27	34	28	187	325	262
Euro-denominated loans	21	17	33	4	4	29	108	108
HK dollar-denominated loans	—	—	—	—	—	—	—	—
U.S. dollar-denominated finance lease	45	45	—	—	—	—	90	90
Off-balance-sheet commitments:								
Capital commitments authorized and contracted for in								
U.S. dollars	—	—	—	—	—	—	—	—

If the RMB had strengthened/weakened by 10% against the foreign currencies, relative to December 31, 2015, primarily with respect to U.S. dollars, HK dollars and Euro, while all other variables are held constant, the effect on profit after tax would be approximately RMB55 million (2014: approximately RMB4,473 million; 2013: approximately RMB3,661 million) for cash and cash equivalents, borrowings, convertible bonds and obligations under finance lease included in other obligations denominated in foreign currencies.

Risk Relating to Financial Assets at Fair Value through Other Comprehensive Income

The investments we hold are classified in the consolidated statement of financial position as financial assets at fair value through other comprehensive income. These investments are subject to equity price risk, which results primarily from changes in the level or volatility of underlying equity prices. One of our significant investments is denominated in Euro and the fair value of such investment is also subject to risks associated with fluctuations of foreign exchange rate between Euro and Renminbi (our functional currency). If either (i) the share price of our invested equity securities (in Euro) had increased/decreased by 10% or (ii) the exchange rate between Euro and Renminbi had changed by 10%, in each case, relative to December 31, 2015, while the other variable is held constant, we would have recorded additional change in fair value of approximately RMB428 million, net of tax, in our investment revaluation reserve. As of April 14, 2016, the change in the foreign exchange rate between Euro and Renminbi and, to a lesser extent, the change of the underlying equity price denominated in Euro resulted in a depreciation of the fair value of our relevant investment by approximately 3.77% from December 31, 2015. If Euro-related uncertainty remains, we may be subject to further gain/loss in the fair value of our investments denominated in Euro and our financial condition may be materially and adversely affected.

Item 12. Description of Securities Other than Equity Securities

The Bank of New York Mellon, as the depository of our ADSs, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

ADR holders must pay:

- US\$5.00 (or less) per 100 ADRs (or portion thereof)
- US\$0.02 (or less) per ADR
- Registration or transfer fees
- Expenses of the depository
- Taxes and other governmental charges the depository or the custodian has to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes

For:

- Each issuance of an ADR, including as a result of a distribution of shares or rights or other property
- Each cancellation of an ADR, including if the deposit agreement terminates
- Each distribution of securities, other than shares or ADRs, treating the securities as if they were shares for purpose of calculating fees
- Any cash distribution (not including cash dividend distribution)
- Transfer and registration of shares on the share register of our transfer agent and the registrar in Hong Kong from an ADR holder's name to the name of the depository or its agent when the ADR holder deposits or withdraws shares
- Conversion of Hong Kong dollars to U.S. dollars
- Cable, telex and facsimile transmission expenses
- As necessary

From January 1, 2015 to December 31, 2015, we received from The Bank of New York Mellon a total of US\$306,130.92, net of withholding tax, reimbursement for the expenses we incurred, including but not limited to, annual stock exchange listing fee, investor relations reimbursement, non-standard out-of-pocket maintenance costs for the ADR, charges incurred in connection with services provided for by third-party vendors, charges and out-of-pocket expenses for the servicing of non-registered holders. The Bank of New York Mellon also waived certain costs of US\$131,294.77 in connection with the administration of the ADR program, investor relationship programs (including investor relationship intelligence services) and other services provided to our registered shareholders. In addition, The Bank of New York Mellon has agreed to reimburse us annually for our expenses incurred in connection with administration and maintenance of the depository receipt facility in the future. The amount of such reimbursements is subject to certain limits and conditions.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15I of the Exchange Act of 1934, as amended) as of December 31, 2015, the end of the period covered by this annual report, have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act of 1934, as amended) for the Company. Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with applicable generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2015, our management conducted an assessment of the effectiveness of our internal control over financial reporting, based on the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this assessment, our management has concluded that our Company's internal control over financial reporting as of December 31, 2015 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2015, has been audited by KPMG, an independent registered public accounting firm, as stated in their report appearing on page F-2.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We are fully aware of the importance of maintaining and improving our controls and procedures in relation to internal control over financial reporting. Our management, with the oversight of our audit committee and board of directors, is committed to having proper internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Wong Wai Ming is an audit committee financial expert in accordance with the terms of Item 16.A of Form 20-F. Mr. Wong satisfies the “independence” requirements of Section 303A of the NYSE Manual. For Mr. Wong’s biographical information, see “A. Directors and Senior Management” under Item 6.

Item 16B. Code of Ethics

In 2003, we adopted a code of ethics that applies to our chief executive officer, chief financial officer, president, vice-presidents, controller and other senior officers, a copy of which was filed as Exhibit 11.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2003. In February 2006, we adopted another code of ethics that applies to our employees generally, a copy of which was filed as Exhibit 11.2 to our annual report on Form 20-F for the fiscal year ended December 31, 2005. Copies of our Code of Ethics for Senior Officers and Code of Ethics for Employees may also be downloaded from our website at <http://www.chinaunicom.com.hk>. Information on that website is not a part of this annual report on Form 20-F.

Item 16C. Principal Accountant Fees and Services

KPMG served as our principal accountant for the fiscal year ended December 31, 2013, 2014 and 2015. The following table sets forth the aggregate audit fees, audit-related fees, tax fees and other fees our principal accountant billed for audit services, audit-related services, tax services and other services for each of the fiscal years 2014 and 2015:

	For the Year Ended December 31,	
	2014	2015
	(in RMB thousands)	
Audit services	63,253	63,821
Audit-related services	330	1,132
Tax services	30	49
Other	914	1,092
Total	64,527	66,094

Audit services include the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of the Company and its subsidiaries. Audit services in 2014 and 2015 also include audit work in connection with the audit of the Company’s internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. They also include performing agreed-upon procedures on quarterly financial statements and pre-issuance reviews of interim financial statements.

Audit-related services include other assurance and related services that can be reasonably provided by our principal accountant. In 2015, the provisions of audit-related services mainly include assurance and related services relating to the disposal of telecommunication towers and related assets to the Tower Company.

Tax services in 2015 included the assistance by KPMG on tax compliance matters.

Other services in 2015 included advisory services by KPMG on data recovery matters.

Audit Committee's Pre-approval Policies and Procedures

The audit committee of our board of directors is responsible for, among other things, the oversight of the external auditor subject to the requirements of the Companies Ordinance and our Articles of Association. The audit committee has adopted a policy regarding pre-approval of audit and permissible non-audit services to be provided by our independent accountants. Under the policy, proposed services either (i) may be pre-approved by the audit committee without consideration of specific case-by-case services; or (ii) require the specific pre-approval of the audit committee. General approval applies to services of a recurring and predictable nature. These types of services, once approved by the audit committee, will not require further approval in the future. Specific pre-approval applies to all other services, which must be approved by the audit committee on a case-by-case basis after an application, including proposed budget and scope of services to be provided by our independent auditors, is submitted to the audit committee.

Our audit committee pre-approved all audit and non-audit services performed by our principal accountant for the years ended December 31, 2014 and 2015.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not Applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a company listed on both the HKSE and the NYSE, we are subject to applicable Hong Kong laws and regulations, including the HKSE Listing Rules, and the Companies Ordinance, as well as applicable U.S. federal securities laws, including the Exchange Act and the Sarbanes-Oxley Act of 2002. In addition, we are subject to the listing standards of the NYSE to the extent they apply to non-U.S. issuers. As a non-U.S. issuer, we are not required to comply with all of the corporate governance listing standards of the NYSE.

The following is a summary of the significant differences between our corporate governance practices and those required to be followed by U.S. companies under the listing standards of the NYSE.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors on its board of directors. As a listed company in Hong Kong, we are subject to the requirement under the HKSE Listing Rules that at least three members of our board of directors, who constitute at least one-third of the board of directors, be independent as determined under the HKSE Listing Rules. The standards for establishing independence under the HKSE Listing Rules differ from those set forth in the NYSE Listed Company Manual. We currently have four independent directors out of a total of nine directors.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. Under the applicable Hong Kong law, our board of directors is required to meet regularly and at least four times a year, involving active participation by a majority of the directors and affording all directors an opportunity to include matters on the agenda. In addition, when a board meeting considers a matter in which a substantial shareholder or a director has a conflict of interest, the independent directors with no material interest in such matter must be present. Furthermore, it has been our practice to organize exclusive meetings for our independent non-executive directors at least annually.

Section 303A.04 of the NYSE Listed Company Manual provides that (i) a listed company must have a nominating/corporate governance committee that consists entirely of independent directors and (ii) the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which shall include, among others, the development and recommendation of corporate governance guidelines to the board of directors. The HKSE Listing Rules also contain a code provision that the listed companies should establish a nomination committee which consists of a majority of independent non-executive directors. We established a nomination committee in August 2011 with a written charter that specifies its duties and authorities. In addition, our board of directors is directly in charge of developing our corporate governance guidelines.

Section 303A.05 of the NYSE Listed Company Manual provides that (i) a listed company must have a compensation committee that consists entirely of independent directors and (ii) the compensation committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities. The HKSE Listing Rules also contain a code provision that the listed companies should establish a remuneration committee which consists of a majority of independent non-executive directors. The Company has established a remuneration committee with a written charter that specifies its duties and authorities.

Section 303A.07 of the NYSE Listed Company Manual also provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then, the board of directors of the listed company must (i) determine that such simultaneous service would not impair the ability of such member to effectively serve on the audit committee of the listed company and (ii) disclose such determination. We are not required, under applicable Hong Kong laws, to make such determination.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While we are not required to adopt any similar code under the HKSE Listing Rules, we, as required under the Sarbanes-Oxley Act, have adopted a code of ethics that is applicable to our chief executive officer, president, vice presidents, chief financial officer, principal accounting officer and general managers and deputy general managers of each of our departments, provincial branches and local branches or persons performing similar functions. We have also adopted a code of ethics that is applicable to all of our employees.

Item 16H. Mine Safety Disclosure

Not Applicable.

PART III

Item 17. Financial Statements

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements

See "Index to Consolidated Financial Statements" for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
1.1	Articles of Association of Unicom, dated January 27, 2000. ⁽¹⁾
1.2	Amended Articles of Association of Unicom (as amended on September 16, 2008). ⁽¹²⁾
1.3	Amended Articles of Association of Unicom (as amended on May 24, 2011). ⁽¹⁴⁾
1.4	Amended Articles of Association of Unicom (as amended on May 8, 2015).*

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
2.1	Deposit Agreement, among Unicom, The Bank of New York, as Depository, and Owners and Beneficial Owners of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt. ⁽²⁾
2.2	Form of specimen certificate for the shares. ⁽¹⁾
4.1	Reorganization Agreement between Unicom Group and CUCL, dated April 21, 2000 (together with English translation). ⁽¹⁾
4.2	Equity Transfer Agreement among Unicom Group, Unicom HK, Unicom BVI and Unicom, dated April 21, 2000. ⁽¹⁾
4.3	Trademark License Agreement between Unicom Group and CUCL, dated May 25, 2000 (together with English translation). ⁽¹⁾
4.4	Transmission Line Lease and Services Agreement between Unicom Group, CUCL and Guoxin Paging, dated August 1, 2001 (together with English translation). ⁽¹⁾
4.5	Reorganization Agreement between Unicom Group and Unicom New Century, dated November 18, 2002. (English translation) ⁽³⁾
4.6	Conditional Sale and Purchase Agreement between Unicom BVI and us in connection with the sale of Unicom New Century, dated November 20, 2002. (English translation) ⁽³⁾
4.7	Reorganization Agreement between Unicom Group and Unicom New World, dated November 4, 2003. (English translation) ⁽⁴⁾
4.8	Conditional Sale and Purchase Agreement between Unicom BVI and us in connection with the sale of Unicom New World, dated November 20, 2003. (English translation) ⁽⁴⁾
4.9	Conditional Sales and Purchase Agreement between China Unicom (Hong Kong) Group Limited and our Company with respect to the acquisition of Unicom International, dated July 28, 2004. ⁽⁵⁾
4.10	Subscription Agreement between Unicom and SK Telecom, dated June 20, 2006. ⁽⁶⁾
4.11	CDMA Network Capacity Lease Agreement among Unicom New Horizon, the A Share Company and Unicom Group, dated October 26, 2006. ⁽⁷⁾
4.12	Transfer Agreement of the CDMA Network Capacity Lease Agreement between the A Share Company and CUCL, dated October 26, 2006. (English translation) ⁽⁷⁾
4.13	Asset Transfer Agreement between CUCL and Unicom Group in connection with the acquisition of Unicom Guizhou, dated November 16, 2007. (English translation) ⁽⁸⁾
4.14	Supplement Agreement among Unicom New Horizon, Unicom Group, CUCL and the A Share Company in connection with the acquisition of Unicom Guizhou and the 2006 CDMA Network Capacity Lease Agreement, dated November 16, 2007. ⁽⁸⁾
4.15	CDMA Business Transfer Framework Agreement between us, CUCL and China Telecom dated as of June 2, 2008. (English translation) ⁽⁸⁾
4.16	CDMA Business Disposal Agreement among Unicom, CUCL and China Telecom, dated July 27, 2008. (English summary) ⁽¹²⁾
4.17	Business and Assets Transfer Agreement among Unicom Parent, Netcom Parent and the A Share Company, relating to acquisitions of certain business and assets, including the fixed-line business in 21 provinces in southern China, dated December 16, 2008. (English translation) ⁽⁹⁾
4.18	Transfer Agreement between the A Share Company and CUCL, relating to acquisitions of certain business and assets, including the fixed-line business in 21 provinces in southern China, dated December 16, 2008. (English translation) ⁽⁹⁾

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.19	Network Lease Agreement between CUCL and Unicom New Horizon, relating to the lease of telecommunications networks in 21 provinces in southern China by CUCL from Unicom New Horizon, dated December 16, 2008. (English translation) ⁽⁹⁾
4.20	Assets and Liabilities Transfer Agreement between CNC China and Netcom Group, dated June 23, 2004. (English translation) ⁽¹⁰⁾
4.21	Asset Injection Agreement among Netcom Group, Unicom Group BVI, CNC China and China Netcom, dated June 29, 2004. (English translation) ⁽¹⁰⁾
4.22	Letter of Undertakings by Netcom Group, dated September 5, 2005. (English translation) ⁽¹⁰⁾
4.23	Restructuring Agreement among CNC China, Netcom Group and China Netcom, dated September 6, 2004. (English translation) ⁽¹⁰⁾
4.24	Non-Competition Agreement among CNC China, Netcom Group and China Netcom, dated September 6, 2004. (English translation) ⁽¹⁰⁾
4.25	Trademark Licensing Agreement among CNC China, Netcom Group and China Netcom, dated October 8, 2004. (English translation) ⁽¹⁰⁾
4.26	Conditional Sale and Purchase Agreement among China Netcom, Unicom Group BVI and Netcom Group, relating to the acquisition of CNC New Horizon BVI, dated September 12, 2005. ⁽¹²⁾
4.27	Asset Transfer Agreement between China Netcom and Netcom Group, relating to the sale of China Netcom's telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality, dated January 15, 2007. ⁽¹²⁾
4.28	Domestic Interconnection Settlement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.29	International Long-distance Voice Services Settlement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.30	Engineering and Information Technology Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.31	Master Sharing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.32	Property Leasing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.33	Materials Procurement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.34	Ancillary Telecommunications Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.35	Support Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.36	Telecommunications Facilities Leasing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.37	Information and Communications Technology Agreement between China Netcom System Integration and Netcom Group, dated November 6, 2007. (English translation) ⁽¹²⁾
4.38	Equity Interest Transfer Agreement between China Netcom Group System Integration and China Netcom Group Beijing Communications Corporation, relating to the acquisition of Design Institute, dated December 5, 2007. (English translation) ⁽¹¹⁾

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.39	Framework Agreement for Interconnection Settlement between CUCL and Netcom Group, dated August 12, 2008. (English translation) ⁽¹²⁾
4.40	Framework Agreement for Engineering and Information Technology Services between CUCL and Netcom Group, dated August 12, 2008. (English translation) ⁽¹²⁾
4.41	Framework Agreement for Property Leasing Services between CUCL and Netcom Group, dated August 12, 2008. (English translation) ⁽¹²⁾
4.42	Framework Agreement for Ancillary Telecommunications Services between CUCL and Netcom Group, dated August 12, 2008. (English translation) ⁽¹²⁾
4.43	Framework Agreement for Support Services between CUCL and Netcom Group, dated August 12, 2008. (English translation) ⁽¹²⁾
4.44	Framework Agreement for Telecommunications Facilities Leasing between CUCL and Netcom Group, dated August 12, 2008. (English translation) ⁽¹²⁾
4.45	Comprehensive Services Agreement between Unicom Group and the A Share Company, dated August 12, 2008. (English translation) ⁽¹²⁾
4.46	Transfer Agreement among the A Share Company, CUCL and CNC China, in connection with the Comprehensive Services Agreement, dated August 12, 2008. (English translation) ⁽¹²⁾
4.47	Merger Agreement between CUCL and CNC China, relating to the merger between CUCL and CNC China, dated October 15, 2008. (English translation) ⁽¹²⁾
4.48	Pre-Global Offering Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolutions of the Company on May 13, 2002, May 11, 2007 and May 26, 2009. ⁽¹²⁾
4.49	Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolutions of the Company on May 13, 2002, May 11, 2007 and May 26, 2009. ⁽¹²⁾
4.50	Special Purpose Share Option Scheme, adopted by ordinary resolution of the Company on September 16, 2008 and amended by ordinary resolutions of the Company on May 26, 2009. ⁽¹²⁾
4.51	Subscription Agreement between China Unicom (Hong Kong) Limited and Telefónica, dated September 6, 2009. ⁽¹³⁾
4.52	Strategic Alliance Agreement between us and Telefónica, dated September 6, 2009. ⁽¹³⁾
4.53	Irrevocable Offer by SK Telecom, dated September 25, 2009. ⁽¹³⁾
4.54	Irrevocable voting undertaking from China Netcom Group Corporation (BVI) Limited in favor of SK Telecom, dated September 25, 2009. ⁽¹³⁾
4.55	Share Repurchase Agreement, dated November 3, 2009. ⁽¹³⁾
4.56	Amendment Agreement to Share Repurchase Agreement, dated November 3, 2009. ⁽¹³⁾
4.57	2011-2012 Network Lease Agreement between Unicom New Horizon and CUCL, dated October 29, 2010. (English translation) ⁽¹⁴⁾
4.58	2010 Comprehensive Services Agreement between Unicom Group and CUCL, dated October 29, 2010. (English translation) ⁽¹⁴⁾
4.59	Agreement to Enhance the Strategic Alliance between China Unicom (Hong Kong) Limited and Telefónica, dated January 23, 2011. ⁽¹⁴⁾
4.60	Transfer Agreement between Unicom A Share Company and CUCL, dated November 21, 2012. (English translation) ⁽¹⁵⁾

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.61	2013 Comprehensive Services Agreement between Unicom Group and CUCL, dated October 24, 2013. (English translation) ⁽¹⁶⁾
4.62	Share Option Scheme, adopted by ordinary resolution of the Company on April 16, 2014. ⁽¹⁶⁾
4.63	The Promoters' Agreement among China Mobile Communication Company Limited, CUCL and China Telecom Corporation Limited regarding the establishment of China Communications Facilities Services Corporation Limited. (English translation) ⁽¹⁷⁾
4.64	The Transfer Agreement among CUCL, Unicom New Horizon, China Mobile Communication Company Limited and its related subsidiaries, China Telecom Corporation Limited, China Reform Holding Company Limited and the Tower Company. (English translation)*
4.65	The Share Subscription Agreement between CUCL and the Tower Company, dated January 29, 2016. (English translation)*
4.66	The Capital Contribution Agreement between Unicom Group and CUCL, dated 6 December, 2013. (English translation)*
4.67	The amendment agreement to the 2013 comprehensive services agreement between Unicom Group and CUCL, dated August 21, 2015. (English translation)*
8.1	List of our significant subsidiaries.*
11.1	Code of Ethics for Senior Officers. ⁽⁴⁾
11.2	Employee Code of Ethics. (English translation) ⁽⁶⁾
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).*
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).*
13.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b).*
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b).*

We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Securities Exchange Commission upon request.

- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-11938) filed with the SEC in connection with our initial public offering in June 2000.
- (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-11952) filed with the SEC with respect to American Depositary Shares representing our shares.
- (3) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2002.
- (4) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2003.
- (5) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2004.
- (6) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2005.
- (7) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2006.
- (8) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2007.
- (9) Incorporated by reference to Schedule 13D/A (File No. 5-51154) filed by China Unicom Group Corporation (BVI) Limited, China Network Communications Group Corporation, China United Network Communications Group Company Limited, China United Telecommunications Corporation Limited, and China Unicom (BVI) Limited, filed on December 24, 2008.
- (10) Incorporated by reference to China Netcom's Registration Statement on Form F-1 (File No. 333-119786) filed with the SEC in connection with its initial public offering in November 2004.

- (11) Incorporated by reference to China Netcom's Annual Report on Form 20-F (File No. 1-32332) for the year ended December 31, 2007.
 - (12) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2008.
 - (13) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2009.
 - (14) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2010.
 - (15) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2012.
 - (16) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2013.
 - (17) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2014.
- * Filed herewith.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 21, 2016

CHINA UNICOM (HONG KONG) LIMITED

By: /s/ Wang Xiaochu

Name: Wang Xiaochu

Title: Chairman and Chief Executive Officer

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Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
CHINA UNICOM (HONG KONG) LIMITED:

We have audited the accompanying consolidated statement of financial position of China Unicom (Hong Kong) Limited and subsidiaries (together, the “Group”) as of December 31, 2014 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited the Group’s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting included in Item 15 on Form 20-F. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Group’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG

Hong Kong, China
March 16, 2016

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in millions)

	Note	As of 31 December		
		2014 RMB	2015 RMB	2015 US\$
ASSETS				
Non-current assets				
Property, plant and equipment	6	438,321	454,631	70,183
Lease prepayments	7	9,211	9,148	1,412
Goodwill	8	2,771	2,771	428
Interest in associates	12	3,037	31,997	4,939
Interest in joint venture		—	978	151
Amounts due from related parties	40	—	18,322	2,828
Deferred income tax assets	9	6,215	5,642	871
Financial assets at fair value through other comprehensive income	10	5,902	4,852	749
Other assets	13	<u>23,041</u>	<u>25,335</u>	<u>3,912</u>
		<u>488,498</u>	<u>553,676</u>	<u>85,473</u>
Current assets				
Inventories and consumables	14	4,378	3,946	609
Accounts receivable	15	14,671	14,957	2,309
Prepayments and other current assets	16	10,029	10,864	1,677
Amounts due from related parties	40	12	2,846	440
Amounts due from domestic carriers		2,120	1,994	308
Financial assets at fair value through profit and loss		—	106	16
Short-term bank deposits	17	56	202	31
Cash and cash equivalents	18	<u>25,308</u>	<u>21,755</u>	<u>3,358</u>
		<u>56,574</u>	<u>56,670</u>	<u>8,748</u>
Total assets		<u><u>545,072</u></u>	<u><u>610,346</u></u>	<u><u>94,221</u></u>
EQUITY				
Equity attributable to equity shareholders of the Company				
Share capital	19	179,101	179,102	27,649
Reserves	20	(19,482)	(20,734)	(3,201)
Retained profits				
- Proposed final dividend	38	4,789	4,071	628
- Others		<u>63,133</u>	<u>68,777</u>	<u>10,618</u>
Total equity		<u><u>227,541</u></u>	<u><u>231,216</u></u>	<u><u>35,694</u></u>

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in millions)

	Note	As of 31 December		
		2014 RMB	2015 RMB	2015 US\$
LIABILITIES				
Non-current liabilities				
Long-term bank loans	21	420	1,748	270
Promissory notes	22	21,460	36,928	5,701
Corporate bonds	24	2,000	2,000	309
Deferred income tax liabilities	9	17	18	3
Deferred revenue		1,497	2,005	309
Other obligations	25	217	357	55
		<u>25,611</u>	<u>43,056</u>	<u>6,647</u>
Current liabilities				
Short-term bank loans	26	91,503	83,852	12,945
Commercial papers	27	9,979	19,945	3,079
Current portion of long-term bank loans	21	45	84	13
Current portion of promissory notes	22	—	2,499	386
Convertible bonds	23	11,167	—	—
Accounts payable and accrued liabilities	28	120,371	167,396	25,841
Taxes payable		1,466	3,163	488
Amounts due to ultimate holding company	40	1,622	1,437	222
Amounts due to related parties	40	3,542	3,930	607
Amounts due to domestic carriers		1,402	1,300	201
Dividend payable		771	920	142
Current portion of deferred revenue		462	394	61
Current portion of other obligations	25	2,698	2,797	432
Advances from customers		46,892	48,357	7,463
		<u>291,920</u>	<u>336,074</u>	<u>51,880</u>
Total liabilities		<u>317,531</u>	<u>379,130</u>	<u>58,527</u>
Total equity and liabilities		<u>545,072</u>	<u>610,346</u>	<u>94,221</u>
Net current liabilities		<u>(235,346)</u>	<u>(279,404)</u>	<u>(43,132)</u>
Total assets less current liabilities		<u>253,152</u>	<u>274,272</u>	<u>42,341</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF INCOME
(All amounts in millions, except per share data)

	Note	Year ended 31 December			
		2013 RMB	2014 RMB	2015 RMB	2015 US\$
Revenue	29	295,038	284,681	277,049	42,769
Interconnection charges		(20,208)	(14,599)	(13,093)	(2,021)
Depreciation and amortization		(68,196)	(73,868)	(76,738)	(11,846)
Network, operation and support expenses	30	(33,704)	(37,851)	(42,308)	(6,531)
Employee benefit expenses	31	(31,783)	(34,652)	(35,140)	(5,425)
Costs of telecommunications products sold	32	(63,416)	(43,397)	(44,046)	(6,800)
Other operating expenses	33	(61,964)	(61,411)	(54,960)	(8,484)
Finance costs	34	(3,113)	(4,617)	(6,934)	(1,070)
Interest income		173	283	438	68
Share of loss of associates		—	—	(759)	(117)
Share of loss of joint venture		—	—	(42)	(6)
Other income – net	36	887	1,362	10,568	1,630
Income before income tax		<u>13,714</u>	<u>15,931</u>	<u>14,035</u>	<u>2,167</u>
Income tax expenses	9	(3,306)	(3,876)	(3,473)	(536)
Net income		<u>10,408</u>	<u>12,055</u>	<u>10,562</u>	<u>1,631</u>
Attributable to:					
Equity shareholders of the Company		<u>10,408</u>	<u>12,055</u>	<u>10,562</u>	<u>1,631</u>
Earnings per share for income attributable to equity shareholders of the Company during the year:					
Basic earnings per share	39	<u>0.44</u>	<u>0.51</u>	<u>0.44</u>	<u>0.07</u>
Diluted earnings per share	39	<u>0.43</u>	<u>0.49</u>	<u>0.44</u>	<u>0.07</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in millions)

	Year ended 31 December			
	2013	2014	2015	2015
	RMB	RMB	RMB	US\$
Net income	<u>10,408</u>	<u>12,055</u>	<u>10,562</u>	<u>1,631</u>
Other comprehensive income				
Items that will not be reclassified to statement of income:				
Changes in fair value of financial assets through other comprehensive income	930	(619)	(1,050)	(162)
Tax effect on changes in fair value of financial assets through other comprehensive income	(240)	155	(1,129)	(174)
Changes in fair value of financial assets through other comprehensive income, net of tax	690	(464)	(2,179)	(336)
Remeasurement of net defined benefit liability, net of tax	(2)	(2)	20	3
	<u>688</u>	<u>(466)</u>	<u>(2,159)</u>	<u>(333)</u>
Item that may be reclassified subsequently to statement of income:				
Currency translation differences	(18)	(12)	60	9
Other comprehensive income for the year, net of tax	<u>670</u>	<u>(478)</u>	<u>(2,099)</u>	<u>(324)</u>
Total comprehensive income for the year	<u>11,078</u>	<u>11,577</u>	<u>8,463</u>	<u>1,307</u>
Total comprehensive income attributable to:				
Equity shareholders of the Company	<u>11,078</u>	<u>11,577</u>	<u>8,463</u>	<u>1,307</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (All amounts in RMB millions)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total equity	
Balance at January 1, 2013	2,311	173,473	79	651	(4,453)	25,752	572	(43,110)	54,230	209,505	
Total comprehensive income for the year	—	—	—	—	690	—	—	(20)	10,408	11,078	
Appropriation to statutory reserves	—	—	—	—	—	988	—	—	(988)	—	
Equity-settled share option schemes:											
-Value of employee services	—	—	—	50	—	—	—	—	—	50	
-Issuance of shares upon exercise of options	17	1,731	—	(360)	—	—	—	(286)	—	1,102	
-Transfer between reserves upon lapsing of options	—	—	—	(3)	—	—	—	—	3	—	
Dividends relating to 2012	—	—	—	—	—	—	—	—	(2,836)	(2,836)	
Balance at December 31, 2013	2,328	175,204	79	338	(3,763)	26,740	572	(43,416)	60,817	218,899	

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (All amounts in millions)

	Attributable to equity shareholders of the Company										
	Share capital RMB	Share premium RMB	Capital redemption reserve RMB	Employee share-based compensation reserve RMB	Investment revaluation reserve RMB	Statutory reserves RMB	Convertible bonds reserve RMB	Other reserve RMB	Retained profits RMB	Total Equity RMB	
Balance at December 31, 2013	2,328	175,204	79	338	(3,763)	26,740	572	(43,416)	60,817	218,899	
Total comprehensive income for the year	—	—	—	—	(464)	—	—	(14)	12,055	11,577	
Appropriation to statutory reserves	—	—	—	—	—	1,166	—	—	(1,166)	—	
Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance:											
-Issuance of shares upon exercise of options	—	19	—	(4)	—	—	—	(3)	—	12	
Transition to no-par value regime on March 3, 2014 (Note 19)	175,302	(175,223)	(79)	—	—	—	—	—	—	—	
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:											
-Issuance of shares upon exercise of options	1,471	—	—	(283)	—	—	—	(329)	—	859	
-Transfer between reserves upon lapsing of options	—	—	—	(22)	—	—	—	—	22	—	
Dividends relating to 2013 (Note 38)	—	—	—	29	(4,227)	27,906	572	(43,762)	67,922	(3,806)	
Balance at December 31, 2014	179,101	—	—	29	(2,179)	27,906	572	(43,762)	10,562	227,541	
Total comprehensive income for the year	—	—	—	—	(2,179)	—	—	80	10,562	8,463	
Appropriation to statutory reserves	—	—	—	—	—	874	—	—	(874)	—	
Appropriation to other reserve	—	—	—	—	—	—	—	2	(2)	—	
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:											
-Issuance of shares upon exercise of options	1	—	—	—	—	—	—	—	—	1	
-Transfer between reserves upon lapsing of options	—	—	—	(29)	—	—	(572)	572	29	—	
Redemption of convertible bonds	—	—	—	—	—	—	—	—	—	—	
Dividends relating to 2014 (Note 38)	—	—	—	—	—	—	—	—	(4,789)	(4,789)	
Balance at December 31, 2015	179,102	—	—	—	(6,406)	28,780	—	(43,108)	72,848	231,216	
Balance at December 31, 2015(in USD)	27,649	—	—	—	(989)	4,443	—	(6,655)	11,246	35,694	

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in millions)

	Note	Year ended 31 December			
		2013 RMB	2014 RMB	2015 RMB	2015 US\$
Cash flows from operating activities					
Cash generated from operations	(a)	86,610	97,062	91,169	14,074
Interest received		173	283	319	49
Interest paid		(5,082)	(4,631)	(4,943)	(763)
Income tax paid		(3,219)	(4,620)	(2,244)	(346)
Net cash inflow from operating activities		<u>78,482</u>	<u>88,094</u>	<u>84,301</u>	<u>13,014</u>
Cash flows from investing activities					
Purchase of property, plant and equipment		(72,758)	(69,586)	(88,465)	(13,657)
Proceeds from disposal of property, plant and equipment and other assets		1,544	797	2,336	361
Dividends received from financial assets at fair value through other comprehensive income		176	353	365	56
Proceeds from disposal of financial assets at fair value through profit and loss		—	—	19	3
Dividends received from associates		—	—	10	2
Increase in short-term bank deposits		(22)	(1)	(3)	—
Purchase of other assets		(6,050)	(3,807)	(4,542)	(701)
Acquisition of financial assets at fair value through profit and loss		—	—	(66)	(10)
Acquisition of interest in associates		—	(3,075)	(8)	(1)
Acquisition of interest in joint venture		—	—	(1,000)	(155)
Net cash outflow from investing activities		<u>(77,110)</u>	<u>(75,319)</u>	<u>(91,354)</u>	<u>(14,102)</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in millions)

	Note	Year ended 31 December			
		2013 RMB	2014 RMB	2015 RMB	2015 US\$
Cash flows from financing activities					
Proceeds from exercise of share options		1,102	871	1	—
Proceeds from commercial papers		49,938	19,885	30,000	4,631
Proceeds from short-term bank loans		135,713	158,259	139,663	21,560
Proceeds from long-term bank loans		—	—	1,920	296
Proceeds from ultimate holding company loan		1,344	—	1,344	207
Proceeds from related party loan		—	473	—	—
Proceeds from promissory notes		—	21,430	17,957	2,772
Repayment of commercial papers		(53,000)	(45,000)	(20,000)	(3,087)
Repayment of short-term bank loans		(109,500)	(161,007)	(149,072)	(23,013)
Repayment of long-term bank loans		(850)	(46)	(45)	(7)
Repayment of related party loan		—	—	(473)	(73)
Repayment of ultimate holding company loan		—	—	(1,344)	(207)
Repayment of convertible bond		—	—	(11,664)	(1,801)
Repayment of corporate bonds		(5,000)	—	—	—
Repayment of promissory notes		(15,000)	—	—	—
Repayment of finance lease		(135)	(161)	(217)	(33)
Dividends paid to equity shareholders of the Company	38	(2,686)	(3,677)	(4,643)	(717)
Net cash inflow/(outflow) from financing activities		1,926	(8,973)	3,427	528
Net increase/(decrease) in cash and cash equivalents		3,298	3,802	(3,626)	(560)
Cash and cash equivalents, beginning of year		18,250	21,506	25,308	3,907
Effect of changes in foreign exchange rate		(42)	—	73	11
Cash and cash equivalents, end of year	18	<u>21,506</u>	<u>25,308</u>	<u>21,755</u>	<u>3,358</u>
Analysis of the balances of cash and cash equivalents:					
Cash balances		3	3	1	—
Bank balances		21,503	25,305	21,754	3,358
		<u>21,506</u>	<u>25,308</u>	<u>21,755</u>	<u>3,358</u>

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in millions)

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

	Year ended 31 December			
	2013	2014	2015	2015
	RMB	RMB	RMB	US\$
Income before income tax	13,714	15,931	14,035	2,167
Adjustments for:				
Depreciation and amortization	68,196	73,868	76,738	11,846
Interest income	(173)	(283)	(120)	(19)
Finance costs	2,963	4,113	6,641	1,025
(Gain)/Loss on disposal of property, plant and equipment and other assets	(49)	1,064	(7,280)	(1,124)
Share-based compensation costs	50	—	—	—
Impairment losses for doubtful debts and write-down of inventories	4,219	3,958	4,054	626
Impairment losses for property, plant and equipment	129	65	29	5
Dividends from financial assets at fair value through other comprehensive income	(176)	(353)	(397)	(61)
Share of loss of associates	—	—	759	117
Share of loss of joint venture	—	—	42	7
Other investment loss	—	28	8	1
Changes in working capital:				
Increase in accounts receivable	(4,911)	(2,927)	(3,666)	(566)
(Increase)/Decrease in inventories and consumables	(130)	675	(73)	(11)
Increase in other assets	(4,460)	(1,897)	(6,288)	(971)
Increase in prepayments and other current assets	(201)	(211)	(1,630)	(252)
Decrease/(Increase) in amounts due from related parties	7	(1)	2,905	449
Decrease/(Increase) in amounts due from domestic carriers	141	(1,523)	126	20
Increase/(Decrease) in accounts payable and accrued liabilities	533	5,451	(1,781)	(275)
Increase in taxes payable	227	2,068	5,126	792
Increase/(Decrease) in advances from customers	7,496	(2,949)	1,465	226
(Decrease)/Increase in deferred revenue	(420)	238	(81)	(13)
(Decrease)/Increase in other obligations	(18)	22	(17)	(3)
Decrease in amounts due to ultimate holding company	(277)	(12)	(185)	(29)
(Decrease)/Increase in amounts due to related parties	(591)	(161)	861	133
Increase/(Decrease) in amounts due to domestic carriers	341	(102)	(102)	(16)
Cash generated from operations	<u>86,610</u>	<u>97,062</u>	<u>91,169</u>	<u>14,074</u>

CHINA UNICOM (HONG KONG) LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

1. ORGANIZATION 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 February 8, 2000. The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice, LTE FDD cellular voice, TD-LTE cellular voice and related value-added services are referred to as the “mobile service”. The services aforementioned other than the mobile service are hereinafter collectively referred to as the “fixed-line service”. The Company and its subsidiaries are hereinafter referred to as the “Group”. The address of the Company’s registered office is 75th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

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

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Disposal of Telecommunications Towers and Related Assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the IASB. These consolidated financial statements have been authorized for issue by the company’s board of directors on March 16, 2016.

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income. The consolidated financial statements prepared by the PRC subsidiaries for PRC statutory reporting purposes are based on the Chinese Accounting Standards for Business Enterprises (“CAS”) issued by the Ministry of Finance (“MOF”) of the PRC, which became effective from January 1, 2007 with certain transitional provisions. There are certain differences between the Group’s IFRSs financial statements and PRC financial statements. The principal adjustments made to the PRC financial statements to conform to IFRSs include the following:

- reversal of the revaluation surplus or deficit and related amortization charges arising from the revaluation of prepayments for the leasehold land performed by independent valuers for the purpose of reporting to relevant PRC government authorities;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005;
- additional capitalization of borrowing costs and corresponding impact on depreciation prior to the adoption of CAS on January 1, 2007; and
- adjustments for deferred taxation in relation to the above adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(a) Disposal of Telecommunications Towers and Related Assets

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

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

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

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

(b) Going Concern Assumption

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(b) Going Concern Assumption (Continued)

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

(c) Critical Accounting Estimates and Judgements

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(d) New Accounting Standards and Amendments

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

- Amendments to IAS 19, “Defined benefit plans: Employee Contributions”

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(d) New Accounting Standards, Amendments and Interpretations Pronouncements (Continued)

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Consolidation

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

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

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

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

Business combination of entity and business under common control of the Group after 2005 was accounted for using merger accounting. Upon the adoption of IFRSs by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Associates and joint ventures

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

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

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

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

Unrealized 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 unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized 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 recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Segment Reporting

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

2.6 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign Currency Translation (Continued)

(c) Group companies(Continued)

For the convenience of the reader, the translation of RMB into United States dollars (“US\$”) has been made at the rate of RMB6.4778 to US\$1.00, representing the rate as certified by the H.10 weekly statistical release of Federal Reserve Board on December 31, 2015. No representation is made that RMB amounts could have been, or could be, converted into US\$ at that rate or at any other certain rate on December 31, 2015 or at any other date. The US\$ convenience translation is not required under IFRS and all US\$ convenience translation amounts in the accompanying consolidated financial statements are unaudited.

2.7 Property, Plant and Equipment

(a) Construction-in-progress

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

(b) Property, plant and equipment

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

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

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

Subsequent costs are included in the asset’s carrying amount or recognized 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 derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, Plant and Equipment (Continued)

(c) Depreciation

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Goodwill

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

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

2.9 Lease Prepayments

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

2.10 Other Assets

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

- (i) Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives on a straight-line basis.
- (ii) Long-term prepaid rental for premises, leased lines and electricity cables are amortized using a straight-line method over the lease period.
- (iii) Capitalized installation costs of fixed-line services are deferred and expensed to the statement of income over the expected customer service period of 10 years except when the direct incremental costs exceed the corresponding installation fees. In such cases, the excess of the direct incremental costs over the installation fees is recorded immediately as expenses in the statement of income.
- (iv) Capitalized direct incremental costs for activating broadband subscribers mainly include the costs of installing broadband terminals at customer's homes for the provision of broadband service. Such costs are amortized over the service period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial Assets

The Group classifies its financial assets into two measurement categories: those measured at amortized 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 amortized cost

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial Assets (Continued)

Financial assets measured at fair value

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

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

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

2.12 Impairment of Non-Financial Assets

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

2.13 Impairment of Financial Assets Carried at Amortized Costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Inventories and Consumables

Inventories, which primarily comprise handsets, SIM/USIM cards and accessories, are stated at the lower of cost and net realizable 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 realizable value for all the inventories is determined on the basis of anticipated sales proceeds less estimated selling expenses.

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

2.15 Accounts Receivable and Other Receivables

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

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

2.16 Short-term Bank Deposits

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

2.17 Cash and Cash Equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Convertible Bonds

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

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

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

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

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

(a) Deferred revenue

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

(b) Advances from customers

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

(c) Subscriber points reward program

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings

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

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

2.21 Share Capital

Ordinary shares are classified as equity.

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

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

2.22 Employee Benefits

(a) Retirement benefits

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

(b) Medical insurance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee Benefits (Continued)

(c) Housing benefits

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

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

(d) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. The present value of the defined benefit obligation is included in non-current other obligations and salary and welfare payables (current portion). The liability is remeasured with sufficient regularity and the movement of the remeasurement is recognized in other comprehensive income, which is not allowed to reverse to profit and loss in subsequent period. As of December 31, 2015, the amount of the liability was RMB91 million (2014: RMB105 million).

(e) Share-based compensation costs

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognized 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 recognizes the impact of the revision of original estimates, if any, in the statement of income of the period in which the revision occurs, with a corresponding adjustment to equity.

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

2.23 Accounts Payable

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Provisions

Provisions are recognized 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.25 Revenue Recognition

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

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

Sales of services and goods

- Usage fees and monthly fees are recognized when the service is rendered;
- Revenue from the provision of broadband, data and other Internet-related services is recognized when the services are provided to customers;
- Lease income from leasing of lines and customer-end equipment is treated as operating leases with rental income recognized on a straight-line basis over the lease term;
- Interconnection fees represent revenue received or receivable from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, is recognized when service is rendered;
- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalized ring, caller number display and secretarial services to subscribers, is recognized when service is rendered;
- Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognized when title has been passed to the buyers;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Revenue Recognition (Continued)

Sales of services and goods (Continued)

- The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognized when the title is passed to the customer whereas service revenue is recognized based upon the actual usage of the telecommunications service. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition;
- Revenue from information communications technology services is recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognized only to the extent of recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and services revenue should not be recognized.

2.26 Interest income

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

2.27 Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Leases (as the lessee)

(a) Operating lease

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

(b) Finance lease

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

2.29 Borrowing Costs

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

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization 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 capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization 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 capitalized during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognized as expenses when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Dividend Distribution

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

2.32 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized 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 recognized 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 recognized 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 recognized 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 recognized.

2.33 Earnings per Share

Basic earnings per share is computed by dividing the income 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 income 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)

2.34 Related parties

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

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

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Group's finance department at its headquarter is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years of 2013, 2014 and 2015, 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 recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the People's Bank of China as of December 31, 2014 and 2015.

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)

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

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

As of December 31, 2015, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen and GBP, while all other variables are held constant, the effect on income after tax would be approximately RMB55 million (2013: approximately RMB3,661 million; 2014: approximately RMB4,473 million) for cash and cash equivalents, borrowings, convertible bonds and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income, net of tax impact, would be approximately RMB467 million (2013: approximately RMB480 million; 2014: approximately RMB428 million) for financial assets denominated in foreign currency, which were recorded in fair value through other comprehensive income.

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Price risk

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

The financial assets at fair value through other comprehensive income comprise primarily equity securities of Telefónica S.A. (“Telefónica”). As of December 31, 2015, if the share price of Telefónica had increased/decreased by 10%, while the exchange rate of RMB against Euro is held constant, the effect on other comprehensive income, net of tax impact, would be approximately RMB 467 million (2013: approximately RMB480 million; 2014: approximately RMB428 million).

(iii) Cash flow and fair value interest rate risk

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

The Group’s interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, convertible bonds, corporate bonds and related parties loans. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2014 and 2015, the Group’s borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group’s outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group’s financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2014 and 2015.

As of December 31, 2015, the Group had approximately RMB105,343 million (2014: approximately RMB103,586 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB43,599 million (2014: approximately RMB35,091 million) of long-term fixed rate borrowings.

For the year ended December 31, 2015, if interest rates on the floating rate borrowings and short-term fixed rate borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on income after tax is approximately RMB395 million (2013: approximately RMB492 million; 2014: approximately RMB388 million).

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

3.1 Financial risk factors (Continued)

(b) Credit risk

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

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

In addition, the Group has no significant concentrations of credit risk with respect to corporate customers and individual subscribers. The extent of the Group's credit exposure is mainly attributable to accounts receivable for services (Note 15) and receivable for the sales of mobile handsets (Note 16). The Group has policies to limit the credit exposure on receivables for services and the sales of mobile handsets. The Group assesses the credit quality of and sets credit limits on all its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year. The utilization of credit limits and the settlement pattern of the customers are regularly monitored by the Group. In respect of other receivables, individual credit evaluations are performed on all counterparties requiring credit over a certain amount. These evaluations focus on the counterparties' past history of making payments when due and current ability to pay, and take into account information specific to the counterparties as well as the economic environment in which the counterparties operates.

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

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

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

The following tables show the undiscounted balances of the financial liabilities (including interest expense) categorized by time from the end of the period under review to the contractual maturity date:

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Carrying amounts</u>
At December 31, 2014					
Long-term bank loans	49	45	142	246	465
Corporate bonds	90	90	2,039	—	2,000
Promissory notes	975	3,433	19,445	—	21,460
Other obligations	2,706	89	69	65	2,915
Accounts payable and accrued liabilities	120,371	—	—	—	120,371
Amounts due to related parties	3,548	—	—	—	3,542
Amounts due to ultimate holding company	1,655	—	—	—	1,622
Amounts due to domestic carriers	1,402	—	—	—	1,402
Convertible bonds	11,319	—	—	—	11,167
Commercial papers	10,243	—	—	—	9,979
Short-term bank loans	92,889	—	—	—	91,503
	<u>245,247</u>	<u>3,657</u>	<u>21,695</u>	<u>311</u>	<u>266,426</u>
At December 31, 2015					
Long-term bank loans	109	114	387	1,964	1,832
Corporate bonds	90	2,039	—	—	2,000
Promissory notes	4,071	20,082	18,443	—	39,427
Other obligations	2,816	285	17	66	3,154
Accounts payable and accrued liabilities	167,396	—	—	—	167,396
Amounts due to related parties	3,930	—	—	—	3,930
Amounts due to ultimate holding company	1,470	—	—	—	1,437
Amounts due to domestic carriers	1,300	—	—	—	1,300
Commercial papers	20,482	—	—	—	19,945
Short-term bank loans	85,095	—	—	—	83,852
	<u>286,759</u>	<u>22,520</u>	<u>18,847</u>	<u>2,030</u>	<u>324,273</u>

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

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

3.2 Capital risk management

The Group's objectives when managing capital are:

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

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

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

3.2 Capital risk management (Continued)

The Group monitors capital on the basis of the debt-to-capitalization ratio. This ratio is calculated as interest-bearing debts over interest-bearing debts plus total equity. Interest-bearing debts represent commercial papers, short-term bank loans, long-term bank loans, promissory notes, convertible bonds, corporate bonds, obligations under finance lease, and certain amounts due to ultimate holding company and related parties, as shown in the consolidated statement of financial position. Total equity represents equity attributable to equity shareholders of the Company as shown in the consolidated statement of financial position.

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

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

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

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

3.3 Fair value estimation

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

(a) Financial assets and liabilities measured at fair value

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

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

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

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

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

3.3 Fair value estimation (Continued)

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

The following table presents the Group's assets that are measured at fair value at December 31, 2015:

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

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

During the years ended December 31, 2013, 2014 and 2015, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

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

3.3 Fair value estimation (Continued)

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

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

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

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

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

The fair value of the corporate bonds is based on cash flows discounted using rates based on the market rate of 2.35% (2014: 4.60%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortized cost approximated their fair values as of December 31, 2014 and 2015 due to the nature or short maturity of those instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Depreciation on property, plant and equipment

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

4.2 Impairment of non-financial assets

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

4.3 Write-down of inventories

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.4 Allowance for doubtful debts

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

4.5 Subscriber points reward program

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

4.6 Income tax and deferred taxation

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

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to unrecognized revaluation surplus on prepayments for the leasehold land determined under PRC regulations, accruals of expenses not yet deductible for tax purpose and allowance for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to approximately RMB5,642 million as of December 31, 2015. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

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

5. SEGMENT INFORMATION

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

For the year ended December 31, 2015, interest expense of approximately RMB936 million (2013: approximately RMB894 million; 2014: approximately RMB825 million) was capitalized to CIP. The capitalized borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.40% to 4.33% for the year ended December 31, 2015 (2013: 3.87% to 4.47%; 2014: 3.72% to 4.30%).

For the year ended December 31, 2015, the Group recognized a net gain on disposal of property, plant and equipment of approximately RMB7,280 million (2013: a gain of approximately RMB115 million; 2014: a loss of approximately RMB1,064 million), including the gain on the Group's Tower Assets Disposal of approximately RMB9,246 million.

7. LEASE PREPAYMENTS

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

	<u>2014</u>	<u>2015</u>
Beginning of the year	8,038	9,211
Addition	1,472	296
Amortization	<u>(299)</u>	<u>(359)</u>
End of the year	<u>9,211</u>	<u>9,148</u>

8. GOODWILL

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

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

9. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%; 2014: 16.5%) on the estimated assessable income for the year. Taxation on income outside Hong Kong has been calculated on the estimated assessable income for the year at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (2013: 25%; 2014: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2013: 15%; 2014: 15%).

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Provision for income tax on the estimated taxable income for the year			
- Hong Kong	29	29	23
- Mainland China and other countries	3,730	3,201	3,990
Adjustments to prior years' current tax for Mainland China	(20)	(19)	16
	<u>3,739</u>	<u>3,211</u>	<u>4,029</u>
Deferred taxation	(433)	665	(556)
Income tax expenses	<u>3,306</u>	<u>3,876</u>	<u>3,473</u>

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Applicable PRC statutory tax rate	25.0%	25.0%	25.0%
Non-deductible expenses	0.8%	0.6%	1.2%
Effect of withholding income tax for interest receivable from inter-company loans	0.2%	0.2%	0.2%
Deductible tax losses not recognized in prior years/adjustments to prior years' current tax	(0.1%)	(0.1%)	(0.4%)
Non-taxable income	(0.1%)	—	—
Impact of different tax rate	(0.7%)	(0.6%)	(0.8%)
Others	(1.0%)	(0.8%)	(0.5%)
Effective tax rate	<u>24.1%</u>	<u>24.3%</u>	<u>24.7%</u>

9. TAXATION (CONTINUED)

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

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net deferred tax assets after offsetting:			
- Beginning of year	6,534	6,734	6,215
- Deferred tax credited/(charged) to the statement of income	439	(674)	557
- Deferred tax (charged)/credited to other comprehensive income	<u>(239)</u>	<u>155</u>	<u>(1,130)</u>
- End of year	<u>6,734</u>	<u>6,215</u>	<u>5,642</u>
Net deferred tax liabilities after offsetting:			
- Beginning of year	(20)	(26)	(17)
- Deferred tax (charged)/credited to the statement of income	<u>(6)</u>	<u>9</u>	<u>(1)</u>
- End of year	<u>(26)</u>	<u>(17)</u>	<u>(18)</u>

9. TAXATION (CONTINUED)

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

	Allowance for doubtful debts	Payroll and contributions to defined contribution pension schemes accrued but not paid	Unrecognized revaluation surplus on prepayments for the leasehold land determined under PRC regulations (Note (i))	Accruals of expenses not yet deductible for tax purpose	Changes in fair value on financial assets through other comprehensive income	Unrealized income from the transactions with Tower Company	Others	Total
Deferred tax assets:								
At January 1, 2013	1,092	188	1,683	1,035	1,506	—	1,538	7,042
Credited/(charged) to the statement of income	75	244	(64)	52	—	—	(29)	278
(Charged)/credited to other comprehensive income	—	—	—	—	(239)	—	1	(238)
At December 31, 2013	1,167	432	1,619	1,087	1,267	—	1,510	7,082
Credited/(charged) to the statement of income	128	448	(63)	(254)	—	—	(258)	1
Credited to other comprehensive income	—	—	—	—	174	—	—	174
At December 31, 2014	1,295	880	1,556	833	1,441	—	1,252	7,257
Credited/(charged) to the statement of income	136	(678)	(52)	388	—	877	181	852
Charged to other comprehensive income	—	—	—	—	(1,441)	—	(1)	(1,442)
At December 31, 2015	1,431	202	1,504	1,221	—	877	1,432	6,667

9. TAXATION (CONTINUED)

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

	Capitalized interest already deducted for tax purpose	Realized gain on changes in fair value of derivative financial instrument in 2009	Changes in fair value on financial assets through other comprehensive income	Accelerated depreciation of property, plant and equipment (Note (ii))	Others	Total
Deferred tax liabilities:						
At January 1, 2013	(129)	(310)	(11)	—	(78)	(528)
Credited to the statement of income	108	—	—	—	47	155
Charged to other comprehensive income	—	—	(1)	—	—	(1)
At December 31, 2013	(21)	(310)	(12)	—	(31)	(374)
Credit/(charged) to the statement of income	21	—	—	(696)	9	(666)
Charged to other comprehensive income	—	—	(19)	—	—	(19)
At December 31, 2014	—	(310)	(31)	(696)	(22)	(1,059)
Charged to the statement of income	—	—	—	(296)	—	(296)
Credited to other comprehensive income	—	310	2	—	—	312
At December 31, 2015	—	—	(29)	(992)	(22)	(1,043)

9. TAXATION (CONTINUED)

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

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

9. TAXATION (CONTINUED)

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

- (i) The prepayments for the leasehold land were revalued for PRC tax purposes as at December 31, 2003 and 2004. However, the resulting revaluations of the prepayments for the leasehold land were not recognized under IFRSs. Accordingly, deferred tax assets were recorded by the Group under IFRSs.
- (ii) According to “Announcement on Enterprise Income Tax Policy for Those Enterprise Involved in the Accelerated Depreciation of Property, Plant and Equipment” (Caishui [2014] No.75) issued by the MOF and the state Administration of Taxation (“SAT”) of the PRC, starting from 2014, the Group’s property, plant and equipment that comply with this tax policy are allowed to be depreciated under the accelerated depreciation method, or fully deducted for tax purpose in the year of purchase. Temporary differences arise from the different useful life under tax basis and accounting basis have been recorded as deferred tax liabilities

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

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2014</u>	<u>2015</u>
Listed in the PRC	173	164
Listed outside the PRC	5,706	4,665
Unlisted	23	23
	<u>5,902</u>	<u>4,852</u>

For the year ended December 31, 2015, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB1,050 million (2013: increase of approximately RMB930 million; 2014: decrease of approximately RMB619 million). The decrease, together with tax impact, of approximately RMB2,179 million (2013: increase, net of tax impact, of approximately RMB690 million; 2014: decrease, net of tax impact, of approximately RMB464 million) has been recorded in the consolidated statement of comprehensive income.

11. SUBSIDIARIES

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

Name	Place and date of incorporation / establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/ paid up capital	Principal activities and place of operation
		Direct	Indirect		
CUCL	The PRC, April 21, 2000, limited liability company	100%	—	RMB 138,091,677,828	Telecommunications operation in the PRC
China Unicom Global Limited	Hong Kong, May 29, 2015, limited company	100%	—	10,000 shares	Investment holding
China Unicom (Europe) Operations Limited	The United Kingdom, November 8, 2006, limited company	100%	—	4,861,000 shares, GBP1 each	Telecommunications operation in the United Kingdom
China Unicom (Japan) Operations Corporation	Japan, January 25, 2007, limited company	100%	—	1,000 shares, JPY366,000 each	Telecommunications operation in Japan
China Unicom (Singapore) Operations Pte Limited	Singapore, August 5, 2009, limited company	100%	—	1 share, USD1 each and 30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
Billion Express Investments Limited (“Billion Express”)	British Virgin Islands, August 15, 2007, limited company	100%	—	2 shares, USD1 each	Investment holding and financing subsidiary of the Company
China Unicom (South Africa) Operations (Pty) Limited	South Africa, November 19, 2012, limited liability company	100%	—	Not applicable	Dormant
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar (“Myanmar”), June 7, 2013, limited liability company	99%	1%	650,000 shares USD1 each	Communications technology training in Myanmar

11. 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 (Australia) Operations Pty Limited	Australia, May 27, 2014, limited liability company	100%	—	4,350,000 shares, AUD 1 each	Telecommunications operation in Australia
China Unicom (Hong Kong) Operations Limited	Hong Kong, May 24, 2000, limited company	—	100%	60,100,000 shares	Telecommunications service in Hong Kong
China Unicom (Americas) Operations Limited	USA, May 24, 2002, limited company	—	100%	5,000 shares, USD100 each	Telecommunications service in the USA
Unicom Vsens Telecommunications Company Limited	The PRC, August 19, 2008, limited liability company	—	100%	RMB 500,000,000	Sales of handsets, telecommunications equipment and provision of technical services in the PRC
China Unicom System Integration Limited Corporation	The PRC, April 30, 2006, limited liability company	—	100%	RMB 550,000,000	Provision of information communications technology services in the PRC
China Unicom Broadband Online Limited Corporation	The PRC, March 29, 2006, limited liability company	—	100%	RMB 100,000,000	Provision of internet information services and value-added telecommunications services in the PRC
Beijing Telecommunications Planning and Designing Institute Corporation Limited	The PRC, April 25, 1996, limited liability company	—	100%	RMB 264,227,115	Provision of telecommunications network construction, planning and technical consulting services in the PRC
China Information Technology Designing & Consulting Institute Company Limited	The PRC, November 11, 1991, limited liability company	—	100%	RMB 430,000,000	Provision of consultancy, survey, design and contract services relating to information projects and construction projects in the telecommunications industry in the PRC

11. SUBSIDIARIES (CONTINUED)

Name	Place and date of incorporation / establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom Xingye Communications Technology Company Limited	The PRC, October 30, 2000, limited liability company	—	100%	RMB 30,000,000	Provision of technical support, manufacturing, research and design services for SIM/USIM cards and other telecommunications cards in the PRC
China Unicom Information Navigation Company Limited	The PRC, September 17, 1998, limited liability company	—	100%	RMB 6,825,087,800	Provision of customer services in the PRC
Huaxia P&T Project Consultation and Management Company Limited	The PRC, March 5, 1998, limited liability company	—	100%	RMB 30,000,000	Provision of project consultation and management service in the PRC
Zhengzhou Kaicheng Industrial Company Limited	The PRC, December 21, 2005, limited liability company	—	100%	RMB 2,200,000	Provision of property management services in the PRC
Unicompany Company Limited	The PRC, April 11, 2011, limited liability company	—	100%	RMB 250,000,000	Provision of e-payment services in the PRC
China United Network Communications Beijing NewSpace Infinite Media Advertising Limited Corporation	The PRC, July 21, 2006, limited liability company	—	100%	RMB 100,000	Provision of advertising design, production, agency and publication in the PRC
Designing Techniques of Posts and Telecommunications Magazine Office Company Limited	The PRC, December 15, 2011, limited liability company	—	100%	RMB 300,000	Provision of magazine publishing services in the PRC
Unicom New Horizon Telecommunications Company Limited	The PRC, February 14, 2001, limited liability company	—	100%	RMB 40,233,739,557	Provision of lease service of telecommunications networks in the PRC

11. SUBSIDIARIES (CONTINUED)

Name	Place and date of incorporation /establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom Cloud Data Company Limited	The PRC, June 4, 2013, limited liability company	—	100%	RMB 2,132,023,616	Provision of technology development, transfer and consulting service in the PRC
Unicom Innovation Investment Company Limited	The PRC, April 29, 2014, limited liability company	—	100%	RMB 200,000,000	Venture capital investment business in the PRC
Wostore Technology Company Limited	The PRC, October 24, 2014, limited liability company	—	100%	RMB 200,000,000	Communications technology development and promotion in the PRC
China Unicom Smart Connection Technology Company Limited	The PRC, August 7, 2015, limited liability company	—	100%	RMB 100,000,000	Auto informatization in the PRC

12. INTEREST IN ASSOCIATES

	<u>2014</u>	<u>2015</u>
Share of net assets	<u>3,037</u>	<u>31,997</u>

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

<u>Name</u>	<u>Form of business structure</u>	<u>Place of incorporation and business</u>	<u>Proportion of ownership interest held by a subsidiary</u>	<u>Paid up capital</u>		<u>Principal activities</u>
Tower Company	Incorporated	The PRC	28.1%	RMB	129,344,615,024	Construction, maintenance and operation of communications towers in the PRC (Note 1)
Guang Lian Shi Tong New Media Limited	Incorporated	The PRC	49%	RMB	51,020,408	Provision of mobile audio visual programs integrated broadcasting services in the PRC
China Unicom Innovation Investment Company (Shanghai) Limited (“Innovation Investment Company”)	Incorporated	The PRC	62.5%	RMB	40,000,000	Venture capital investment business in the PRC (Note i)
Shanghai Wo Huang Information Technology Company Limited	Incorporated	The PRC	30%	RMB	10,000,000	Information technology development and consulting in the PRC
Shanghai Wo Orange Information Technology Company Limited	Incorporated	The PRC	48%	RMB	10,000,000	Digital technology, computer systems technology development and consulting in the PRC

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

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

12. INTEREST IN ASSOCIATES (CONTINUED)

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

13. OTHER ASSETS

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

- (i) The amount includes the receivables from the sales of mobile handset that are gradually recovered over one year during the contract period. Receivables to be gradually recovered within one year is included in prepayments and other current assets (see Note 16(i)).

14. INVENTORIES AND CONSUMABLES

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

15. ACCOUNTS RECEIVABLE

	2014	2015
Accounts receivable	19,135	19,867
Less: Allowance for doubtful debts	(4,464)	(4,910)
	<u>14,671</u>	<u>14,957</u>

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

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

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

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

15. ACCOUNTS RECEIVABLE (CONTINUED)

As of December 31, 2015, accounts receivable of approximately RMB3,278 million (2014: approximately RMB3,224 million) were past due but not impaired. Such overdue amounts can be recovered based on past experience. The aging analysis of these receivables is as follows:

	<u>2014</u>	<u>2015</u>
More than one month to three months	1,738	1,805
More than three months to one year	754	655
More than one year	<u>732</u>	<u>818</u>
	<u>3,224</u>	<u>3,278</u>

As of December 31, 2015, accounts receivable of approximately RMB4,910 million (2014: approximately RMB4,464 million) were impaired. The Group makes such allowance based on its past experience, historical collection patterns, subscribers' creditworthiness and collection trends. The Group makes a full allowance for receivables aged over 3 months after the credit period for individual subscribers unless they meet certain specified credit assessment criteria. The individually impaired receivables mainly relate to subscriber service fees. The aging of these receivables is as follows:

	<u>2014</u>	<u>2015</u>
More than three months to one year	2,504	2,762
More than one year	<u>1,960</u>	<u>2,148</u>
	<u>4,464</u>	<u>4,910</u>

Allowance for doubtful debts is analyzed as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Balance, beginning of year	4,066	4,291	4,464
Allowance for the year	3,275	3,098	3,365
Written-off during the year	<u>(3,050)</u>	<u>(2,925)</u>	<u>(2,919)</u>
Balance, end of year	<u>4,291</u>	<u>4,464</u>	<u>4,910</u>

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

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

16. PREPAYMENTS AND OTHER CURRENT ASSETS

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

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

- (i) The Group offers preferential packages to the customers which include the bundle sales of mobile handsets and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. For those contractual preferential packages with guarantees by third parties, the revenue relating to the sale of the handsets is recognized when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handsets. The receivable for the sales of mobile handsets is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered over one year amounted to RMB1,273 million (2014: RMB1,195 million), and are included in long-term other assets (see Note 13(i)).
- (ii) Pursuant to the Cai Shui [2014] No. 43 issued by MOF and SAT of the PRC, pilot programme regarding the replacement of business tax with value-added tax (“VAT”) implemented nationwide for the telecommunications industry from June 1, 2014 (see Note 29). VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

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

	2014	2015
Within one year	9,866	10,700
More than one year	163	164
	<u>10,029</u>	<u>10,864</u>

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

17. SHORT-TERM BANK DEPOSITS

	<u>2014</u>	<u>2015</u>
Bank deposits with maturity exceeding three months	30	32
Restricted bank deposits	26	170
	<u>56</u>	<u>202</u>

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

18. CASH AND CASH EQUIVALENTS

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

19. SHARE CAPITAL

	Number of shares millions	Share capital	Share premium	Capital redemption reserve	Total
Issued and fully paid:					
At January 1, 2013	23,565	2,311	173,473	79	175,863
Issuance of shares upon exercise of options (Note 37)	217	17	1,731	—	1,748
At December 31, 2013	23,782	2,328	175,204	79	177,611
Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance (Note 37)	2	—	19	—	19
Transition to no-par value regime on March 3, 2014	—	175,302	(175,223)	(79)	—
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37)	163	1,471	—	—	1,471
At December 31, 2014	23,947	179,101	—	—	179,101
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37)	—	1	—	—	1
At December 31, 2015	<u>23,947</u>	<u>179,102</u>	<u>—</u>	<u>—</u>	<u>179,102</u>

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

20. RESERVES

(a) Nature and purpose

(i) Statutory reserves

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

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

Accordingly, CUCL appropriated approximately RMB874 million (2013: approximately RMB988 million; 2014: approximately RMB1,166 million) to the general reserve fund for the year ended December 31, 2015.

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRSs, the appropriations to the staff bonus and welfare fund are charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended December 31, 2013, 2014 and 2015, no appropriation to staff bonus and welfare fund has been made by CUCL.

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

20. RESERVES (CONTINUED)

(a) Nature and purpose (Continued)

(ii) Employee share-based compensation reserve

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

(iii) Investment revaluation reserve

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

(iv) Convertible bonds reserve

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

(v) Other reserve

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

21. LONG-TERM BANK LOANS

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

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

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

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

22. PROMISSORY NOTES

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

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

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

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

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

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

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

23. CONVERTIBLE BONDS

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

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

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

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

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

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

24. CORPORATE BONDS

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

25. OTHER OBLIGATIONS

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

(a) One-off cash housing subsidies

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

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

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

25. OTHER OBLIGATIONS (CONTINUED)

(b) Obligations under finance lease

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

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

26. SHORT-TERM BANK LOANS

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

27. COMMERCIAL PAPERS

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

On March 19, 2015, CUCL issued tranche one of 2015 super and short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 4.40% per annum. The super and short term commercial papers were fully repaid in December 2015.

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

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

28. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

	<u>2014</u>	<u>2015</u>
Less than six months	104,334	146,336
Six months to one year	6,867	9,772
More than one year	9,170	11,288
	<u>120,371</u>	<u>167,396</u>

29. REVENUE

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

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

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

The major components of revenue are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Mobile service			
- Usage and monthly fees	68,626	62,152	45,901
- Value-added services revenue	67,975	79,814	83,529
- Interconnection fees	13,635	12,398	11,847
- Other mobile service revenue	897	731	1,343
Total service revenue from mobile service	<u>151,133</u>	<u>155,095</u>	<u>142,620</u>
Fixed-line service			
- Usage and monthly fees	17,698	14,357	11,130
- Broadband, data and other Internet-related services revenue	48,278	52,579	56,629
- Interconnection fees	4,146	3,979	3,667
- Value-added services revenue	3,996	4,324	5,132
- Leased line income	8,389	8,879	9,404
- Information communications technology services revenue	2,991	3,469	4,334
- Other fixed-line service revenue	989	894	965
Total service revenue from fixed-line service	<u>86,487</u>	<u>88,481</u>	<u>91,261</u>
Other service revenue	947	1,302	1,397
Total service revenue	<u>238,567</u>	<u>244,878</u>	<u>235,278</u>
Sales of telecommunications products	56,471	39,803	41,771
	<u>295,038</u>	<u>284,681</u>	<u>277,049</u>

30. NETWORK, OPERATION AND SUPPORT EXPENSES

	<u>Note</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Repairs and maintenance		11,697	13,619	13,178
Power and water charges		12,186	12,642	12,878
Operating lease charges for network, premises, equipment and facilities		8,625	10,274	11,867
Charges for the use of telecommunications towers and related assets	40.2(a)(ii)	—	—	2,926
Others		1,196	1,316	1,459
		<u>33,704</u>	<u>37,851</u>	<u>42,308</u>

31. EMPLOYEE BENEFIT EXPENSES

	<u>Note</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Salaries and wages		24,025	26,249	26,057
Contributions to defined contribution pension schemes		4,363	4,721	5,057
Contributions to medical insurance		1,372	1,526	1,678
Contributions to housing fund		1,953	2,125	2,307
Other housing benefits		20	31	41
Share-based compensation	37	50	—	—
		<u>31,783</u>	<u>34,652</u>	<u>35,140</u>

32. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Handsets and other customer end products	62,430	42,707	43,554
Telephone cards	914	562	364
Others	72	128	128
	<u>63,416</u>	<u>43,397</u>	<u>44,046</u>

33. OTHER OPERATING EXPENSES

	<u>Note</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Impairment losses for doubtful debts and write-down of inventories		4,219	3,958	4,054
Cost in relation to information communications technology services		2,664	3,119	3,920
Commission expenses		28,126	26,357	21,327
Customer acquisition cost and advertising and promotion expenses		6,990	5,228	3,524
Customer installation cost		3,319	4,799	3,792
Customer retention cost		4,556	3,809	3,321
Auditors' remuneration		59	63	64
Property management fee		2,163	2,282	2,238
Office and administrative expenses		2,755	2,290	2,102
Transportation expense		2,128	1,979	1,790
Miscellaneous taxes and fees		833	880	964
Technical support expenses		1,163	1,432	1,741
Repairs and maintenance expenses		792	891	852
Loss on disposal of property, plant and equipment		—	1,064	1,966
VAT surcharges	(i)	—	847	751
Others		2,197	2,413	2,554
		<u>61,964</u>	<u>61,411</u>	<u>54,960</u>

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

34. FINANCE COSTS

	<u>Note</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Finance costs:				
- Interest on bank loans repayable within 5 years		2,538	3,299	3,301
- Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		2,136	1,583	1,928
- Interest on convertible bonds repayable within 5 years		210	211	172
- Interest on related parties loans repayable within 5 years		42	71	60
- Interest on bank loans repayable over 5 years		3	2	8
- Less: Amounts capitalized in CIP	6	(894)	(825)	(936)
Total interest expense		4,035	4,341	4,533
- Exchange (gain)/loss		(1,325)	(6)	2,104
- Others		403	282	297
		<u>3,113</u>	<u>4,617</u>	<u>6,934</u>

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

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

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

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

As of December 31, 2015, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,665 million (2013: approximately RMB6,400 million; 2014: approximately RMB5,706 million). For the year ended December 31, 2015, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB1,041 million (2013: increase of approximately RMB958 million; 2014: decrease of approximately RMB694 million). The decrease, together with tax impact, of approximately RMB2,172 million (2013: increase, net of tax impact, of approximately RMB719 million; 2014: decrease, net of tax impact, of approximately RMB520 million), has been recorded in the consolidated statement of comprehensive income.

36. OTHER INCOME – NET

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Dividend income from financial assets at fair value through other comprehensive income	193	392	397
Gain on the Group's Tower Assets Disposal	—	—	9,246
Others	694	970	925
	<u>887</u>	<u>1,362</u>	<u>10,568</u>

37. EQUITY-SETTLED SHARE OPTION SCHEMES

37.1 Share option scheme

On June 1, 2000, the Company adopted the share option scheme pursuant to which the Board of Directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up share options to subscribe for shares up to a maximum aggregate number of shares not exceeding 10% of the total issued share capital of the Company (the “Share Option Scheme”). Pursuant to the Share Option Scheme, the nominal consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

- (i) the nominal value of the share (if applicable); and
- (ii) 80% of the average of the closing prices of shares on the SEHK on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the SEHK.

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

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

- (i) share options may be granted to employees including executive directors of the Group or any of the non-executive directors;
- (ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and
- (iii) minimum subscription price shall not be less than the higher of:
 - the nominal value of the shares (if applicable);
 - the closing price of the shares on the SEHK as stated in the SEHK’s quotation sheets on the offer date in respect of the share options; and
 - the average closing price of the shares on the SEHK’s quotation sheets for the five trading days immediately preceding the offer date.

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

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

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

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.2 Special purpose share option scheme

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

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

- (i) The exercise price of options under this scheme is equal to (a) the exercise price of an outstanding China Netcom option held by the Eligible Participants divided by (b) the share exchange ratio 1.508.
- (ii) The total number of options granted by the Company to all Eligible Participants under this scheme shall be equal to the product of (a) the share exchange ratio and (b) the number of China Netcom options outstanding as of October 14, 2008.

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

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

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

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

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.3 2014 share option scheme

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

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

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

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.4 Share option information

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

	2013		2014		2015	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year	6.49	391,331,158	6.61	174,498,077	6.35	3,540,000
Lapsed	4.30	(110,000)	6.00	(5,759,994)	6.35	(3,432,000)
Exercised	6.40	(216,723,081)	6.64	(165,198,083)	6.35	(108,000)
Balance, end of year	6.61	174,498,077	6.35	3,540,000	—	—
Exercisable at end of year	6.61	174,498,077	6.35	3,540,000	—	—

Exercise of share options during the year ended December 31, 2015 resulted in 108,000 shares being issued (2013: 216,723,081 shares; 2014: 165,198,083 shares), with exercise proceeds of approximately RMB1 million (2013: RMB1,102 million; 2014: RMB871 million).

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.4 Share option information (Continued)

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

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

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

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

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.4 Share option information (Continued)

Details of share options exercised during 2013, 2014 and 2015 are as follows:

For the year ended December 31, 2013:

<u>Grant date</u>	<u>Exercisable price HKD</u>	<u>Weighted average closing price per share at respective days immediately before dates of exercise of options HKD</u>	<u>Proceeds received HKD</u>	<u>Number of shares involved</u>
May 21, 2003	4.30	10.80	38,037,800	8,846,000
July 20, 2004	5.92	11.55	160,846,400	27,170,000
December 21, 2004	6.20	12.10	3,261,200	526,000
February 15, 2006	6.35	11.68	505,066,300	79,538,000
October 15, 2008	5.57	11.65	315,740,987	56,685,994
October 15, 2008	8.26	11.92	363,085,539	43,957,087
			<u>1,386,038,226</u>	<u>216,723,081</u>

For the year ended December 31, 2014:

<u>Grant date</u>	<u>Exercisable price HKD</u>	<u>Weighted average closing price per share at respective days immediately before dates of exercise of options HKD</u>	<u>Proceeds received HKD</u>	<u>Number of shares involved</u>
July 20, 2004	5.92	11.94	80,464,640	13,592,000
December 21, 2004	6.20	13.30	793,600	128,000
February 15, 2006	6.35	11.85	433,882,800	68,328,000
October 15, 2008	5.57	12.27	217,608,197	39,067,899
October 15, 2008	8.26	12.41	364,118,840	44,082,184
			<u>1,096,868,077</u>	<u>165,198,083</u>

For the year ended December 31, 2015:

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

For the year ended December 31, 2015, there were no employee share-based compensation expenses (2013: approximately RMB50 million; 2014: Nil).

38. DIVIDENDS

At the annual general meeting held on April 16, 2014, the shareholders of the Company approved the payment of a final dividend of RMB0.16 per ordinary share for the year ended December 31, 2013, totaling approximately RMB3,806 million which has been reflected as a reduction of retained profits for the year ended December 31, 2013. The dividend payable of approximately RMB773 million was due to Unicom BVI as of December 31, 2014.

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Proposed final dividend:			
RMB0.17 (2013: RMB0.16; 2014: RMB0.20) per ordinary share by the Company	<u>3,805</u>	<u>4,789</u>	<u>4,071</u>

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

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

39. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2013, 2014 and 2015 were computed by dividing the income 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 December 31, 2013, 2014 and 2015 were computed by dividing the income attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. No dilutive potential ordinary shares for the year ended December 31, 2015. All dilutive potential ordinary shares for the year ended December 31, 2014 arose from (i) share options granted under the amended Share Option Scheme and (ii) the convertible bonds, while all dilutive potential ordinary shares for the year ended December 31, 2013 arose from (i) share options granted under the amended Share Option Scheme; (ii) share options granted under the amended Special Purpose Share Option Scheme; and (iii) the convertible bonds.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Numerator (in RMB millions):			
Income attributable to equity shareholders of the Company used in computing basic earnings per share	10,408	12,055	10,562
Imputed finance cost on the liability component of convertible bonds	<u>210</u>	<u>211</u>	<u>—</u>
Income attributable to equity shareholders of the Company used in computing diluted earnings per share	<u>10,618</u>	<u>12,266</u>	<u>10,562</u>
Denominator (in millions):			
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,658	23,852	23,947
Dilutive equivalent shares arising from share options	75	2	—
Dilutive equivalent shares arising from convertible bonds	<u>923</u>	<u>941</u>	<u>—</u>
Shares used in computing diluted earnings per share	<u>24,656</u>	<u>24,795</u>	<u>23,947</u>
Basic earnings per share (in RMB)	<u>0.44</u>	<u>0.51</u>	<u>0.44</u>
Diluted earnings per share (in RMB)	<u>0.43</u>	<u>0.49</u>	<u>0.44</u>

40. RELATED PARTY TRANSACTIONS

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

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

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

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

40. RELATED PARTY TRANSACTIONS (CONTINUED)

40.1 Connected transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

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

	<u>Note</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Transactions with Unicom Group and its subsidiaries:				
Charges for value-added telecommunications services	(i), (ii)	53	51	62
Rental charges for property leasing	(i), (iii)	943	955	929
Charges for lease of telecommunications resources	(i), (iv)	328	271	283
Charges for engineering design and construction services	(i), (v)	2,178	3,138	5,018
Charges for shared services	(i), (vi)	171	119	107
Charges for materials procurement services	(i), (vii)	188	91	125
Charges for ancillary telecommunications services	(i), (viii)	1,853	2,111	2,504
Charges for comprehensive support services	(i), (ix)	613	840	1,455
Income from comprehensive support services	(i), (ix)	52	19	12

40. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) Recurring transactions (Continued)

- (i) The agreement governing the recurring related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries expired on December 31, 2013. Accordingly, on October 24, 2013, CUCL entered into the new agreement, “2013 Comprehensive Services Agreement” with Unicom Group to renew certain continuing connected transactions. 2013 Comprehensive Services Agreement has a term of three years commencing on January 1, 2014 and expiring on December 31, 2016, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for certain transactions have changed under the new agreement. On August 21, 2015, CUCL and Unicom Group entered into the Supplemental Agreement to revise the annual cap for the total charges payable by CUCL to Unicom Group for comprehensive support services under the 2013 Comprehensive Services Agreement for each of the two years of 2015 and 2016.
- (ii) UNISK (Beijing) Information Technology Corporation Limited (“UNISK”) agreed to provide the mobile subscribers of CUCL with various types of value-added services through its cellular communications network and data platform. The Group retains a portion of the revenue generated from the value-added services provided to the Group’s subscribers (and actually received by the Group) and allocates a portion of such fees to UNISK for settlement, on the condition that such proportion allocated to UNISK does not exceed the average proportion allocated to independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region. The percentage of revenue to be allocated to UNISK by the Group varies depending on the types of value-added service provided to the Group.
- (iii) CUCL and Unicom Group agreed to mutually lease properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes. For the year ended December 31, 2015, the rental charge paid by Unicom Group was approximately RMB2.55 million, which was negligible.

40. RELATED PARTY TRANSACTIONS (CONTINUED)

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

- (a) Recurring transactions (Continued)
- (iv) Unicom Group agreed to lease to CUCL certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) and certain other telecommunications facilities for its operations. The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and facilities provided that such charges would not be higher than market rates. For maintenance service to the telecommunications facilities aforementioned, unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL and determined with reference to market rates or a cost-plus basis if there are no market rates.
 - (v) Unicom Group agreed to provide engineering design, construction and supervision services and IT services to CUCL. The charges payable by CUCL for the above services are determined with reference to the market price and are settled when the relevant services are provided.
 - (vi) Unicom Group and CUCL agreed to provide shared services to each other and would share the costs related to the shared services proportionately in accordance with their respective total assets value with certain adjustments. For the year ended December 31, 2015, the services charges paid by Unicom Group to CUCL was negligible.
 - (vii) Unicom Group agreed to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group has also agreed to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement. The charges payable by CUCL to Unicom Group are based on contract values, market rates, government guidance price or cost-plus basis where applicable.
 - (viii) Unicom Group agreed to provide ancillary telecommunications services to CUCL. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers' service. The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

40. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) Recurring transactions (Continued)

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

40. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

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

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

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

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

(c) Commitments to Unicom Group and its subsidiaries

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

	<u>2014</u>	<u>2015</u>
Unicom Group and its subsidiaries	<u>930</u>	<u>926</u>

40. RELATED PARTY TRANSACTIONS (CONTINUED)

40.2 Related party transactions with Tower Company

(a) Related party transactions

		<u>2013</u>	<u>2014</u>	<u>2015</u>
Transactions with Tower Company:				
The Group's Tower Assets Disposal	(i)	—	—	54,658
Charges for the use of telecommunications towers and related assets	(ii)	—	—	2,926
Income from engineering design and construction services	(iii)	—	—	50

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

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

(ii) The Group provide engineering design and construction services, including system integration and engineering design services to Tower Company.

(b) Amounts due from and to Tower Company

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

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

41. CONTINGENCIES AND COMMITMENTS

41.1 Capital commitments

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

	<u>2014</u>	<u>2015</u>		
	<u>Total</u>	<u>Land and buildings</u>	<u>Equipment</u>	<u>Total</u>
Authorized and contracted for	18,803	16	18,113	18,129
Authorized but not contracted for	33,202	18,893	2,958	21,851
	<u>52,005</u>	<u>18,909</u>	<u>21,071</u>	<u>39,980</u>

41.2 Operating lease commitments

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

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

41.3 Contingent liabilities

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

42. NON-ADJUSTING EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

42.1 Proposed dividend

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

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

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

As of December 31, 2014 and 2015, RMB27,906 million and RMB28,780 million (US\$4,443 million) were appropriated from retained earnings and set aside for the statutory reserve by the Company's PRC subsidiaries, respectively.

As a result of these PRC laws and regulations, the Company's subsidiaries in the PRC are restricted in its ability to transfer a portion of its net assets to either in the form of dividends, loans or advances, which consisted of registered capital and statutory reserves that amounted to RMB183,308 million and RMB188,231 million (US\$29,058 million) as of December 31, 2014 and 2015, respectively.

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

Condensed Statement of financial position

	As of December 31		
	2014	2015	2015
	RMB	RMB	US\$
ASSETS			
Non-current assets			
Property, plant and equipment	16	13	2
Investments in subsidiaries	159,798	160,308	24,747
Loan to subsidiary	35,700	34,461	5,320
Deferred income tax assets	1,133	—	—
Financial assets at fair value through other comprehensive income	5,706	4,665	720
	<u>202,353</u>	<u>199,447</u>	<u>30,789</u>
Current assets			
Loan to subsidiary	17,344	113	17
Amounts due from subsidiaries	4,716	3,418	528
Dividend receivable	37,773	19,947	3,080
Prepayments and other current assets	6	9	1
Cash and cash equivalents	1,852	657	102
	<u>61,691</u>	<u>24,144</u>	<u>3,728</u>
Total assets	<u>264,044</u>	<u>223,591</u>	<u>34,517</u>
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	179,101	179,102	27,649
Reserves	(3,716)	(5,917)	(913)
Retained profits			—
- Proposed final dividend	4,789	4,071	628
- Others	4,429	5,999	926
Total equity	<u>184,603</u>	<u>183,255</u>	<u>28,290</u>
LIABILITIES			
Non-current liabilities			
Promissory notes	6,487	3,995	617
	<u>6,487</u>	<u>3,995</u>	<u>617</u>
Current liabilities			
Short-term bank loans	52,978	25,828	3,987
Accounts payable and accrued liabilities	898	316	49
Loans from subsidiaries	11,201	171	26
Amounts due to a related parity	481	—	—
Amounts due to subsidiaries	6,388	6,385	986
Taxes payable	235	222	34
Dividend payable	773	920	142
Current portion of promissory notes	—	2,499	386
	<u>72,954</u>	<u>36,341</u>	<u>5,610</u>
Total liabilities	<u>79,441</u>	<u>40,336</u>	<u>6,227</u>
Total equity and liabilities	<u>264,044</u>	<u>223,591</u>	<u>34,517</u>
Net current liabilities	<u>(11,263)</u>	<u>(12,197)</u>	<u>(1,882)</u>
Total assets less current liabilities	<u>191,090</u>	<u>187,250</u>	<u>28,907</u>

Condensed Statements of Comprehensive Income

	Year ended December 31			
	2013 RMB	2014 RMB	2015 RMB	2015 US\$
Dividend income	4,797	12,120	7,226	1,116
General and administrative expenses	(103)	(52)	(52)	(8)
Interest income	649	937	1,387	214
Finance costs	(131)	(1,272)	(2,980)	(460)
Other income-net	1	(6,222)	67	10
Income before income tax	5,213	5,511	5,648	872
Income tax expenses	(132)	(47)	(36)	(6)
Net income	5,081	5,464	5,612	866
Other comprehensive income:				
Change in fair value of financial assets through other comprehensive income-net	719	(520)	(2,172)	(335)
Total comprehensive income for the year	5,800	4,944	3,440	531

Condensed Statements of Cash Flows

	Year ended December 31			
	2013 RMB	2014 RMB	2015 RMB	2015 US\$
Net cash outflow from operating activities	(105)	(194)	(56)	(9)
Net cash (outflow)/inflow from investing activities	(7,296)	423	24,613	3,800
Net cash inflow/(outflow) from financing activities	8,232	542	(25,829)	(3,987)
- Dividend paid to equity shareholders of the Company	(2,686)	(3,584)	(4,643)	(717)
Net increase/(decrease) in cash and cash equivalents	831	771	(1,272)	(196)
Cash and cash equivalents at beginning of year	153	966	1,852	286
Effect of changes in foreign exchange rate	(18)	115	77	12
Cash and cash equivalents at end of year	966	1,852	657	102

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

44. APPROVAL OF FINANCIAL STATEMENTS

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

ARTICLES OF ASSOCIATION
OF
CHINA UNICOM (HONG KONG) LIMITED
中國聯合網絡通信(香港)股份有限公司

Incorporated in Hong Kong on the 8th day of February, 2000

(As adopted by Special Resolution passed on 8 May 2015)

編號 No. 703499

(COPY)
COMPANIES ORDINANCE
(CHAPTER 32)
香港法例第32章

CERTIFICATE OF CHANGE OF NAME
公司更改名稱證書

I hereby certify that
本人謹此證明

CHINA UNICOM LIMITED
中國聯通股份有限公司

having by special resolution changed its name, is now incorporated under
經通過特別決議，已將其名稱更改，該公司現根據

the Companies Ordinance (Chapter 32) in the name of
《公司條例》(第32章)註冊的名稱為

CHINA UNICOM (HONG KONG) LIMITED
中國聯合網絡通信(香港)股份有限公司

Issued on 15 October 2008.

本證書於二零零八年十月十五日發出。

(Sd.) Ms. Fanny Wing-chi LAM

for Registrar of Companies Hong Kong
香港公司註冊處處長
(林詠芝代行)

Note 註：

Registration of a company name with the Companies Registry does not confer any trade mark rights or any other intellectual property rights in respect of the company name or any part thereof.

公司名稱獲公司註冊處註冊，並不表示獲授該公司名稱或其任何部份的商標權或任何其他知識產權。

編號 No. 703499

(COPY)
COMPANIES ORDINANCE
(CHAPTER 32)
香港法例第32章

CERTIFICATE OF INCORPORATION
公司註冊證書

I hereby certify that
本人謹此證明

CHINA UNICOM LIMITED
中國聯通股份有限公司

is this day incorporated in Hong Kong under the Companies Ordinance, and that this company is limited.
於本日在香港依據公司條例註冊成為有限公司。

Issued by the undersigned on 8 February, 2000.
本證書於二零零零年二月八日簽發。

(Sd.) MISS R. CHEUNG

for Registrar of Companies Hong Kong
香港公司註冊處處長
(香港註冊主任張潔心代行)

THE COMPANIES ORDINANCE (CHAPTER 622)

Company Limited by Shares

ARTICLES OF ASSOCIATION
(As adopted by Special Resolution passed on 8 May 2015)
OF

CHINA UNICOM (HONG KONG) LIMITED
(中國聯合網絡通信(香港)股份有限公司)

PRELIMINARY

1. The regulations in Schedule 1 to the Companies (Model Articles) Notice (Chapter 622H) shall not apply to the Company.

INTERPRETATION

2. (a) In these Articles save where the context otherwise requires:

associate in relation to any Director, has the meaning ascribed to it under the Listing Rules as amended from time to time;

Associated Company means any company that is the Company's subsidiary or holding company or a subsidiary of the Company's holding company.

Auditors means the Auditors of the Company for the time being;

Board and *Directors* means the directors for the time being of the Company or the Directors present at a duly convened meeting of directors at which a quorum is present;

business day means any day on which the Stock Exchange is open for business of dealing in securities;

call includes any instalment of a call and, in the application of provisions of these Articles to forfeiture of shares, a sum which, by the terms of issue of a share, is payable at a fixed time;

capital means the share capital from time to time of the Company;

Chairman means the Chairman presiding at any meeting of members or the Board;

Company means the above-named Company;

connected entity shall have the same meaning as that for "an entity connected with a director or former director of a company" set out in Section 486(1) of the Ordinance;

close associate in relation to any Director, shall have the same meaning ascribed to it under the Listing Rules;

Clearing House shall mean a recognised clearing house within the meaning of Schedule 1 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

Dividend includes distributions in specie or in kind, capital distributions and capitalisation issues;

Dollars and *\$* means dollars in the lawful currency of Hong Kong;

Hong Kong means the Hong Kong Special Administrative Region of the People's Republic of China;

Listing Rules means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;

month means calendar month;

Office means the registered office of the Company for the time being;

paid up includes credited as paid up;

Ordinance means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), any subsidiary legislation providing relevant administrative, technical and procedural matters for implementation of the Ordinance, and any amendments thereto or re-enactment thereof for the time being in force;

Register means the register of members of the Company kept pursuant to the Ordinance and includes any branch register kept pursuant to the Ordinance;

reporting documents shall have the same meaning as that set out in Section 357(2) of the Ordinance;

Seal means the common seal of the Company or any official seal that the Company may have as permitted by the Ordinance;

Secretary means the person or persons appointed for the time being to perform for the Company the duties of a secretary;

share means a share in the capital of the Company;

Stock Exchange means The Stock Exchange of Hong Kong Limited;

these Articles means these Articles of Association in their present form or as altered from time to time; and

in writing and *written* shall include printing, lithograph, xerography, photography or other modes of representing or reproducing words in a permanent visible form or, to the extent permitted by and in accordance with the Ordinance and any other applicable laws, rules and regulations, any visible substitute for writing (including a communication sent by electronic transmission in any form through any medium), or modes of representing or reproducing words partly in one visible form and partly in another visible form.

- (b) In these Articles, if not inconsistent with the subject or context, words importing the singular number only shall include the plural number and vice versa, words importing any gender shall include all other genders and references to persons shall include corporations (acting, where applicable, by their duly authorised representatives).
- (c) Subject as aforesaid, any words defined in the Ordinance shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.
- (d) The headings and any marginal notes are inserted for convenience only and shall not affect the construction of these Articles.

NAME OF THE COMPANY

- 3. The name of the Company is “CHINA UNICOM (HONG KONG) LIMITED 中國聯合網絡通信(香港)股份有限公司”¹.

THE OFFICE

- 4. The Office shall be at such place in Hong Kong as the Directors shall from time to time appoint.

CAPACITY AND POWERS OF THE COMPANY

- 5. The Company has the capacity, rights, powers and privileges of a natural person.

LIABILITY OF THE MEMBERS

- 6. The liability of the members of the Company is limited to any amount unpaid on the shares held by the members.

SHARES

- 7. Shares may be issued with a preferential or qualified right to dividends and in the distribution of assets of the Company and with or without any special voting rights.
- 8. Without prejudice to any special rights, privileges or restrictions for the time being attached to any issued shares, any unissued or forfeited shares may be issued or re-issued upon such terms and conditions, and with such rights, privileges and restrictions attached thereto, whether in regard to dividends, voting, repayment or redemption of share capital, or otherwise, as the Company may, subject to the Ordinance, from time to time determine or, in the absence of any such determination, as the Directors shall determine.

¹ Pursuant to a special resolution of the Company passed on 16 September 2008, the name of the Company was changed from China Unicom Limited 中國聯通股份有限公司 to China Unicom (Hong Kong) Limited 中國聯合網絡通信(香港)股份有限公司 with effect from 15 October 2008.

9. The Board may issue warrants to subscribe for any class of shares or securities of the Company on such terms as the Board may from time to time determine. No fraction of any share shall be allotted on exercise of the subscription rights.
10. Subject to the provisions of the Ordinance and the relevant authority given by the Company in general meeting, the Directors may exercise any power of the Company to allot shares (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, or to grant rights to subscribe for or convert any security into shares of the Company, at such times, to such persons, for such consideration and generally on such terms as the Directors shall in their absolute discretion think fit.
11. The Company may make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and the time of payment of such calls.
12. If by the conditions of allotment of any shares the whole or part of the issue price thereof shall be payable by instalments, every such instalment shall, when due, be paid to the Company by the person who for the time being and from time to time shall be the registered holder of the shares, or his legal personal representative.
13. Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued, the Company may allot and issue, or grant rights to subscribe for, or to convert any security, into shares in the Company in one class or different classes, with such preferred, deferred or other special rights, or subject to such restrictions, whether in regard to dividend, return of capital, voting or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Board may determine) and subject to the provisions of the Ordinance, the Company may allot and issue any shares which are to be redeemed or liable to be redeemed at the option of the Company or the holder and the Directors may determine the terms, conditions and manner of redemption of any such share, provided that purchases of redeemable shares not made through the market or by tender shall be limited to a maximum price and if purchases are by tender, tenders shall be available to all shareholders holding redeemable shares of the Company alike.
14. Subject to the provisions of these Articles, except as required by law or ordered by a court of competent jurisdiction, no person shall be recognised by the Company as holding any share upon any trust, and except as aforesaid, the Company shall not be bound by or required in any way to recognise any contingent, future, partial or equitable interest in any share or in any fractional part of a share or any other right in respect of any share or any other claim to or in respect of any such share on the part of any person (even when having notice thereof) except an absolute right to the entirety thereof in the registered holder.
15. The Company may in connection with the issue of any shares exercise all powers of paying interest out of capital and of paying commission and brokerage conferred or permitted by the Ordinance.
16. No person shall become a member until his name shall have been entered into the Register.
17. Whenever any fractions arise as a result of an issue of shares by the Company, the Board may, on behalf of the members, deal with the fractional shares in such manner as it thinks fit. In particular, without limitation, the Board may sell the fractional share to which any members would otherwise become entitled to any person and may retain the net proceeds of sale for the benefit of the Company or distribute the net proceeds of sale in due proportion among those members so entitled. For this purpose, the Board may authorise any person to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer of the fractional shares to the purchaser thereof, who shall not be bound to see to the application of the purchase money.

JOINT HOLDERS OF SHARES

18. Where two or more persons are registered as the holders of any share they shall be deemed to hold the same as joint tenants with benefit of survivorship, subject to the following provisions:
- (a) the Company shall not be bound to register more than four persons as the holders of any shares except in the case of the legal personal representatives of a deceased member;
 - (b) the joint holders of any shares shall be liable severally as well as jointly in respect of all payments which ought to be made in respect of such shares;
 - (c) on the death of any one of such joint holders the survivor or survivors shall be the only person or persons recognised by the Company as having any title to such shares, but the Directors may require such evidence of death as they may deem fit;
 - (d) any one of such joint holders may give effectual receipts for any dividend, bonus or return of capital payable to such joint holders; and
 - (e) the Company shall be at liberty to treat the person whose name stands first in the Register as one of the joint holders of any shares as solely entitled to delivery of the certificate relating to such shares, or to receive notices from the Company, or to attend or vote at general meetings of the Company, and any notice given to such person shall be deemed notice to all the joint holders; but any one of such joint holders may be appointed the proxy of the persons entitled to vote on behalf of such joint holders, and as such proxy to attend and vote at general meetings of the Company, but if more than one of such joint holders be present at any meeting personally or by proxy that one so present whose name stands first in the Register in respect of such shares shall alone be entitled to vote in respect thereof.

SHARE CERTIFICATES

19. In accordance with the Ordinance, every person whose name is entered as a member in the Register shall be entitled without payment to receive after allotment or lodgment of an instrument of transfer duly stamped, one certificate for all his shares of any particular class, or if he shall so request, upon payment of a fee (not exceeding HK\$2.50 or such greater sum as the Stock Exchange may from time to time permit) for every certificate after the first, as the Directors shall from time to time determine, such number of certificates for shares in Stock Exchange board lots or multiples thereof as he shall request and one for the balance (if any) of the shares in question, provided that in the event of a member transferring part of the shares represented by a certificate in his name a new certificate in respect of the balance thereof shall be issued in his name without payment and, in the case of a share or shares held jointly by several persons the Company shall not be bound to issue a certificate or certificates to each such person, and the issue and delivery of a certificate or certificates to one of several joint holders shall be sufficient delivery to all such holders.

20. Every share certificate shall be issued under the Seal (which for this purpose may be any official seal as permitted or a mechanical reproduction of the impression of such official seal) and shall specify the number and class of shares and, if required, the distinctive numbers thereof, to which the certificate relates, and the amount paid up thereon and may otherwise be in such form as the Board may from time to time determine. If at any time the share capital of the Company is divided into different classes of shares, every share certificate issued at that time shall comply with the Ordinance, and no certificate shall be issued in respect of more than one class of shares.
21. Subject to the Ordinance, if any share certificate shall be worn out, defaced, destroyed or lost, it may be replaced on payment of such fee, if any (not exceeding HK\$2.50 or such greater sum as the Stock Exchange may from time to time permit), on such evidence being produced as the Directors shall require, and in case of wearing out or defacement, on delivery up of the old certificate, and in case of destruction or loss, on the execution of such indemnity (if any), as the Directors may require. In case of destruction or loss, the person to whom such replacement certificate is given shall also bear and pay to the Company all expenses incidental to the investigation by the Company of the evidence of such destruction or loss and of the production of such indemnity.

CALLS ON SHARES

22. (a) The Directors may from time to time make calls upon the members in respect of all moneys unpaid on their shares but subject always to the terms of issue of such shares, and any such call may be made payable by instalments.
(b) Each member shall, subject to receiving at least fourteen (14) days' notice specifying the time or times and place of payment, pay to the Company the amount called on his shares and at the time or times and place so specified. The non-receipt of a notice of any call by, or the accidental omission to give notice of a call to, any of the members shall not invalidate the call.
23. A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed. A call may be revoked, varied or postponed as to all or any of the members liable therefor as the Directors may determine. A person on whom a call is made will remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect whereof the call was made.
24. If any part of a call is not paid before or on the day appointed for payment thereof, the person from whom the payment is due shall be liable to pay all costs, charges and expenses that the Company may have incurred by reason of such non-payment together with interest on the outstanding part thereof at such rate as the Directors shall determine (not exceeding twenty (20) per cent. per annum) from the day appointed for the payment of such call or instalment to the time of discharge thereof in full; but the Directors may, if they shall think fit, waive the payment of such costs, charges, expenses or interest or any part thereof.

25. If, by the terms of the issue of any shares or otherwise, any amount is made payable upon allotment or at any fixed time, every such amount shall be payable as if it were a call duly made and payable on the date on which by the terms of issue the same becomes payable; and all the provisions hereof with respect to the payment of calls and interest thereon, or to the forfeiture of shares for non-payment of calls shall apply to every such amount and the shares in respect of which it is payable in the case of non-payment thereof.
26. The Directors may, if they shall think fit, receive from any member willing to advance the same (either in money or money's worth) all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him; and upon all or any of the moneys so paid in advance the Directors may (until the same would, but for such payment in advance, become presently payable) pay interest at such rate as may be agreed upon between the member paying the moneys in advance and the Directors (not exceeding twenty (20) per cent. per annum). But a payment in advance of a call shall not entitle the shareholder to receive any dividend or to exercise any other rights or privileges as a shareholder in respect of the share or the due portion of the shares upon which payment has been advanced by such shareholder before it is called. The Directors may also at any time repay the amount so advanced upon giving to such member one month's notice in writing unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced.
27. On the trial or hearing of any action for the recovery of any money due for any call, it shall be sufficient to prove that the name of the member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such money is due; that the resolution making the call is duly recorded in the minute book of the Company; and that notice of such call was duly given to the member sued in pursuance of these Articles, and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matter whatsoever, but the proof of the matters aforesaid shall be conclusive evidence that the money is due.
28. No member shall, unless the Directors otherwise determine, be entitled to receive any dividend or bonus, or to receive notice of or to be present or vote at any general meeting, either personally or (save as proxy for another member) by proxy, or to exercise any privileges as a member, or be reckoned in a quorum, until he shall have paid all calls or other sums for the time being due and payable on every share held by him, whether alone or jointly with any other person, together with interest and expenses (if any).

FORFEITURE

29. If any member fails to pay in full any call or any instalment of a call on the day appointed for payment thereof, the Directors may at any time thereafter, during such time as any part of the call remains unpaid without prejudice to the provisions of Article 28, serve a notice on him requiring him to pay so much of the call as is unpaid together with interest accrued and any expenses incurred by reason of such non-payment.
30. The notice shall name a further day (not being less than fourteen (14) days from the date of the notice) on or before which such call or part thereof and all interest accrued and expenses incurred by reason of such non-payment are to be paid, and it shall also name the place where payment is to be made, such place being either the Office, or some other place at which calls of the Company are usually made payable. The notice shall also state that, in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call is payable will be liable to forfeiture.

31. If the requirements with regard to payment of any such notice as aforesaid be not complied with, any shares in respect of which such notice has been given may, at any time thereafter and before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect, and any such forfeiture shall extend to all dividends and bonuses declared in respect of the shares so forfeited but not payable until after such forfeiture. The Directors may accept surrender of any shares liable to be forfeited hereunder and in such cases references in the Articles to forfeiture shall include surrender.
32. Any shares so forfeited shall be deemed for the purposes of this Article to be the property of the Company and may be sold, cancelled, re-allotted or otherwise disposed of either subject to or discharged from all calls made prior to the forfeiture, to any person, upon such terms as to subscription price and otherwise and in such manner and at such time or times as the Directors think fit. For the purpose of giving effect to any such sale or other disposition the Directors may authorise the transfer of the shares so sold or otherwise disposed of to the purchaser thereof or any other person becoming entitled thereto. The Directors shall account to the person whose shares have been forfeited with the balance (if any) of monies received by the Company in respect of those shares after deduction of expenses of forfeiture, sale or disposal of the shares and any amount due to the Company in respect of the shares.
33. The Directors may, at any time before any shares so forfeited shall have been sold, cancelled, re-allotted or otherwise disposed of, annul the forfeiture thereof upon such conditions as they think fit or permit the share forfeited to be redeemed upon the terms of payment of all calls and interest due thereon and all expenses incurred in respect of the share, and upon such further terms (if any) it thinks fit.
34. Any person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall notwithstanding the forfeiture be and remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with interest thereon from the date of forfeiture until payment at such rate as the Directors may prescribe (not exceeding twenty (20) per cent. per annum), and the Directors may enforce the payment of such moneys or any part thereof and without any deduction or allowance for the value of the shares at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share payable thereon at a fixed time which is subsequent to the date of forfeiture, shall notwithstanding that the time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.
35. When any shares have been forfeited, notice of the resolution shall be given to the member in whose name it stood immediately prior to the forfeiture and an entry shall be made in the Register recording the forfeiture and the date thereof but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry, and so soon as the shares so forfeited have been sold or otherwise disposed of an entry shall also be made of the manner and date of the sale or disposal thereof.

LIEN

36. The Company shall have a first and paramount lien on every share (not being a fully paid-up share) for all moneys outstanding in respect of such share whether presently payable or not, and the Company shall also have a first and paramount lien on every share (other than fully paid-up shares) standing registered in the name of a member, whether singly or jointly with any other person or persons, for all the debts and liabilities of such member or his estate to the Company, whether the same shall have been incurred before or after notice has been given to the Company of any interest of any person other than such member, and whether the time for the payment or discharge of the same shall have already arrived or not, and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person, whether a member or not. The Company's lien on a share shall extend to all dividends payable thereon. The Directors may at any time either generally or in any particular case waive any lien that has arisen, or declare any share to be wholly or in part exempt from the provisions of this Article.
37. The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable or the liability or engagement in respect of such lien exists is liable to be presently fulfilled or discharged, nor until the expiration of fourteen (14) days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell in default shall have been given to the holder for the time being of the share or the person entitled thereto by reason of his death, bankruptcy or winding-up or otherwise by operation of law or court order.
38. The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debts or liabilities in respect whereof the lien exists so far as the same are presently payable and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the time of the sale. For giving effect to any such sale the Directors may authorise some person to transfer the shares so sold to the purchaser thereof and may enter the purchaser's name in the Register as holder of the shares, and the purchaser shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
39. A statutory declaration in writing that the declarant is a Director or the Secretary of the Company and that a share has been duly forfeited or surrendered or sold on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt of the Company for the consideration (if any) given for the share on the sale, re-allocation or disposal thereof together with the share certificate delivered to a purchaser or allottee thereof shall (subject to the execution of a transfer if the same be required) constitute a good title to the share and the person to whom the share is sold, re-allotted or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, surrender, sale, re-allotment or disposal of the share.

TRANSFER OF SHARES

40. The instrument of transfer of any shares in the Company shall be in writing in the usual common form or in such other form as the Board may accept and may be under hand only or, if the transferor or transferee is a Clearing House (or its nominee), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.
41. Every instrument of transfer shall be lodged at the Office for registration (or at such other place the Board may appoint for such purpose) accompanied by the certificate relating to the shares to be transferred and such other evidence as the Directors may require in relation thereto. All instruments of transfer which shall be registered shall be retained by the Company, but save where fraud is suspected any instrument of transfer which the Directors may decline to register shall, on demand, be returned to the person depositing the same.
42. There shall be paid to the Company in respect of the registration of a transfer and of any Grant of Probate or Letters of Administration, Certificate of Marriage or Death, Power of Attorney or other document relating to or affecting the title to any share or for making of any entry in the Register affecting the title to any share such fee (if any) as the Directors may from time to time require or prescribe (but not exceeding HK\$2.50 or such greater sum as the Stock Exchange may from time to time permit).
43. The registration of transfers may be suspended at such times and for such periods as the Directors may, in accordance with the Ordinance, from time to time determine and either generally or in respect of any class of shares.
44. The Directors may, at any time in their absolute discretion, decline to register any transfer of any share (not being a fully paid-up share). If the Directors refuse to register a transfer they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal, provided that if the transferor or transferee requests for a statement of the reasons for the refusal, the Company must within the time period prescribed by the Ordinance send the statement of the reasons or register the transfer.
45. The Directors may also decline to register any transfer unless:
 - (a) the instrument of transfer is in respect of only one class of share;
 - (b) in the case of a transfer to joint holders, the number of transferees does not exceed four;
 - (c) the shares concerned are free of any lien in favour of the Company;
 - (d) the instrument of transfer is properly stamped;
 - (e) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied;

- (f) a fee not exceeding the maximum fee prescribed or permitted from time to time by the Stock Exchange is paid to the Company in respect thereof;
 - (g) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.
46. No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

TRANSMISSION OF SHARES

47. In the case of the death of a member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole or only surviving holder, shall be the only persons recognised by the Company as having any title to his shares; but nothing herein contained shall release the estate of a deceased holder, whether sole or joint, from any liability in respect of any share solely or jointly held by him.
48. Any person becoming entitled to shares in the Company in consequence of the death, bankruptcy or winding-up of any member or otherwise by operation of law or by court order shall, upon procuring such evidence of his title as the Directors may require, have the right either to be registered himself as the holder of the shares upon giving to the Company notice in writing of such his desire or to transfer such shares to some other person. All the limitations, restrictions and provisions of these Articles and the Ordinance relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as if the same were a transfer of shares by a member, including the Directors' right to refuse or suspend registration.
49. A person becoming entitled to shares in the Company in consequence of the death, bankruptcy or winding-up of any member or otherwise by operation of law or by court order shall have the right to receive and give a discharge for any dividends or other moneys payable in respect of the shares, provided always that the Directors may at any time give notice requiring any such person to elect to be registered himself or to transfer the shares, and if the notice is not complied with within sixty (60) days, the Directors may thereafter withhold payment of all dividends or other moneys payable in respect of the shares until the requirements of the notice have been complied with but subject to the requirements of Article 78 being met, such a person may vote at meetings.

INCREASE OF CAPITAL AND BUY-BACK OF OWN SHARES

50. The Company may from time to time on more than one occasion or at a specified time or in specified circumstances alter its share capital in accordance with the Ordinance and as the resolution shall prescribe.
51. A general meeting resolving upon the creation of any new shares may direct that the same or any of them shall be offered in the first instance to all the holders for the time being of any class of shares in the capital of the Company, in proportion to the number of shares of such class held by them respectively, or make any other provisions as to the issue and allotment of the new shares, and in default of any such direction, or so far as the same shall not extend, the new shares shall be at the disposal of the Directors, and Article 10 shall apply thereto. The Company may exercise any powers conferred or permitted by the Ordinance or any other ordinance from time to time to buy-back its own shares and warrants (including any redeemable shares) at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a buy-back made or to be made by any person of any shares or warrants in the Company and should the Company buy-back its own shares or warrants neither the Company nor the Board shall be required to select the shares or warrants to be bought back ratably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that (a) purchases not made through the market or by tender shall be limited to a maximum price, and (b) if purchases are by tender, tenders shall be available to all shareholders alike and provided further that any such share buy-back or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange or the Securities and Futures Commission from time to time in force.

52. Subject to any direction or determination that may be given or made in accordance with the powers contained in these Articles, all new shares created pursuant to Article 50 shall be subject to the same provisions herein contained with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as the existing shares of the Company.

ALTERATIONS OF SHARE CAPITAL

53. Subject to the Ordinance, the Company may by ordinary resolution:
- (a) subdivide its existing shares into larger number of shares than its existing number, provided that in the subdivision of an existing share the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived, and so that the resolution whereby any share is subdivided may determine that as between the holders of the shares resulting from such subdivision one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to such new shares;
 - (b) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
 - (c) consolidate all of its shares into smaller number of shares than its existing number;
 - (d) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person or have been forfeited in accordance with these Articles; or
 - (e) make provision for the issue and allotment of shares which do not carry any voting rights.
54. The Company may by special resolution reduce its share capital in any manner allowed by law.
55. Where any difficulty arises in regard to any consolidation and division under paragraph (c) of Article 53, the Directors may settle the same as they think expedient and in particular may arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale in due proportion amongst the members who would have been entitled to the fractions, and for this purpose the Directors may authorise some person to transfer the shares representing fractions to the purchaser thereof, who shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

MODIFICATION OF RIGHTS

56. Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the Ordinance, be varied or abrogated either with the consent in writing of the holders of not less than seventy-five (75) per. cent of the total voting rights of holders of the shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up. To every such separate general meeting, all the provisions of these Articles relating to general meetings and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two persons present in person or by proxy together holding at least one-third of the total voting rights of holders of the shares of the class (but so that, if at any adjourned meeting a quorum as above defined is not present, any one holder of shares of the class present in person or proxy shall be a quorum) and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him. The foregoing provisions of this Article shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the special rights whereof are to be varied.
57. The special rights attached to any class of shares having preferential rights shall not, unless otherwise expressly provided by the terms of issue thereof, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects of pari passu therewith but in no respect in priority thereto.

GENERAL MEETINGS

58. The Company shall in each year hold a general meeting as its annual general meeting in accordance with Section 610 of the Ordinance in addition to any other meetings in that year. The annual general meeting shall be held at such time and place as may be determined by the Directors and subject to these Articles. All other general meetings shall be called extraordinary general meetings.
59. The Directors may wherever they think fit, and shall on requisition from the members in accordance with the Ordinance, convene an extraordinary general meeting.

NOTICE OF GENERAL MEETINGS

60. Any annual general meeting shall be called with at least twenty-one (21) days' notice in writing and any other general meeting with at least fourteen (14) days' notice in writing. The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and of the day on which the meeting is to be held and shall be given in manner hereinafter mentioned to all shareholders other than those that are not entitled to receive such notices from the Company under the provisions of these Articles.

Provided that a general meeting, notwithstanding that it has been called by notice shorter than that specified above, shall be deemed to have been duly called if it is so agreed:

- (a) in the case of an annual general meeting, by all the shareholders entitled to attend and vote at the meeting; and
 - (b) in the case of any other general meeting, by a majority in number of shareholders having the right to attend and vote, being a majority together holding not less than ninety-five (95) per. cent. of the total voting rights of the shareholders at the meeting.
61. Every notice calling a general meeting shall specify the place and the day and hour of the meeting and shall state prominently that a shareholder entitled to attend and vote is entitled to appoint a proxy, who need not be a shareholder, to attend and, on a poll, vote instead of him.
62. In the case of an annual general meeting, the notice shall also specify the meeting as such.
63. In the case of any general meeting at which business other than routine business is to be transacted, the notice shall specify the general nature of such business; and if any resolution is to be proposed as a special resolution, the notice shall contain a statement to that effect.

PROCEEDINGS AT GENERAL MEETINGS

64. All business relating to the following matters shall be transacted at an annual general meeting:
- (a) the adoption of the reporting documents;
 - (b) the declaration and sanction of dividends;
 - (c) the election of Directors in place of those retiring (if any);
 - (d) the election or re-election of the Auditors of the Company; and
 - (e) the fixing of, or the determination of the method of fixing, the remuneration or extra remuneration of the Directors and of the Auditors of the Company.
65. The Board may, at its absolute discretion, arrange for members to attend a general meeting by simultaneous attendance and participation at meeting location(s) using electronic means at such location or locations in any part of the world as the Board may, at its absolute discretion, designate. The members present in person or by proxy at the meeting location(s) shall be counted in the quorum for, and entitled to vote at, the subject general meeting, and that meeting shall be duly constituted and its proceedings valid provided that the Chairman of the meeting is satisfied that adequate facilities are available throughout the meeting to ensure that members attending at all the meeting locations are able to hear all those persons present and speak at the principal meeting location and at any other meeting location held by electronic means and be heard by all other persons in the same way. The Chairman of the meeting shall be present at, and the meeting shall be deemed to take place at, the principal meeting location.

66. No business save the election of a chairman of the meeting shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.
67. If, within thirty (30) minutes from the time appointed for the meeting a quorum be not present, the meeting, if convened upon requisition in accordance with the Ordinance, shall be dissolved; but in any other case it shall stand adjourned to the same day in the next week at the same time and place, or to such other day, time and place as the Chairman of the meeting may determine. If at such adjourned meeting a quorum be not present within thirty (30) minutes from the time appointed for the meeting, the member or members present in person or by proxy shall be a quorum and may transact the business for which the meeting is called.
68. The Chairman (if any) of the Board or, in his absence, a Deputy Chairman (if any) shall preside as Chairman at every general meeting. If there is no such Chairman or Deputy Chairman, or if at any meeting neither the Chairman nor a Deputy Chairman is present within fifteen minutes after the time appointed for holding the meeting, or if neither of them is willing to act as Chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as Chairman if willing to act. If no Director is present, or if each of the Directors present declines to act as Chairman, the persons present and entitled to vote shall elect one of their number to be Chairman of the meeting. The Chairman of a general meeting shall, for the purpose of conducting the meeting in orderly manner, have power to take all such steps and actions as he deems appropriate to maintain order during the meeting.
69. The Chairman of any general meeting at which a quorum is present may, with the consent of the meeting, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place or sine die; but no business shall be transacted at any adjourned meeting other than business which might have been transacted at the meeting from which the adjournment took place unless due notice thereof is given or such notice is waived in the manner prescribed by these Articles. When a meeting is adjourned for thirty (30) days or more, or sine die, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjourned meeting or the business to be transacted thereat. Where a meeting is adjourned sine die the time and place for the adjourned meeting shall be fixed by the Directors.
70. An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if notice of the proposed amendment is given to the Secretary in writing and such proposed amendment does not, in the reasonable opinion of the Chairman, materially alter the scope of the resolution. Such notice must be given by a person entitled to vote at the general meeting at which it is proposed at least forty-eight (48) hours before the meeting is to take place (or a later time the Chairman determines). A special resolution to be proposed at a general meeting may be amended by ordinary resolution if the Chairman proposes the amendment at the general meeting at which the special resolution is to be proposed and the amendment merely corrects a grammatical or other non-substantive error in the resolution. If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the Chairman, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.

VOTING

71. (a) At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (i) voting by poll is required by the Listing Rules or other applicable laws, rules and regulations; or (ii) (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:
- (A) the Chairman of the meeting; or
 - (B) at least five (5) members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or
 - (C) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than five (5) per cent. of the total voting rights of all members having the right to attend and vote at the meeting.
- (b) If the Chairman, before or on the declaration of the result on a show of hands, knows from the proxies received by the Company that the result on a show of hands will be different from that on a poll, the Chairman must demand a poll.
- (c) Unless a poll is so demanded and the demand is not withdrawn, a declaration by the Chairman that a resolution has, on a show of hands, been carried unanimously or by a particular majority or lost shall be final and conclusive, and an entry to that effect in the minute book of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.
72. A demand for a poll may be withdrawn only with the approval of the Chairman of the meeting, at any time before the close of the meeting or the taking of the poll, whichever is earlier. If a poll be directed or demanded in the manner (including the use of ballot or voting papers or tickets) above mentioned it shall (subject to the provisions of Article 74 hereof) be taken at such time (being not later than thirty (30) days after the date of the demand) and in such manner as the Chairman of the meeting may appoint. No notice need be given of a poll not taken immediately. The result of the poll, whether or not declared by the Chairman at the meeting, or any adjourned meeting thereof, shall be deemed to be the resolution of the meeting at which the poll was demanded. The poll result, as recorded in the scrutineers' certificate and signed by the scrutineer, shall be the conclusive evidence of such resolution of the meeting without proof. The Company shall record in the minutes of the general meeting such result of the poll in accordance with the Companies Ordinance.
73. In the case of an equality of votes at any general meeting, whether upon a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
74. A poll demanded upon the election of a Chairman or upon a question of adjournment shall be taken forthwith. Any business, other than that upon which a poll has been demanded, may be proceeded with pending the taking of the poll.

75. (a) Save as expressly provided in these Articles, no person other than a member duly registered and who shall have paid everything for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member) either personally or by proxy, or to be reckoned in a quorum at any general meeting.
- (b) No objection shall be made to the validity of any vote except at a meeting at which such vote shall be tendered and every vote whether given personally or by proxy not disallowed at such meeting shall be deemed valid for all purposes whatsoever of such meeting or poll.
- (c) In case of any dispute as to voting the Chairman shall determine the same, and such determination shall be final and conclusive.
76. Subject to the provisions of the Ordinance, a resolution in writing signed by all the members for the time being entitled to receive notice of and to attend and vote at general meetings shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held. A written notice of confirmation of such resolution in writing signed by or on behalf of a member shall be deemed to be his signature to such resolution in writing for the purposes of this Article. Such resolution in writing may consist of several documents each signed by or on behalf of one or more members.

VOTES OF MEMBERS

77. Subject to Article 1 and to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a representative duly authorised under Section 606 of the Ordinance at any general meeting shall be entitled, on a show of hands, to one vote only and, on a poll, to one vote for every fully paid-up share of which he is the holder.
78. Any person entitled under Article 49 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that at least 48 hours before the time of the holding of the meeting or adjourned meeting (as the case may be) at which he proposes to vote, he shall satisfy the Board of his right to be registered as the holder of such shares or the Board shall have previously admitted his right to vote at such meeting in respect thereof.
79. On a poll, votes may be given either personally or by proxy and a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.
80. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, curator bonis or other person in the nature of a committee or curator bonis appointed by that court, and such committee, curator bonis or other person may on a poll, vote by proxy. If any member be a minor he may vote by his guardian or one of his guardians who may give their votes personally or by proxy.
81. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

PROXIES

82. A proxy need not be a shareholder. A shareholder may appoint more than one proxy. Reference in these Articles to appointment of proxy includes references to appointment of multiple proxies.
83. Subject to the Ordinance, an instrument appointing a proxy shall be in writing in any proxy usual or common form or in any other form which the Board may accept, and:
- (a) in the case of an individual, shall be signed by the appointor or by his attorney; and
 - (b) in the case of a corporation, shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

The Board may, but shall not be bound to, require evidence of the authority of any such attorney or authorised officer. The signature on such instruments need not be witnesses. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must, failing previous registration with the Company, be lodged with the instrument of proxy pursuant to Article 85, failing which the instrument may be treated as invalid.

84. The Company may, at its absolute discretion, provide an electronic address for the receipt of any document or information relating to proxies for a meeting (including any instrument of proxy or invitation to appoint a proxy, any document necessary to show the validity of, or otherwise relating to, an appointment of proxy and notice of termination of the authority of a proxy). If such an electronic address is provided, the Company shall be deemed to have agreed that any such document or information may be sent by electronic means to that address, subject to any limitation or conditions specified by the Company when providing the address.
85. An instrument appointing a proxy must be:
- (a) in the case of an appointment of proxy in hard copy form, received at such place or one of such places, if any, as may be specified for that purpose in or by way of a note to the notice convening the meeting or, if no place is so specified, at the Office, not less than forty-eight (48) hours before the time appointed for the holding of the meeting or adjourned meeting at which it is to be used;
 - (b) in the case of an appointment of proxy in electronic form, received at the electronic address specified in the notice convening the meeting or in any appointment of proxy or any invitation to appoint a proxy sent out or made available by the Company in relation to the meeting, not less than forty-eight (48) hours before the time appointed for the holding of the meeting or adjourned meeting at which the person named in such instrument proposes to vote; or
 - (c) in the case of a poll taken more than forty-eight (48) hours after it was demanded, received as aforesaid after the poll has been demanded and not less than twenty-four (24) hours before the time appointed for the taking of the poll.

If the receipt of a proxy is defective, the proxy shall not be treated as valid. When two or more valid but differing instruments of proxy are delivered in respect of the same share for use at the same meeting, the one which is last delivered within the abovementioned timeframe, regardless of its date or of the date of its execution, shall be treated as replacing and revoking all previously delivered ones as regards that share. If the Company is unable to determine which was last delivered, none of them shall be treated as valid in respect of that share.

86. An instrument of proxy relating to more than one meeting (including any adjournment thereof), having once been so delivered for the purposes of any meeting, shall not be required to be delivered again for the purposes of any subsequent meeting to which it relates.
87. Delivery of an instrument of proxy shall not preclude a shareholder from attending and exercising his shareholder rights in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked. Subject to the foregoing, a vote cast or poll demanded by a proxy is valid despite the previous termination of the authority of a person to act as a proxy unless notice of such termination shall have been received by the Company in accordance with the Ordinance.
88. An instrument appointing a proxy shall be deemed to include the right to demand or join in demanding a poll and shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates.
89. A vote cast or a poll demanded by proxy, including, the duly authorised representative of a corporation, in accordance with the terms of an instrument of proxy or power of attorney, shall not be invalidated by the previous death or insanity of the principal or by the previous termination or otherwise the revocation of the appointment of the proxy or of the authority under which the appointment was made, provided that no notification in writing of such death, insanity or revocation shall have been received by the Company in accordance with Section 604(3) of the Ordinance.

DIRECTORS

90. Unless and until otherwise determined by an ordinary resolution of the Company, the Directors shall be not fewer than two in number, and there shall be no maximum number of Directors.
91. The Company shall keep in accordance with the Ordinance a register containing the names, addresses, details of identity card or passport of its Directors and shall from time to time notify to the Registrar of Companies any change that takes place in such Directors and in the place at which such register is kept as required by the Ordinance.
92. A Director need not hold any shares in the Company. A Director who is not a member of the Company shall nevertheless be entitled to attend and speak at general meetings.

DIRECTORS' REMUNERATION

93. (a) The Directors shall be entitled to receive by way of remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by resolution by which it is voted) is to be divided amongst the Directors in such proportions and in such manner as the Board may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in the Company in the case of sums paid in respect of directors' fees.

- (b) The Directors shall also be entitled to be repaid their reasonable travelling, hotel and other expenses incurred by them in or about the performance of their duties as Directors, including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or on the discharge of their duties as directors.
94. The Directors may award special remuneration out of the funds of the Company (by way of salary, commission or otherwise as the Directors may determine) to any Director who performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

POWERS OF DIRECTORS

95. The Directors may establish any local boards or agencies for managing any of the affairs of the Company, either in Hong Kong or elsewhere, and may appoint any persons to be members of such local boards, or any managers or agents for the Company, and may fix their remuneration, and may delegate (with or without power to sub-delegate as the Directors shall determine) to any local board, manager or agent any of the powers, authorities and discretions vested in the Directors, and may authorise the members of any local boards, or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and such appointment or delegation may be made upon such terms and subject to such conditions as the Directors may think fit, and the Directors may remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
96. The Directors may from time to time and at any time by power of attorney or other instrument appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney or other instrument may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. The Company may, by an instrument executed as a deed, empower any person, either generally or in respect of any specified matter, as its attorney to execute deeds in Hong Kong and elsewhere and instruments on its behalf and to enter into contracts and sign the same on its behalf and every deed signed by such attorney on behalf of the Company and under his seal or in accordance with the Ordinance (if applicable) shall bind the Company and have the same effect as if it were executed by or under the seal of the Company.
97. Subject to and to the extent permitted by the Ordinance, the Company or the Directors on behalf of the Company, may cause to be kept in any territory a Branch Register of members resident in such territory, and the Directors may make and vary such regulations as they may think fit respecting the keeping of any such Branch Register.

98. All cheques, promissory notes, drafts, bills of exchange, and other negotiable or transferable instruments, and all receipts for moneys paid to the Company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors shall from time to time by resolution determine. The Company's bank accounts shall be kept with such banker or bankers as the Board shall from time to time determine.
99. (a) The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Debentures, debenture stocks, bonds and other securities of the Company may be made assignable free from any equities between the Company and the person to which the same may be issued, and may be issued with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.
- (b) The Directors shall cause a proper register to be kept, in accordance with the provisions of the Ordinance, of all mortgages and charges affecting the property of the Company and shall duly comply with the requirements of the Ordinance in regard to the registration of mortgages and charges therein specified and shall from time to time and in accordance with the provisions of the Ordinance notify the Registrar of Companies of any change of the place at which such register is kept. Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the members or otherwise, to obtain priority over such prior charge.
- (c) The Company shall register an allotment of debenture or debenture stock in accordance with the Ordinance. If the Company issues a series of debentures or debenture stock not transferable by delivery, the Board shall cause a proper register to be kept of the holders of such debentures and shall notify the Registrar of Companies any change of the place at which such register is kept, in accordance with the provisions of the Ordinance.
100. The Board may establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the wives, widows, families and dependants of any such persons. The Board may also establish and subsidise or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well being of the Company or of any such other company as aforesaid or of any such persons as aforesaid, and may make payments for or towards the insurance of any such persons as aforesaid, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. The Board may do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid. Any Director holding any such employment or office shall be entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

APPOINTMENT AND REMOVAL OF DIRECTORS

101. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Chief Executive Officer. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless during a period of not less than seven (7) days commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven (7) days before the date appointed for the meeting there shall have been lodged at the Office or at the head office of the Company a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected.
102. If, at any general meeting at which an election of Directors ought to take place the places of the retiring Directors are not filled, the retiring Directors or such of them as have not had their places filled shall be deemed to have been re-elected and shall, if willing, continue in office until the next annual general meeting and so on from year to year until their places are filled, unless:
 - (a) it shall be determined at such meeting to reduce the number of Directors;
 - (b) it is expressly resolved at such meeting not to fill such vacated offices;
 - (c) in any such case the resolution for re-election of a Director is put to the meeting and lost; or
 - (d) such Director has given notice in writing to the Company that he is not willing to be re-elected.
103. The Company may, from time to time, by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the Board.
104. The Company may by ordinary resolution remove any Director notwithstanding anything in these Articles or in any agreement between him and the Company (but without prejudice to any right to damages for termination of such agreement not in accordance with the terms thereof), and may, if thought fit, by ordinary resolution appoint another person in his stead. Any person so elected shall hold office for such time only as the Director in whose place he is elected would have held the same if he had not been removed.
105. The Directors shall have power, exercisable at any time and from time to time, to appoint any other person as a Director, either to fill a casual vacancy or as an addition to the Board but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time (if any) by the shareholders in general meeting and any directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

106. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as the number of Directors is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose. If there shall be no Directors able or willing to act, then any two members may summon a general meeting for the purpose of appointing Directors.
107. No person other than a retiring Director shall, unless recommended by the Board for re-election, be eligible for election to the office of Director at any annual general meeting unless notice in writing for the intention to propose that person for election as a Director and notice in writing by that person of his consent to be elected, shall have been lodged at the Office or head office of the Company at least seven (7) days before the date of the annual general meeting.

ALTERNATE DIRECTORS

108. Each Director may by written notification to the Company nominate any other person to act as alternate Director in his place and at his discretion in similar manner remove such alternate Director. If such person is not another Director, such appointment, unless previously approved by the Board, shall have effect only upon and subject to being so approved. The alternate Director shall (except as regards the power to appoint an alternate) be subject in all respects to the terms and conditions existing with reference to the other Directors of the Company; and each alternate Director, whilst acting as such, shall exercise and discharge all the functions, powers and duties of the Director he represents, but shall look to such Director solely for his remuneration as alternate Director. Every person acting as an alternate Director shall (except when absent from Hong Kong) be entitled to receive notices of meetings of the Board and shall have one vote for each Director for whom he acts as alternate at any such meeting at which the Director appointing him is not personally present (in addition to his own vote if he is also a Director). The signature of an alternate Director to any resolution in writing of the Board or a committee of the Board shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor. Any person appointed as an alternate Director shall vacate his office as such alternate Director if and when the Director by whom he has been appointed removes him or vacates office as Director. Every person acting as an alternate Director shall be deemed to be the agent of and for the Director appointing him and shall, without prejudice to any liability which he may cause to his appointor under the Ordinance or otherwise, be responsible to the Company for his own acts and defaults. To such extent as the Board may from time to time determine in relation to any committee of the Board, the foregoing provisions of this paragraph shall also apply mutatis mutandis to any meeting of any committee of which his appointor is a member. An alternate Director shall not, save as aforesaid, have power to act as a Director nor shall he be deemed to be a Director for the purposes of these Articles.

DISQUALIFICATION OF DIRECTORS

109. The office of a Director shall ipso facto be vacated:
- (a) if he becomes prohibited by law or court order from being a Director;

- (b) if a receiving order is made against him or he makes any arrangement or composition with his creditors;
- (c) if he becomes of unsound mind;
- (d) if he absents himself from the meetings of the Board during a continuous period of six months, without special leave of absence from the Board, and his alternate Director (if any) shall not during such period have attended in his stead, and the Board passes a resolution that he has by reason of such absence vacated his office;
- (e) if he shall be removed from office by notice in writing served upon him signed by all his co-directors;
- (f) if he resigns his office;
- (g) if he is removed by an ordinary resolution of the Company; or
- (h) if he is convicted of an indictable offence.

DIRECTORS' INTERESTS

110. If a Director or any of his connected entities or associates is in any way, whether directly or indirectly, interested in a contract, transaction or arrangement (or a proposed contract, transaction or arrangement) with the Company that is significant in relation to the Company's business and the Director's interest or the interest of his associate or connected entity (as applicable) is material, the Director shall declare the nature and extent of such interest at a board meeting, by notice in writing and sent to other Directors or by general notice in accordance with the Ordinance. A general notice by a Director for this purpose is a notice to the effect that:

- (a) the Director or his connected entity or associate has an interest as a shareholder, officer, employee or otherwise in a body corporate or firm specified in the notice (including any connected entity or associate of the Director that is a body corporate or firm) and the Directors is to be regarded as interested in any transaction, contract or arrangement which may after the effective date of the notice be made with that specified body corporate or firm; or
- (b) the Director or his connected entity or associate is connected with a person specified in the notice (including any connected entity or associate of the Director who is not a body corporate or firm) and the Director is to be regarded as interested in any transaction, contract or arrangement which may after the effective date of the notice be made with that specified person;

and such notice shall be deemed to be a sufficient declaration of interest in relation to any such transaction, contract or arrangement provided that:

- (c) such general notice states the nature and extent of the interest of the Director or his connected entity or associate in the specified body corporate or firm; or the nature of the Director's or his connected entity's or associate's connection with the specified person;

- (d) such general notice is given at a board meeting or is brought up and read at the next board meeting after it is given in which case it shall take effect on the date of the board meeting or the next board meeting after it is given (as the case may be); or in writing and sent to the Company in which case it shall take effect on the twenty-first (21st) day after the day on which it is sent; and
- (e) the Company must send such general notice to the other Directors within fifteen (15) days after the day it receives that notice.

A Director is not required to make a declaration of interest required by this Article if he is not aware of the interest or the transaction, arrangement or contract in question. For this purpose, a Director is treated as being aware of matters of which he ought reasonably to be aware.

111. Subject to the Ordinance, a Director may hold any other office or place of profit under the Company (other than the office of Auditor), and he or any firm of which he is a member may act in a professional capacity for the Company in conjunction with his office of Director, for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article. No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any transaction, contract or arrangement entered into by or on behalf of the Company with any Director or any firm or company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit, remuneration or other benefits realised by any such transaction, contract or arrangement by reason only of such Director holding that office or of any fiduciary relationship thereby established, provided that such Director shall disclose the nature and extent of his interest in any transaction, contract or arrangement or in any proposed transaction, contract or arrangement in which he is interested at the meeting of the Board at which the question of entering into the transaction, contract or arrangement or proposed transaction, contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested.
112. A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any transaction, contract or arrangement or proposal in which he or any of his close associates (and if required by the Listing Rules, his other associates) is materially interested, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters, namely:
- (a) any transaction, contract or arrangement for the giving by the Company of any security or indemnity to the Director or any of his close associates (and if required by the Listing Rules, his other associates) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
 - (b) any transaction, contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates (and if required by the Listing Rules, his other associates) has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (c) any proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates (and if required by the Listing Rules, his other associates) is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any transaction, contract or arrangement in which the Director or any of his close associates (and if required by the Listing Rules, his other associates) is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
- (e) any proposal concerning any other company in which the Director or any of his close associates (and if required by the Listing Rules, his other associates) is interested only, whether directly or indirectly, as an officer or a shareholder or in which the Director or any of his close associates (and if required by the Listing Rules, his other associates) is beneficially interested in shares of that company other than a company in which the Director and any of his close associates (and if required by the Listing Rules, his other associates) are in aggregate beneficially interested in five (5) per cent. or more of the issued shares of any class of the equity share capital of such company (or of any third company through which such interest is derived) or of the voting rights (excluding for the purpose of calculating such five (5) per cent. interest any indirect interest of such Director or any of his close associates (and if required by the Listing Rules, his other associates) by virtue of an interest of the Company in such company);
- (f) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates to Directors, their close associates (and if required by the Listing Rules, his other associates) and employees of the Company or of any of its subsidiaries and does not give in respect of any such Director or any of his close associates (and if required by the Listing Rules, his other associates) any privilege or advantage not generally accorded to the class of persons to whom such scheme or fund relates;
- (g) any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or any of his close associates (and if required by the Listing Rules, his other associates) may benefit.

If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the Chairman of the meeting) or any of his close associates (and if required by the Listing Rules, his other associates) or as to the entitlement of any Director (other than such Chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to such other Director or any of his close associates (and if required by the Listing Rules, his other associates) shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned or any of his close associates (and if required by the Listing Rules, his other associates) as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the Chairman of the meeting or any of his close associates (and if required by the Listing Rules, his other associates) such question shall be decided by a resolution of the Board (for which purpose such Chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such Chairman or any of his close associates (and if required by the Listing Rules, his other associates) as known to such chairman has not been fairly disclosed to the Board.

113. A Director may continue to be or become a director, managing director, joint managing director, executive director, chief executive officer or manager or other officer or member of any other company in which the Company is interested, and (unless otherwise agreed) shall not be liable to account to the Company for any remuneration or other benefits received by him as a director, managing director, joint managing director, executive director, chief executive officer, manager or other officer or member of any such other company. The Board may exercise the voting powers conferred by the shares in any other company held or owned by the Company or exercisable by it as directors of such other company in such manner as in all respects as the Board thinks fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, chief executive officers, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) and any director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or be about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, chief executive officer, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid. A Director of the Company may be or become a director of any company promoted by the Company or in which it may be interested as a vendor, shareholder or otherwise and no such Director will be accountable for any benefits received as a director or member of such company. A Director of the Company or his firm may not act as auditor of the Company.

CHIEF EXECUTIVE OFFICERS AND OTHER APPOINTMENTS

114. The Directors may, from time to time, appoint one or more of their number to be Chief Executive Officer or Joint Chief Executive Officer of the Company, or to hold such office in the management, administration or conduct of the business of the Company as they may decide, and for such period and upon such terms and for such remuneration as the Directors shall think fit, and the Directors may also, from time to time (subject to the provisions of any agreement between him or them and the Company) remove him or them from office, and appoint another or others in his or their place or places.
115. A Chief Executive Officer or a Joint Chief Executive Officer (subject to the provisions of any agreement between him and the Company) shall be subject to the same provisions as to resignation and removal as the other Directors of the Company, and shall ipso facto and immediately cease to be Chief Executive Officer or Joint Chief Executive Officer if he shall cease to hold the office of Director.
116. The Directors may, from time to time, entrust to and confer upon any Chief Executive Officer, Joint Chief Executive Officer or Director, holding any other office in the management, administration or conduct of the business of the Company, such of the powers exercisable under these Articles by the Directors as they may think fit, and may confer such powers for such time, and to be exercised for such objects and purposes, and upon such terms and conditions and with such restrictions as they may consider expedient, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

PROCEEDINGS OF DIRECTORS

117. The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the quorum necessary for the transaction of business. Until otherwise determined by the Board, two Directors shall constitute a quorum. For the purpose of this Article an alternate Director shall be counted in a quorum but, notwithstanding that an alternate Director is also a Director or is an alternate for more than one Director, he shall for quorum purposes count as only one Director. Matters arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairman of the meeting shall have a second or casting vote. A Director or the Secretary may, at any time, summon a meeting of the Directors. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.
118. Notice of a meeting of Directors shall be deemed to be duly given to a Director if it is given to him personally, in writing or by telephone, or sent to him at his last known address or any other address given by him to the Company for this purpose, or (if the recipient consents to it being given to him in electronic form) by electronic means to an electronic address from time to time notified to the Company by such Director, or (if the recipient consents to it being made available on a website) by making it available on a website or in such other manner as the Board may from time to time determine, provided that notice need not be given to any Director or alternate Director for the time being absent from Hong Kong. A Director may consent to short notice of and may waive notice of any meeting and any such waiver may be retrospective.
119. The Directors may elect a Chairman of the Board and determine the period for which he is to hold office; but if no such Chairman be elected, or if at any meeting the Chairman be not present within five minutes after the time appointed for holding the same, the Directors present shall choose one of their number to be Chairman of such meeting.
120. A resolution in writing signed by all the Directors except such as are absent from Hong Kong or temporarily unable to act through ill health or disability (or their alternate Directors) shall (so long as they constitute a quorum) be as effective for all purposes as a resolution of the Directors passed at a meeting duly convened, held and constituted. A written notification of confirmation of such resolution in writing signed by a Director shall be deemed to be his signature to such resolution in writing for the purposes of this Article. Such resolution in writing may consist of several documents, each signed by one or more Directors.
121. A meeting of the Directors at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board generally.
122. The Directors may, from time to time, appoint committees consisting of such one or more persons as they think fit, and may delegate any of their powers to any such committee and, from time to time, revoke any such delegation and discharge any such committee wholly or in part. Any committee so appointed shall, in the exercise of the powers so delegated, conform to any regulations that may, from time to time, be imposed upon it by the Directors. All acts done by any such committee in conformity with such regulations and in fulfilment of the purposes for which it is appointed, but not otherwise, shall have the like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any special committee, and charge such remuneration to the current expenses of the Company.

123. The meetings and proceedings of any such committee consisting of two or more members shall be governed mutatis mutandis by the provisions of these Articles regulating the meetings and proceedings of the Directors, insofar as the same are not superseded by any regulations made by the Directors under the last preceding Article.
124. All acts done bona fide by any meeting of the Directors or of a committee of Directors, or by any persons acting as Directors, shall, notwithstanding that there was some defect in the appointment of any such Directors or persons acting as aforesaid, or that they or any of them were disqualified, or had vacated office, be as valid as if every such person had been duly appointed and was qualified and continued to be a Director.

MINUTES

125. The Directors shall cause to be entered and kept in books provided for the purpose minutes of the following:
- (a) all appointments of officers;
 - (b) all the names of the Directors and any alternate Director who is not also a Director present at each meeting of the Directors and of any committee; and
 - (c) all resolutions and proceedings of general meetings and of meetings of the Directors and committees.

Any such minutes of any meeting of the Directors, or of any committee, or of the Company, if purporting to be signed by the Chairman of such meeting, or by the Chairman of the next succeeding meeting shall be receivable as evidence of the proceedings of such meeting.

THE SEAL

126. The Directors shall procure a common seal to be made for the Company, and shall provide for the safe custody thereof. The Seal shall not be affixed to any instrument except by the authority of the Directors or a committee authorised by the Board in that behalf, and every instrument to which the Seal shall be affixed shall be signed by one Director or some other person nominated by the Directors for the purpose, provided that the Board may either generally or in any particular case or cases resolve (subject to such restrictions as to the manner in which the Seal may be affixed as the Board may determine) that such signature may be affixed to certificates for shares or debentures or representing any other form of security by some mechanical means or in printed form other than autographic to be specified in such resolution or that such certificates need not be signed by any person. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Directors previously given.

127. A document signed by any two members of the Board or any of the Directors and the Secretary and expressed, in whatever words, to be executed by the Company as a deed, has the same effect as if executed under the Seal.
128. The Company may have an official seal for use for sealing certificates for shares or other securities issued by the Company as permitted by Section 126(1) and (2) of the Ordinance (and no signature of any Director, officer or other person and no mechanical reproduction thereof shall be required on any such certificates or other document to which such official seal or a mechanical reproduction of the impression of such official seal is affixed and such certificates or other document shall be valid and deemed to have been sealed and executed with the authority of the Board notwithstanding the absence of any such signature or mechanical reproduction of such signature as aforesaid) and an official seal for use abroad under the provisions of the Ordinance where and as the Board shall determine, and the Company may be writing under the Seal appoint any agents or agent, committees or committee abroad to be the duly authorised agents of the Company for the purpose of affixing and using such official seal and may impose such restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such official seal as aforesaid.
129. The Company may exercise all the powers of having official seals conferred by the Ordinance and such powers shall be vested in the Directors.

SECRETARY

130. The Directors shall appoint such person, persons or entities to be Secretary or Joint Secretaries of the Company for such period, at such remuneration and upon such conditions as they may think fit, and any Secretary or Joint Secretaries so appointed may be removed by them. Anything by the Ordinance or these Articles required or authorised to be done by or to the Secretary or Joint Secretaries, if the office is vacant or there is for any other reason no person capable of acting in the capacity as Secretary or Joint Secretaries, may be done by or to any assistant or deputy Secretary, or if there is no assistant or deputy Secretary capable of acting, by or to any officer of the Company authorised generally or specially in that behalf by the Board.

DIVIDENDS AND RESERVES

131. The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.
132. Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purposes of this Article no amount paid on a share in advance of calls shall be treated as paid on the share.

133. The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien, and may apply the same in or towards satisfaction of the debts and liabilities in respect of which the lien exists. The Board may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.
134. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall mutatis mutandis apply to capitalisations to be effected in pursuance of these Articles.
135. Any general meeting sanctioning a dividend may make a call on the members of such amount as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him, and so that the call shall be made payable at the same time as the dividend, and the dividend may, if so arranged between the Company and the member, be set off against the call.
136. (a) In respect of any dividend which the Board has resolved to pay or any dividend declared or sanctioned or proposed to be declared or sanctioned by the Board or by the Company in general meeting, the Board may determine and announce, prior to or contemporaneously with the announcement, declaration or sanction of the dividend in question:
- either
- (i) that shareholders entitled thereto will receive in lieu of such dividend (or such part thereof as the Board may think fit) an allotment of shares credited as fully paid provided that the shareholders are at the same time accorded the right to elect to receive such dividend (or part thereof as the case may be) in cash in lieu of such allotment. In such case, the following provisions shall apply:
- (A) the basis of any such allotment shall be determined by the Board;
- (B) the Board, after determining the basis of allotment and notwithstanding that the number of shares to be allotted may not be calculated until after notice to the shareholders has been given as required by the provisions of this sub-paragraph and subject to the provisions of sub-paragraph (D) below, shall give notice in writing to the shareholders of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective which shall be not less than two weeks from the date on which the notice above referred to was despatched to the shareholders;
- (C) the right of election accorded to shareholders as aforesaid may be exercised in whole or in part;

- (D) the Board may resolve:
- (I) that the right of election accorded to shareholders as aforesaid may be exercised so as to take effect on all future occasions (if any) when the Board makes a determination pursuant to sub-paragraph (i) of this paragraph (a); and/or
 - (II) that a shareholder who does not exercise the right of election accorded to him as aforesaid either in whole or in part may notify the Company that he will not exercise the right of election accorded to him in respect of all future occasions (if any) when the Board makes a determination pursuant to sub-paragraph (i) of this paragraph (a) of this Article.

Provided that a shareholder may exercise such election or give such notice in respect of all but not some of the shares held by him and may at any time give seven (7) days notice in writing to the Company of the revocation of such an election or such a notice which revocation shall take effect at the expiry of such seven (7) days, and until such revocation has taken effect, the Board shall not be obligated to give to such shareholder notice of the right of election accorded to him or send to him any form of election;

- (E) the dividend (or that part of the dividend in lieu of which an allotment of shares is to be made as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised (the "Non-Elected Shares") and in lieu thereof shares shall be allotted credited as fully paid to the holders of the Non-Elected Shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account) as the Board may determine, a sum equal to the aggregate value of shares to be allotted on such basis and apply the same in paying up in full the appropriate number of shares for allotment and distribution to and amongst the holders of the Non-Elected Shares on such basis;

or

- (ii) that shareholders entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Board may think fit. In such case, the following provisions shall apply:
- (A) the basis of any such allotment shall be determined by the Board;
 - (B) the Board, after determining the basis of allotment and notwithstanding that the number of shares to be allotted may not be calculated until after notice to the shareholders has been given as required by the provisions of this sub-paragraph and subject to the provisions of sub-paragraph (D) below, shall give notice in writing to the shareholders of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective which shall be not less than two weeks from the date on which the notice above referred to was despatched to the shareholders;

- (C) the right of election accorded to shareholders as aforesaid may be exercised in whole or in part;
- (D) the Board may resolve;
 - (I) that the right of election accorded to shareholders as aforesaid may be exercised so as to take effect on all future occasions (if any) when the Board makes a determination pursuant to sub-paragraph (ii) of this paragraph (a); and/or
 - (II) that a shareholder who does not exercise the right of election accorded to him as aforesaid either in whole or in part may notify the Company that he will not exercise the right of election accorded to him in respect of all future occasions (if any) when the Board makes determination pursuant to sub-paragraph (ii) of paragraph (a).

Provided that a shareholder may exercise such election or give such notice in respect of all but not some of the shares held by him and may at any time give seven (7) days' notice in writing to the Company of the revocation of such an election or such a notice which revocation shall take effect at the expiry of such seven (7) days, and until revocation has taken effect, the Board shall not be obliged to give to such member notice of the right of election accorded to him or send to him any form of election;

- (E) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable on shares in respect whereof the share election has been duly exercised (the "Elected Shares") and in lieu thereof shares shall be allotted credited as fully paid to the holders of the Elected Shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account) as the Board may determine, a sum equal to the aggregate value of shares to be allotted on such basis and apply the same in paying up in full the appropriate number of shares for allotment and distribution to and amongst the holders of the Elected Shares on such basis.
- (b) The shares allotted pursuant to the provisions of paragraph (a) of this Article shall rank *pari passu* in all respects with the fully paid shares then in issue save only as regards participation:
 - (i) in the relevant dividend (or the right to receive or to elect to receive an allotment of shares in lieu thereof as aforesaid); or
 - (ii) in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend

unless, contemporaneously with the announcement by the Board of its proposal to apply the provisions of sub-paragraph (i) or (ii) of paragraph (a) of this Article in relation to the relevant dividend or contemporaneously with their announcement of the distribution, bonus or rights in question, the Board shall specify that the shares to be allotted pursuant to the provisions of paragraph (a) of this Article shall rank for participation in such distribution, bonus or rights.

- (c) The Board may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (a) of this Article with full power to the Board to make such provisions as they think fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated and sold and the net proceeds distributed to those entitled, or are disregarded or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company rather than to the members concerned). The Board may authorise any person to enter into on behalf of all members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.
- (d) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (a) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shares to elect such dividend in cash in lieu of such allotment.
- (e) The Board may on any occasion when it makes a determination pursuant to paragraph (a) of this Article, resolve that no allotment of shares or rights of election for shares to be issued pursuant to such determination shall be made available or made to any shareholders with registered addresses in any particular territory or territories or to a Depository where the allotment of shares or the circulation of an offer of such rights of election would or might, in the opinion of the Board, be unlawful or would or might, in the opinion of the Board, be unlawful in the absence of a registration statement or other special formalities, and in such event the provision aforesaid shall be read and construed subject to such resolution and the only entitlement of shareholders in any such territory or territories shall be to receive in cash the relevant dividend resolved to be paid or declared. "Depository" means a custodian or other person (or a nominee for such custodian or other person) appointed under contractual arrangements with the Company or other arrangements approved by the Board whereby such custodian or other person or nominee holds or is interested in shares of the Company or rights or interests in shares of the Company and issues securities or other documents of title or otherwise evidencing the entitlement of the holder thereof to or to receive such shares, rights or interests, provided and to the extent that such arrangements have been approved by the Board for the purpose of these Articles and shall include, where approved by the Board, the trustees (acting in their capacity as such) of any employees' share scheme established by the Company or any other scheme or arrangements principally for the benefit of employees of the Company and/or its subsidiaries which have been approved by the Board.

- (f) The Board may at any time resolve to cancel all (but not some only) of the elections made and the notices given by the shareholders pursuant to sub-paragraphs (i)(D) and (ii)(D) of paragraph (a) of this Article by giving seven (7) days' notice in writing to the relevant shareholders.
 - (g) The Board may on any occasion determine that rights of election under paragraph (a) of this Article shall not be made available to shareholders who are registered in the register of shareholders, or in respect of shares the transfer of which is registered, after a date fixed by the Board and in such event the provisions aforesaid shall be read and construed subject to such determination.
137. No dividend shall be payable except out of the profits or other distributable reserves of the Company, and no dividend shall bear interest as against the Company.
138. The Directors may, if they think fit, from time to time, resolve to pay to the members such interim dividends as appear to the Directors to be justified by the reserves of the Company. If at any time the share capital of the Company is divided into different classes the Directors may resolve to pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential or special rights in regard to dividend, and provided that the Directors act bona fide they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. The Directors may also resolve to pay at half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of the opinion that the reserves of the Company justify the payment.
139. All dividends unclaimed for one year after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed, and all dividends unclaimed for six years after having become payable may be forfeited by the Directors and shall revert to the Company. The payment into a separate account of any monies payable in respect of a dividend shall not constitute the Company a trustee in respect thereof for any person.
140. Unless otherwise directed any dividend or other monies payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address of the member or person entitled, or, in the case of joint holders, to the registered address of that one whose name stands first on the Register in respect of the joint holding, or addressed to such person at such address as the holder or joint holders shall direct. The Company shall not be liable or responsible for any cheque or warrant lost in transmission nor for any dividend or other monies lost to the member or person entitled thereto by the forged endorsement of any cheque or warrant. Payment of the cheque or warrant by the banker on whom it is drawn shall be a good discharge to the Company.
141. The Directors may distribute in specie or in kind among the members in satisfaction in whole or in part of any dividend any of the assets of the Company, and in particular any shares or securities of other companies to which the Company is entitled and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue fractional certificates, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend and such appointment shall be effective. The Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend and such appointment shall be effective.

142. Before recommending a dividend the Directors may set aside any part of the net profits of the Company to one or more reserves, and may apply the same either by employing it in the business of the Company or by investing it in such manner as they shall think fit and the income arising from such reserves shall be treated as part of the profits of the Company. Such reserves may be applied for the purpose of maintaining the property of the Company, replacing wasting assets, meeting contingencies, forming an insurance fund, equalising dividends, paying special dividends, or for any other purpose for which the undivided profits of the Company may lawfully be used, and until the same shall be so applied it shall be deemed to remain undivided profit. The Directors may also carry forward as undivided profit any profit or balance of profit which they shall not think fit to recommend as dividend or to place to reserve.

AUTHENTICATION OF DOCUMENTS

143. Any Director or the Secretary or other authorised officer of the Company shall have power to authenticate any documents affecting the constitution of the Company and any resolutions passed by the Company or the Directors or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies of extracts; and where any books, records, documents or accounts are elsewhere than at the Office, the local manager or such other officer of the Company having the custody thereof shall be deemed to be the authorised officer of the Company as aforesaid. A document purporting to be a copy of a resolution or an extract from the minutes of a meeting of the Company or of the Directors or any local board or committee which is certified as aforesaid shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that any minute so extracted is a true and accurate record of proceedings at a duly constituted meeting.

CAPITALISATION OF RESERVES ETC.

144. The Board may, with the sanction of an ordinary resolution, capitalise any sum standing to the credit of any of the Company's reserve accounts or any sum standing to the credit of the statement of comprehensive income by appropriating such sum to the holders of shares in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend on the shares and applying such sum on their behalf of either in or towards paying up any amounts for the time being unpaid on any shares held by such holders respectively or debentures of the Company for allotment and distribution credited as fully paid up to and amongst them in the proportion aforesaid or partly in the one way and partly in the other.
145. The Board shall do all acts and things considered necessary or expedient to give effect any such capitalisation, with full power to the Board to make such provisions as it thinks fit for any fractional entitlements which would otherwise arise (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the shareholders concerned).
146. The Board may authorise any person to enter on behalf of all the shareholders interested into an agreement with the Company providing for any such capitalisation and matters incidental thereto, and any agreement made under such authority shall be effective and binding on all concerned.

ACCOUNTS AND AUDITORS

147. The Directors shall ensure that accounting records shall be kept as provided for in Sections 373(2) and (3) of the Ordinance.
148. (a) The Directors shall, from time to time, in accordance with the Ordinance, cause to be prepared and to be laid before its annual general meeting the reporting documents required by the Ordinance. The Directors may also cause to be prepared a summary financial report if they think fit, which may be provided to members and/or debenture holders instead of the reporting documents in circumstances permitted by the Ordinance, the Listing Rules and any other applicable laws, rules and regulations.
- (b) A copy of the reporting documents or the summary financial report shall, not less than twenty-one (21) days before the meeting, be sent to the registered address of every member and debenture holder of the Company, or in the case of a joint holding to the member or debenture holder (as the case may be) whose name stands first in the appropriate Register in respect of the joint holding. No accidental non-compliance with the provisions of this Article shall invalidate the proceedings at the meeting.
149. Auditors shall be appointed and their duties regulated in the manner provided by the Ordinance.
150. Subject as otherwise provided by the Ordinance the remuneration of the Auditors shall be fixed by the Company in general meeting provided always that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Board.
151. Every statement of accounts audited by the Company's Auditors and presented by the Board at a general meeting shall after approval at such meeting be conclusive except as regards any error discovered therein within three months of the approval thereof. Whenever any such error is discovered within that period, it shall forthwith be corrected, and the statement of accounts amended in respect of the error shall be conclusive.

COMMUNICATIONS

152. Any notice or document to be given or issued under these Articles shall be in writing, except that any such notice or document to be given or issued by or on behalf of the Company under these Articles (including any "corporate communication" within the meaning ascribed thereto in the Listing Rules) shall be in writing which may or may not be in a transitory form and may be recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form (including an electronic communication and communication made available on a website) whether having physical substance or not may be served on or delivered or sent by the Company by any of the following means subject to and to such extent permitted by and in accordance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations:
- (a) personally;

- (b) by sending it through the post in a properly prepaid letter, envelope or wrapper addressed to a member at his registered address as appearing in the Register of Members or in the case of another entitled person, to such address as he may provide;
 - (c) by delivering or leaving it at such address as aforesaid;
 - (d) by advertisement in an English language newspaper and a Chinese language newspaper in Hong Kong in accordance with the Listing Rules;
 - (e) by transmitting it as an electronic communication to the entitled person at such electronic address as he may have provided; or
 - (f) by making it available on a website.
153. Any notice or document (including any “corporate communication” within the meaning ascribed thereto in the Listing Rules) given or issued by or on behalf of the Company:
- (a) if sent by post, shall be deemed to have been served or delivered on the second business day after the day on which the envelope or wrapper containing the same is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office (airmail if posted from Hong Kong to an address outside Hong Kong) and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so properly prepaid, addressed and put into such post office shall be conclusive evidence thereof;
 - (b) if not sent by post but delivered or left at a registered address by the Company, shall be deemed to have been served or delivered on the day it was so left;
 - (c) if published by way of a newspaper advertisement, shall be deemed to have been served or delivered on the date on which it is advertised in one English language newspaper and one Chinese language newspaper in Hong Kong;
 - (d) if sent as an electronic communication (other than by making it available on a website), shall be deemed to have been served at the end of the prescribed period after the notice, document or information is sent or otherwise in accordance with the Ordinance; and
 - (e) if made available on a website, shall be deemed to have been served at the later of (i) the time when it is first made available on the website and (ii) the time when the entitled person is deemed to have received a notification of such availability, or otherwise in accordance with the Ordinance.
154. Where a person has consented or is, in accordance with the Ordinance and other applicable laws, rules and regulations, deemed to have consented to receive notices and other documents from the Company in the English language only or the Chinese language only but not both, it shall be sufficient for the Company to serve on or deliver to him any notice or document in such language only in accordance with these Articles unless and until there is a notice of revocation or amendment of such consent given by such person to the Company in accordance with Ordinance and other applicable laws, rules and regulations which shall have effect in respect of any notice or document to be served on or delivered to such person subsequent to the giving of such notice of revocation or amendment.

155. Any person who, by operation of law, transfer or other means whatsoever, shall become entitled to any share shall be bound by every notice in respect of such share which, previously to his name and address being entered in the Register, shall be duly given to the person from whom he derives his title to such share.
156. Any notice or document served in accordance with these Articles shall, notwithstanding such member be then deceased or bankrupt, and whether or not the Company has notice of his decease or bankruptcy, be deemed to have been duly served in respect of any shares held by such member, whether held solely or jointly with other persons by such member, until some other person be registered in his stead as the holder or joint holder thereof, and such service shall for all purposes of these Articles be deemed a sufficient service of such notice or document on his executors, administrators or assigns and all persons (if any) jointly interested with him in any such share.
157. Any summons, notice, order or other document required to be sent to or served upon the Company, or upon any officer of the Company, may be sent or served by leaving the same or sending it through the post in a prepaid letter, envelope or wrapper, addressed to the Company or to such officer at the Office.
158. The signature to any notice to be given by the Company may be written, typed, printed or made electronically.
159. Subject to any special provisions contained in these Articles or in the Ordinance, all notices required to be given by advertisement shall be advertised in at least one daily Chinese and one daily English newspaper circulating in Hong Kong.
160. In reckoning the period for any notice given under these Articles, the day on which notice is served, or deemed to be served, and the day for which such notice is given shall be excluded.

WINDING UP

161. If the Company shall be wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid-up capital, they shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid upon on the shares held by them respectively. This Article is, however, subject to the rights of the holders of any shares which may be issued on special terms or conditions.
162. If the Company shall be wound up, the liquidator (whether voluntary or official) may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company or vest any part of the assets of the Company in trustees upon such trusts for the benefit of the members or any of them as the resolution shall provide. Any such resolution may provide for and sanction a distribution of any specific assets amongst different classes of members otherwise than in accordance with their existing rights, but each member shall in that event have a right of dissent and other ancillary rights in the same manner as if such resolution were a special resolution passed pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong).

163. In the event of a winding-up of the Company in Hong Kong, every member of the Company who is not for the time being in Hong Kong shall be bound, within fourteen (14) days after the passing of an effective resolution to wind up the Company voluntarily, or within the like period after the making of an order for the winding up of the Company, to serve notice in writing on the Company appointing some person resident in Hong Kong upon whom all summonses, notices, processes, orders and judgements in relation to or under the winding up of the Company may be served and, in default of such nomination, the liquidator of the Company shall be at liberty on behalf of such member to appoint some such person, and service upon any such appointee shall be deemed to be a good personal service on such member for all purposes, and where the liquidator makes any such appointment he shall, with all convenient speed, give notice thereof to such member by advertising in such English language daily newspaper circulating in Hong Kong as he shall deem appropriate or by a registered letter sent through the post and addressed to such member at his address as appearing in the Register, and such notice shall be deemed to be served on the day on which the advertisement appears or the letter is posted.

INDEMNITY

164. Subject to the provisions of the Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto and in particular and without prejudice to the generality of the foregoing every Director and other officer of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors out of the funds of the Company to pay all costs, losses and expenses which any such Director and other officer may incur or become liable for by reason of any contract entered into, or act or thing done by him or them as such Director and other officer, or in any way in the discharge of their or his duties, including travelling expenses; and the amount for which such indemnity is provided shall immediately attach as a lien on the property of the Company, and have priority as between the members over all other claims. Any person who is a Director or other officer of the Company shall not be liable (except in consequence of his own dishonesty) for the acts, receipts, neglects or defaults of any other Director or other officer of the Company or for any losses or expenses incurred by the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any moneys, securities or effects of the Company shall be deposited or for any loss occasioned by any error of judgement, omission, default or oversight on their or his part, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto.

165. Subject to the provisions of and so far as may be permitted by the Ordinance, the Company may purchase and maintain for any officer of the Company:
- (a) insurance against any liability to the Company, an associated company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or any associated company; and
 - (b) insurance against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or an associated company.
166. Any permitted indemnity provision under Section 469 of the Ordinance is subject to disclosure in the relevant Directors' report in accordance with Section 470 of the Ordinance; and the Company shall keep in its registered office a copy, or document setting out the terms, of such permitted indemnity provision in accordance with Section 471 of the Ordinance; which shall be made available for inspection by a member subject to Section 472 of the Ordinance.

DESTRUCTION OF DOCUMENTS

167. Subject to the Ordinance, the Company may destroy:
- (a) any share certificate which has been cancelled at any time after the expiry of one year from the date of such cancellation;
 - (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two years from the date on which such mandate, variation, cancellation or notification was recorded by the Company;
 - (c) any instrument of transfer of shares which has been registered at any time after the expiry of six years from the date of registration; and
 - (d) any other document, on the basis of which any entry in the register is made, at any time after the expiry of six years from the date on which an entry in the register was first made in respect of it;
- and it shall conclusively be presumed in favour of the Company that every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that:
- (a) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim;

- (b) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (i) above are not fulfilled; and
- (c) references in this Article to the destruction of any document include reference to its disposal in any manner.

UNTRACEABLE SHAREHOLDERS

168. Without prejudice to the rights of the Company, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.
169. The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a shareholder who is untraceable, but no such sale shall be made unless:
- (a) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of Association of the Company have remained uncashed;
 - (b) so far as it is aware at the end of the relevant period, the Company has not at any time, during the relevant period received any indication of the existence of the shareholder who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law;
 - (c) the Company has caused an advertisement to be inserted in English in one English language daily newspaper and in Chinese in one Chinese language daily newspaper (provided that the aforesaid daily newspapers shall be included in the list of newspaper issued and published in the Hong Kong Government Gazette for the purpose of the Ordinance) advertising its intention to sell such shares and a period of three months has elapsed since the date of such advertisement; and
 - (d) the Company has notified the stock exchange in the relevant territory of its intention to effect such sale.

For the purpose of the foregoing, “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

The manner, timing and terms of any sale of shares pursuant to this Article (including but not limited to the price or prices at which the same is made) shall be such as the Board determines, based upon advice from such bankers, brokers or other persons as the Board considers appropriate consulted by it for the purposes, to be reasonably practicable having regard to all the circumstances including the number of shares to be disposed of and the requirement that the disposal be made without delay and the Board shall not be liable to any person for any of the consequences of reliance on such advice.

170. To give effect to any such sale pursuant to Article 169 the Board may authorise any person to transfer the said shares and the instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and, upon receipt by the Company of such proceeds, it shall become indebted to the former shareholder by carrying all moneys in respect thereof to a separate account for an amount equal to such net proceeds. No trusts shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall include any additional shares which during the relevant period or during any period ending on the date when all the requirements of sub-paragraphs (a) to (c) of Article 169 have been satisfied have been issued in respect of those held at the beginning of such relevant period and shall be valid and effective notwithstanding that the shareholder holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

<u>Names, Addresses and Descriptions of Initial Subscribers</u>	<u>Initial number of Shares taken by each Initial Subscriber</u>
Clacton Company Limited 21st Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong Corporation	1
For and on behalf of CLACTON COMPANY LIMITED (Sd.) Wong Chi Wai, John <i>Authorized Signature(s)</i>	
Firmley Company Limited 21st Floor, Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong Corporation	1
For and on behalf of FIRMLEY COMPANY LIMITED (Sd. Wong Chi Wai, John) <i>Authorized Signature(s)</i>	
Total Number of Shares Taken	2
 Initial Paid-up Share Capital of the Company	 HK\$0.20

**Agreement on Purchase of Stock Tower-related Assets by Issuance of
Shares and Payment of Cash**

Entered into by and between

**China Mobile Communications Corporation and Its 31 Subsidiaries
China United Network Communications Corporation Limited and 1 of
Its Subsidiaries**

China Telecom Corporation Limited

China Reform Holdings Corporation Limited

China Tower Corporation Limited

October 2015

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This Agreement is made and entered into by and between the following parties hereto on October 14, 2015 in Beijing, the People's Republic of China ("China").

Sellers:

Seller A: China Mobile Communications Corporation and its 31 subsidiaries

Seller B: China United Network Communications Corporation Limited and 1 of its subsidiaries

Seller C: China Telecom Corporation Limited

China Reform Corporation: China Reform Holdings Corporation Limited

Buyer/Issuer: China Tower Corporation Limited

Please refer to Annex 1 for the specifics of contracting parties.

The terms used in this Agreement shall be defined and explained in accordance with Annex 2.

Whereas:

- (A) As of the signing date of this Agreement, China Tower has a registered capital of RMB 10 billion yuan, and its business scope includes construction, maintenance and operation of towers; construction, maintenance and operation of base station plant rooms, power supply and air conditioning facilities; maintenance of base station devices. The shareholders of China Tower are China Telecom Corporation Limited, China United Network Communications Corporation Limited and China Mobile Communications Corporation, which hold 29.9%, 30.1% and 40% of the shares, respectively.
- (B) To build a resource-saving and environment-friendly society, reduce redundant construction of telecom infrastructure and achieve intensive, large-scale, professional and efficient operations and sharing of tower resources, the sellers intend to sell their stock towers-related assets to China Tower. And China Tower agrees to purchase and receive the aforementioned stock towers-related assets ("Asset Transfer") in accordance with the terms and conditions of this Agreement, and issues shares to China Reform Corporation to raise funds for paying part of the consideration of purchasing stock towers-related assets. China Reform Corporation agrees to pay to subscribe for the shares issued by China Tower in accordance with the terms and conditions of this Agreement ("Investment Attraction", "Investment Attraction" and "Asset Transfer" collectively referred to "the Transaction").

In this Agreement, the "parties" refer to the sellers, China Reform Corporation and the buyers; the "sellers and buyer" or the "parties" refer to the sellers and the buyer. The three parties hereto shall be Seller A, B and C; China Reform Corporation; and the Buyer.

In view of the above and for the purpose of this transaction, the parties hereto have reached the following agreement (this Agreement) through friendly consultations and on the basis of equality and mutual benefit:

1. Target Assets

1.1 The sellers shall sell all of the assets listed in Annex 3 hereto (“Target Assets”) to the buyer in accordance with the terms and conditions of this Agreement;

1.2 The buyer and the sellers will determine the final list of target assets by way of stock-taking.

2. Transaction Consideration and Purchase Price of Subscription Shares

2.1 According to the Appraisal Report, the appraised values of target assets of asset transfer under this Agreement amounts to RMB 213.8928009 billion yuan. The details of appraised values of target assets of each seller are contained in Annex 4 hereto.

2.2 The transaction consideration of the buyer and the sellers shall be ultimately determined in the following manner:

Transaction Consideration = Appraised Value - Depreciation and Amortization of Appraised Assets from Reference Date to Delivery Date - Value of Reduced Assets + Value of Newly-added Assets

Wherein:

(1) the amount of depreciation and amortization shall be calculated by the remaining useful life and appraised value of assets identified in the appraisal report;

(2) the reduced asset value includes inventory losses, obsolescence, the appraised assets that are confirmed as non-deliverable by the buyer and the sellers, the recovered receivables, the appraised value corresponding to the projects under construction that have been transferred fixed assets;

(3) the added asset value includes the book value of added target assets and the appraised value corresponding to the repaid liabilities. The added target assets refer to the stock towers-related assets that are actually owned by the sellers and have not been listed into the scope of appraised assets as of the delivery date, which are within the defined scope of target assets in Annex 3 hereto, including fixed assets, projects under construction, Construction supplies, long-term deferred expenses, intangible assets and other assets related to towers that are added to the sellers from the day after the reference date to the delivery date, and the towers-related assets of inventory profit when the parties conduct on-site handover. The book value shall be subject to the book value of such assets as of the delivery date that is stated by the sellers in accordance with the customary accounting principles; and the book value of inventory profit assets that cannot be determined shall be determined in accordance with the book value of similar assets.

2.3 Payment of shares subscribed by China Reform Corporation

Payment of shares subscribed by China Reform Corporation = issue price of shares* number of shares subscribed by China Reform Corporation

2.4 The parties hereto agree to confirm the transaction consideration of the buyer and the sellers when signing the Delivery Confirmation in accordance with Article 4.4 hereof.

2.5 The buyer agrees to pay the transaction consideration to the sellers with directed issue of shares (“Share Consideration”) plus cash (“Cash Consideration”), and attract investment through directed issue of shares to China Reform Corporation, of which:

(1) the issue price of shares is RMB 1 yuan/share; the number of shares shall be calculated by taking the stock towers-related assets of Seller C, China Telecom Corporation Limited and its subsidiaries as the benchmark; the number of finally-issued shares shall be calculated in accordance with the following principles of this article; and the total number of newly-added shares issued by the buyer accordingly shall not exceed 135.02863 billion, of which:

(i) the number of shares issued by the buyer to Seller A (including Seller A1 to A10) shall not exceed 51.11088 billion, and Seller A shall subscribe for the shares with part of the target assets owned by it. Base on the value of target assets delivered by Seller A1 to A10, the amounts of shares subscribed by Seller A1 to A10 shall be allocated by Seller A independently. If the adjustment of transaction consideration under Article 2 hereof results in any change to the injected assets, Seller A may reduce the number of entities subscribing for the shares according to the actual situation;

(ii) the number of shares issued by the buyer to Seller B1 shall not exceed 37.74305 billion, and Seller B1 shall subscribe for the shares with part of the target assets owned by it;

(iii) the number of shares issued by the buyer to Seller C shall not exceed 37.47299 billion, and Seller C shall subscribe for the shares with all of the target assets owned by it and RMB cash; and the cost for the shares subscribed with RMB cash shall equal to the transaction consideration of stock towers-related assets sold by China Telecom Corporation Limited and its subsidiaries to the buyer;

(iv) the number of shares issued by the buyer to China Reform Corporation shall not exceed 8.70172 billion, and China Reform Corporation shall subscribe for the shares with RMB cash;

(v) after the issue of shares is completed, the final proportions of shares held by Seller A (including Seller A1 to A10), Seller B1, Seller C and China Reform Corporation shall be 38%, 28.1%, 27.9% and 6%, respectively;

(2) the cost of shares subscribed by Seller C and China Reform Corporation with RMB cash shall be paid within 30 days after determining the transaction consideration in accordance with Article 2.4 hereof;

(3) the difference between the shares consideration and the transaction consideration paid by Seller A and B to the buyer shall be paid by the buyer with cash consideration, where:

(i) the buyer shall pay the first batch of cash consideration of RMB 5 billion yuan to Seller A within 30 days after China Reform Corporation pays the cost of subscribed shares to the buyer;

(ii) the buyer shall pay the first batch of cash consideration of RMB 3 billion yuan to Seller B within 30 days after China Reform Corporation pays the cost of subscribed shares to the buyer;

(iii) the remaining portion of cash consideration shall be paid before December 31, 2015. the interests of unpaid cash consideration shall be calculated from the day after the Delivery Date, and the rate shall be 90% of the one-year benchmark lending rate for financial institutions released by the People’s Bank of China on the Delivery Date. The buyer shall pay interests to the sellers on June 30 and December 31 each year. The sellers agree that the buyer may pay the cash consideration in advance within the aforementioned period;

2.6 The parties agree to complete the issue and subscription of shares within 30 days after the sellers and the buyer determine all of the transaction consideration in accordance with Article 2.4 hereof. The day when the parties sign the Share Subscription Agreement (such as Annex 5 hereto) is the completion date of issue of shares. The buyer shall complete the change of share register, the amendments to the Articles of Association and the change of business registration, and obtain the Corporate Business License after the increase of registered capital.

2.7 Unless otherwise notified in writing, one party shall pay the cash involved in this transaction (if any) to the bank account designated by the other party. The information of bank accounts designated by the parties is listed in Annex 6 hereto.

2.8 After the completion of this transaction, China Reform Corporation is entitled to nominate one director.

3. Prerequisites for Delivery

3.1 As the premise for the delivery, the following prerequisites shall be satisfied or waived:

(1) the representations and warranties made by the sellers on the signing date of this Agreement remain true, accurate and complete in all material respects, without misleading, false representations or omissions in all significant respects;

(2) the sellers have approved this transaction in accordance with their internal organizational documents; as for Seller B, such approvals include the approvals of shareholders of China Unicom (Hong Kong) Limited and China United Network Communications Limited;

(3) China Reform Corporation has approved this transaction in accordance with its internal organizational documents;

(4) the buyer has approved this transaction in accordance with its internal organizational documents;

(5) this transaction has obtained approval, licensing and registration of all application Chinese government departments, including but not limited to the approval of the Ministry of Commerce; the filing procedure of appraisal report has been fulfilled in accordance with national laws and regulations;

As for the prerequisites for delivery, those listed in Article 3.1(2) and (2) are the prerequisites for the sellers; those listed in Article 3.1(3) are the prerequisites for China Reform Corporation; those listed in Article 3.1(4) are the prerequisites for the buyer; and those listed in Article 3.1(5) are the common prerequisites.

3.2 The parties agree that before the delivery date and to the practicable extent, they shall meet all the prerequisites set out in Article 3.1 hereof as soon as possible.

3.3 In case that all of the above prerequisites have not been met or waived prior to the delivery date, the parties shall have consultation to determine the deadlines for such prerequisites in writing, or termination matters of this Agreement (except for the provisions remaining in force). In that case, any party (or its affiliates) shall not make a claim of any nature to the other party (or its affiliates) in accordance with this Agreement, unless such claim involves rights or liabilities generated before the termination or under the provisions remaining in force.

4. Delivery and Handover

4.1 The parties hereby confirm that, unless otherwise agreed by the parties, the ownership and risks of the target assets shall be transferred on October 31, 2015 (the "Delivery Date").

4.2 The buyer and the sellers agree to cooperate with each other to complete the preparations of the handover of all target assets. Unless otherwise agreed, the target assets shall be officially delivered on the Delivery Date.

4.3 The ownership of target assets and related responsibilities

(1) From the day after the Delivery Date, the buyer shall be deemed to be the legal owner of the target assets. Unless otherwise agreed, before the Delivery Date (including the day), the rights and interests related to the target assets shall belong to the sellers, and the obligations and responsibilities related to the target assets shall also be assumed by the sellers; after the Delivery Date, the rights and interests related to the target assets shall belong to the buyer, and the obligations and responsibilities related to the target assets shall also be assumed by the buyer;

(2) As for a single site, from the completion of on-site handover, the maintenance of towers-related assets shall be undertaken by the buyer, and the parties shall sign the *On-site Handover Form of Physical Stock Towers* after completing on-site handover site by site to confirm the handover of assets and maintenance work. The signing date of *On-site Handover Form of Physical Stock Towers* shall be the Handover Date.

(3) From the day after the Delivery Date, the sellers shall be entitled to continue to use towers-related assets. After the buyer and the sellers determine the price of service fees of towers-related assets, the sellers shall pay the service fees of towers-related assets from the day after the Delivery Date. Unless otherwise agreed by the parties, the maintenance costs of towers-related assets generated before the Delivery Date (including the day) shall be borne by the sellers, and those generated after the Delivery Date shall be borne by the buyer.

4.4 The buyer and the sellers shall conduct the handover of target assets in accordance with the provisions of Annex 7. Both of them agree that:

(1) The buyer and the sellers shall complete the handover within 30 days after the Delivery Date (or other period agreed by the parties), and sign the Delivery Confirmation at the level of headquarters. The material, core handover matters shall be completed before the signing of Delivery Confirmation (see Article 5.1.3(5) of Annex 7 hereto), and the subsequent handover matters shall be arranged.

(2) In case of failure to complete all handover matters before the expire of the aforementioned period, the buyer and the sellers agree to continue to complete the handover in accordance with Annex 7, or handle such issue according to the arrangements made by both parties in the Delivery Confirmation.

(3) If the buyer and the sellers fail to complete the handover of some sites within 2 months from the Delivery Date, they shall solve this issue through consultation at the level of headquarters.

4.5 Special Agreement

(1) The buyer and the sellers shall jointly handle the transfer procedures for relevant house ownership and land use right certificates. For the land and housing assets that are within the scope of target assets; whose defects are disclosed by the sellers in the transaction documents; and the relevant ownership certificates of which cannot be obtained by the sellers, the parties agree to complete the handover on the as-is basis. The sellers shall provide the buyer with necessary assistance in applying for relevant ownership certificates, and the associated costs shall be borne by the buyer.

(2) The sellers shall acknowledge that the original copies of asset and business information related to the target assets that are transferred to the buyer are true, accurate and complete, or the copies are consistent with the originals in terms of content and form. If the information is not complete due to objective reasons, the parties hereto shall solve such issue through friendly consultation.

(3) Except for Article 10 of Annex 7 hereto or otherwise agreed by the parties, the names of the sellers' contracts with external parties that are related to the target assets shall be transferred to the buyer ("contracts that shall be transferred"). As for such contracts, their rights and obligations shall be divided as follows: the original sellers' rights and obligations before the Delivery Date shall be enjoyed and assumed by the sellers; the original sellers' rights and obligations after the Delivery Date under such contracts shall be enjoyed and assumed by the buyer. The contracts that have been officially transferred to the buyer by the sellers without agreement of other signatories before the Delivery Date shall be deemed as "contracts that have not been transferred", which shall be temporarily owned by the sellers on behalf of the buyer. Unless otherwise provided in this Agreement, the rights, obligations, profits or losses owned by the sellers since the Delivery Date under the "contracts that have not been transferred" shall belong to the buyer. Where the sellers suffer losses and bear additional expenses for holding contracts on behalf of the buyer, the buyer shall make compensation to the sellers, except for those caused by the sellers.

(4) For the sites which the sellers are not able to control and whose inaccessibility is confirmed by both the buyer and the sellers, the parties hereto agree to the following approaches:

i. the sites in operation shall be delivered, and the buyer shall undertake the maintenance of such sites to the extent practicable, and make every effort to maintain the owners of such sites;

ii. both parties acknowledge that the sites that are not in operation shall not be delivered.

4.6 The buyer and the sellers agree to conduct and complete the handover in good faith in accordance with the handover program in Annex 7. If the handover cannot be conducted properly due to any party's willful conducts or negligence, or related businesses cannot be properly operated, such party shall bear the corresponding liability.

5. Pre-delivery Commitments

5.1 The sellers undertake to:

(1) provide the buyer with all the necessary conditions to check the target assets, allow the buyer's representatives to enter the premises where the target assets are managed and used after sending reasonable notices, and provide the buyer with necessary information and assistance;

(2) promptly inform the buyer of any matter that may result in material adverse changes to the target assets or significant changes such as sites demolition and relocation to the best of its knowledge, and consult with the buyer.

5.2 Except the normal accrual depreciation and amortization, loss, scrap of target assets, the recovery of accounts receivable, debt settlement and construction work in progress being transferred to fixed assets, without the written consent of the buyer, the sellers shall not dispose of any target asset.

5.3 Unless otherwise agreed by the parties, the sellers undertake that after the Delivery Date, the above commitments shall continue to be applicable to the target assets that have not been transferred to the buyer.

6. Transitional Arrangements

6.1 The buyer and the sellers agree to complete and perform the relevant transitional arrangements in accordance with Annex 7 hereto.

7. Joint Work Organization

7.1 The buyer and the sellers agree to establish a joint work organization to ensure the smooth operation and transition of target assets.

8. Representations and Warranties of The Sellers

8.1 As of the Signing Date and Delivery Date of this Agreement, except for the matters disclosed in the transaction documents or unless otherwise agreed by the parties, any seller individually rather than jointly makes the following representations and warranties to the buyer:

(1) its signing and performance of this Agreement:

i. will not result in violation of the provisions of its internal organizational documents and other related documents, or any laws, rules or regulations applicable to the company;

- ii. will not result in violation of any important agreement, contract or license to which it is a party, or any order, judgement or decree issued by courts, government departments or regulatory bodies;
- iii. perform the procedures required by applicable laws and/or binding agreements and documents before the Delivery Date, except for those will not have significant adverse impact on the buyer's operation of target assets;

(2) all representations and warranties set forth in Annex 8;

(3) from January 1, 2015, in principle, the sellers and their subsidiaries shall not towers and other infrastructure facilities, as well as indoor distribution systems in key public transport sites and large-scale venues such as subway, railways, highways, airports, railway stations; commercial and residential buildings jointly used by multiple owners; and offices of party and government organs;

(4) the sellers shall complete the handover as soon as possible in accordance with the terms and conditions of this Agreement;

(5) if there is evidence showing that the sellers have made false statements, omissions and misleading statements, causing losses to the buyer, the sellers shall compensate the buyer for its direct actual losses.

8.2 In view of that after the issue of shares is completed, the buyer's shares will be held by multiple entities of Seller A (Seller A1 to A10), and to facilitate the unified management, Seller A undertakes that the shareholder rights and obligations corresponding to the buyer's shares held by the aforementioned entities in accordance with this Agreement shall be exercised and performed by Seller A1. Seller A shall use its commercially reasonable efforts to transfer the buyer's shares held by the subsidiaries of Seller A1 to Seller A1 within 30 days after the issue of shares is completed or before December 31, 2015.

9. Representations and Warranties of China Reform Corporation

9.1 As of the Signing Date and Delivery Date of this Agreement, China Reform Corporation makes the following representations and warranties:

(1) as a company duly organized and validly existing under the laws of China, China Reform Corporation has the full right to sign this Agreement and fulfill the rights and obligations hereunder;

(2) its signing and performance of this Agreement:

i. will not result in violation of the provisions of its internal organizational documents and other related documents, or any laws, rules or regulations applicable to the company; or

ii. has performed/will perform the procedures required by applicable laws and/or binding agreements and documents, and will not result in violation of any important agreement, contract or license to which it is a party, or any order, judgement or decree issued by courts, government departments or regulatory bodies;

(3) China Reform Corporation shall pay for the subscribed shares in accordance with the terms and conditions of this Agreement.

10. Representations and Warranties of The Buyer

10.1 As of the Signing Date and Delivery Date of this Agreement, the buyer makes the following representations and warranties:

(1) as a company duly organized and validly existing under the laws of China, the buyer has the full right to sign this Agreement and fulfill the rights and obligations hereunder;

(2) its signing and performance of this Agreement:

i. will not result in violation of the provisions of its internal organizational documents and other related documents, or any laws, rules or regulations applicable to the company; or

ii. has performed/will perform the procedures required by applicable laws and/or binding agreements and documents, and will not result in violation of any important agreement, contract or license to which it is a party, or any order, judgement or decree issued by courts, government departments or regulatory bodies;

(3) the buyer shall pay the transaction consideration to complete the handover as soon as possible in accordance with the terms and conditions of this Agreement.

10.1 The buyer guarantees and undertakes to, subject to relevant laws, regulations and regulatory rules, observe and implement the matters that it explicitly stated to China Communications Services Corporation Limited when it was established.

10.2 The buyer guarantees and undertakes that, as for the plant rooms that are provided by the sellers but not included into the scope of target assets, it shall comply with the sellers' relevant management rules, and compensate the sellers for any damage arising from its usage.

11. Liability for Breach

11.1 Any party's untrue, inaccurate or incomplete representations and/or warranties in all material respects in this Agreement, false representations, omissions or misleading representations in all material respects, breach of any of its commitments made hereunder or any provisions hereof that result in failure to complete the delivery, payment of transaction consideration and cost of subscribed shares shall constitute breach of contract.

11.2 Unless otherwise agreed upon by the parties, the breaching party shall compensate the observant party for its direct, actual losses (i.e. excluding any actual or anticipated consequential or incidental damages). For avoidance of doubt, as for Asset Transfer, the terms of "breaching party" and "observant party" shall apply only to the buyer and the sellers; as for Investment Attraction, such terms shall apply only to China Reform Corporation and the buyer.

11.3 Where the buyer fails to pay the transaction consideration or its interests in accordance with Article 2.5 hereof, for each overdue day from the first day after the payment date set forth in the sellers' written notice, the buyer shall pay the overdue fines to the sellers in accordance with the six-month loan rate of People's Bank of China for the overdue balance.

11.4 If the sellers were informed of some circumstances after the signing date of this Agreement which may cause that any aspects of any representation, warranty and commitment that have significant relations with the financial or operating conditions of target assets to become untrue, inaccurate or misleading, the sellers shall do its utmost to inform the buyer in writing within a reasonable period.

11.5 The parties hereto shall solve any event of default under this Agreement through friendly consultations, which shall be handled by the headquarters of the parties.

11.6 The total amount of liability for breach and compensation for damage bore by the breaching party under this Agreement shall not exceed 30% of its transaction consideration agreed upon in Article 2 hereof, or 10% of the cost for the shares subscribed by China Reform Corporation (only applicable to the liability of breach between China Reform Corporation and the buyer), and the starting amount of its liability of compensation shall be RMB 1 million yuan. The observant party shall lodge a claim against the breaching party in writing within 90 days following the day of being informed of the breach; otherwise, the breaching party shall not bear the related liability for breach. From the expiration date of 24 months after the Delivery Date, any party shall no longer be liable for breach of representations and warranties under this Agreement, except for the claims lodged by the observant party to the breaching party. To avoid ambiguity, the payment obligations of the buyer shall not be exempted or restricted by provisions of this section.

12. Third-party Claims

12.1 As for the disputes that occur on the Delivery Date or the handover and thereafter but arise from the activities and facts of target assets prior to the Delivery Date, if the buyer is aware of any claims, lawsuits or potential claims that are made by any third-party and shall be borne by the sellers in accordance with this Agreement (“Third-party Claims”), it shall notify the sellers.

12.2 As for the disputes arising from the activities and facts following the Delivery Date, if the sellers are aware of the third-party claims that shall be borne by the buyer in accordance with this Agreement, it shall notify the buyer.

12.3 Except as otherwise agreed in this Agreement:

(1) the party who is aware of the third-party claim shall inform the other party of such claim within 15 business days after receiving such claim, and enable the other party and its representatives to obtain reasonable information and convenience; the other party shall reply in writing within 15 business days after receiving such notice;

(2) without the prior written consent of the other party, any party shall admit its liability for third-party claims or enter into any agreement or make a settlement to make other arrangements that set obligations or responsibilities for the other party;

(3) on the premise of compensating for any actual costs incurred from such claims, it shall:

i. take actions reasonably requested by the other party to avoid, deny or challenge any third-party claim, or lodge an appeal, make a settlement or defense against such claim;

- ii. within the scope permitted by applicable law, allow the other party (if it choose to do so) to take over all legal proceedings and/or negotiations arising from third-party claims; and
- iii. provide the information and assistance reasonably requested by the other party (if needed) for preparing and conducting any proceedings and/or negotiations related to third-party claims.

12.4 The sellers shall indemnify and hold harmless the buyer against and from any actual or potential dispute, claim or legal proceeding involving the target assets exists or occurs before the Delivery Date (including the day), or occurs after the Delivery Date but incurred by the activities of target assets before the Delivery Date (including the day), which may result in any loss, liability, judgment and expense suffered or incurred by the buyer.

13. Announcement

13.1 Without the prior consent of the other party (not to be unreasonably withheld or delay giving such consent), any party (and any of its respective affiliates) shall not publish any announcement or issue any circular on the presence of this Agreement (or any other transaction document) or its subject matters.

13.2 If it is required by laws or any stock exchange or any regulatory or supervisory body or authority of competent jurisdiction (regardless of whether the request is legally binding) to issue notices, announcements or circulars, then the restriction of Article 13.1 shall not be applicable. In cases where such provisions are applicable, the party issuing an announcement or circular shall use its reasonable efforts to conduct prior consultation with the other party concerning the form, content and timing of such announcement or circular.

14. Confidentiality

14.1 The information provided by the party having such information under this Agreement (the "Provider") to the other party (the "Recipient") in accordance with this Agreement, including but not limited to any information related to the target assets, or any information in connection with the terms of this Agreement and other transaction documents and relevant negotiations (hereinafter referred to as "Confidential Information"), shall only be used by the Recipient and its personnel for the purpose of this Agreement. Unless otherwise provided in this Agreement, as for any confidential information provided by the Provider, without the written consent of the Provider, the Recipient and its personnel having the right to know such information shall not directly or indirectly, by any means, provide, disclose or transfer such information to any third party, or license such third party to use, or provide it with any advice or recommendation with such confidential information. For the purpose of this section, "third party" shall any natural person, legal person or other organization other than the parties to this Agreement, but excluding the affiliated companies of the parties hereto.

14.2 The confidential information provided or disclosed by the Provider to the Recipient shall only be disclosed by the Recipient to its designated employees for the purpose of performing this Agreement, and such disclosure shall only be made within the scope necessary for performing this Agreement. However, before taking all reasonable precautions, the Recipient shall not disclose any confidential information to its employees. Such precautions include but are not limited to informing such employees of the confidential nature of information to be disclosed and asking such employees to make confidentiality commitments at least as strict as confidentiality obligations of this Agreement, which are made to prevent such employees from using confidential information for personal gain or making any unauthorized disclosure to any third party. The violation of confidentiality obligations by the Recipient's employees shall be deemed as the breach of confidentiality obligations by the Recipient.

14.3 When the Recipient's lawyers, accountants, contractors and consultants need to know Confidentiality Information to provide professional assistance, the Recipient may disclose such information to them. However, it shall request the above persons to sign confidentiality agreements or fulfill confidentiality obligations in accordance with relevant ethical standards.

14.4 If the relevant government departments or regulatory agencies require the Recipient to disclose any confidential information, it may make disclosure within the scope required by such government departments or agencies without any liability under this Agreement. But the premise is that, the Recipient shall immediately notify the Provider in writing of the information that is required to be disclosed, so that the Provider can take necessary protective measures. And such notice shall be made before the disclosure as far as possible, and the Recipient shall use reasonable commercial efforts to ensure that such disclosed information obtain the confidential treatment of relevant government authorities or agencies.

14.5 The confidentiality obligations specified in this article shall remain in effect permanently.

14.6 The confidentiality obligations specified in this article shall not apply to the information which:

(1) is or becomes part of the public domain when one party discloses or after its disclosure other than through the faults of the Recipient or its employees, lawyers, accountants, contractors, consultants or other persons;

(2) can be proved by documentary evidence that it is possessed by the Recipient at the time of disclosure, and it is not directly or indirectly derived from the Provider;

(3) can be proved by documentary evidence that it has been disclosed by any third party to the Recipient, and such third party does not bear any confidentiality obligations and is entitled to make the disclosure.

14.7 When this Agreement is released or terminated, the Recipient shall immediately halt using and shall not allow any third party to use the confidential information of the Provider. At the same time, the Recipient shall, in accordance with the written requirements of the Provider, return, delete or destroy the confidential information provided by the Provider, which shall not be retained in any form.

15. Non-transferable

15.1 Unless provided in this Agreement or agreed in writing by the parties hereto, no person shall transfer, assign, mortgage or otherwise dispose of his/her rights under this Agreement in whole or in part (collectively referred to as "Transfer" together with this Article 15), nor shall grant, set or dispose of any rights, benefits or obligations therein. Any transfer contrary to this Article 15 shall be invalid.

16. Further Warranty

16.1 Each of the parties hereto shall sign (or be procured to sign) other documents required by laws, the performance or entry into force of this Agreement.

16.2 Each of the parties hereto shall cause its affiliates to fulfill all obligations clearly applying to such affiliates.

17. Taxation and Expenses

17.1 Taking Article 17.2 as the premise, and unless otherwise specified by this Agreement (or any other transaction documents), each party shall be legally responsible for its costs, fees and other expenses generated by the transaction.

17.2 Each party shall, in accordance with laws, regulations and relevant national rules or decisions, assume and pay all taxes generated by this Agreement or any other transaction documents as well as all fees charged by government departments, regulatory bodies and stock exchanges.

17.3 For the purpose of this transaction, unless otherwise provided by laws and regulations and/or agreed by the parties hereto, all costs associated with the transfer of target assets shall be reasonably arranged by the parties through consultation.

18. Notice

18.1 Any notice associated with this Agreement shall be written in Chinese, and delivered by personal delivery, fax, registered mail or express mail service by the courier companies recognized by the parties hereto. Such notices shall be deemed as effective at the time of receipt, and shall be considered as received when: (a) they are delivered to the recipients if delivered by personal delivery, registered mail or express mail service; or (b) the sender transmits and the status is displayed as "Delivered" if delivered by fax. In either case, if delivered outside of business hours, such notices shall be deemed to be received at the beginning of business hours of the next business day.

18.2 For the purposes of Article 18.1, addresses, fax numbers and other contact information of the parties hereto shall be found in Annex 6 of this Agreement.

19. Conflicts with Other Agreements

19.1 In the event of any conflict between the terms of this Agreement and any other agreement (between the parties hereto, as well as between any member of the sellers and any member of the buyer), the terms of this Agreement shall prevail; in the event of any conflict between the Annexes hereto and the terms of main body, the latter shall prevail, unless (a) such other agreement expressly provides that it shall take precedence over this Agreement in relevant respects; and (b) the sellers and the buyer also are the signatories of such other agreement, or have otherwise agreed in writing that such other agreement shall take precedence over this Agreement in relevant respects.

19.2 This Agreement and its Annexes shall constitute the whole legal documents of this transaction, and supersedes all prior oral discussions and written agreements reached by the parties hereto, unless otherwise expressly provided by the transaction documents.

20. Exemption, Rights and Remedies

20. Unless otherwise expressly provided in this Agreement, any party who does not exercise, fails or delays exercising any of its rights, power or remedies under this Agreement or any transaction document shall not be deemed to waive such rights, power or remedies, without prejudice to its exercise of such rights, power or remedies at any subsequent time. Single or partial exercise of any such rights, power or remedies should not impede further exercise thereof.

21. Text

21.1 Written in Chinese, this Agreement is executed in 45 counterparts, and each party holds one copy. The rest shall be submitted to government authorities for examination and/or record filing. The forgoing agreement texts shall have the same legal effect.

22. Entry into Force and Amendment

22.1 This Agreement shall take effect upon the signing and official stamps affixed by the legal representatives of the parties or their authorized representatives. Any amendment to this Agreement (or any other transaction documents) must be in writing, and shall come into force upon the signing and official stamps affixed by the legal representatives of the parties or their authorized representatives.

23. Invalidity

23.1 The terms of this Agreement and other transaction documents are severable. In case any such term is deemed as or becomes invalid or unenforceable in any aspect in accordance with laws of any jurisdiction, they shall be invalid in such aspect. And the parties shall use their reasonable efforts to replace such term with valid and enforceable substitution term that is as close as possible to the effect and predetermined effect in such aspect.

24. Governing Law and Arbitration

24.1 This Agreement shall be governed by, and construed in accordance with the laws of the People's Republic of China.

24.2 The parties shall endeavor to resolve, through friendly consultation, any dispute, controversy or claim arising from or in connection with the interpretation or performance of this Agreement ("Dispute"). They may seek the opinions of regulatory agencies during the process of consultation. In case no resolution can be reached within 60 days after one party raises such matter to the other party, the parties may submit such matter to arbitration.

24.3 The dispute shall be submitted to China International Economic and Trade Arbitration Commission ("CIETAC") to be settled in accordance with its rules in effect at the time of arbitration. The dispute shall be decided by three arbitrators. Each party shall appoint one arbitrator, and the third arbitrator shall be appointed by the other two arbitrators. But if the other two arbitrators cannot decide on the selection of the third arbitrator, then the appointment shall be made by CIETAC.

24.4 The arbitration proceedings shall be presided over by CIETAC and shall be conducted in Chinese, unless otherwise agreed by the parties. Such arbitration proceedings shall be conducted in Beijing.

24.5 The arbitral awards made in accordance with the aforesaid arbitral proceedings shall be final and binding upon the parties, which shall be enforceable according to its terms.

24.6 The arbitration fee shall be paid by the losing party. And the parties agree that, if one party considers it necessary to enforce the arbitral award through any type of legal procedure, then the party which the legal procedure is against shall pay all reasonable costs, expenses and attorneys' fees.

24.7 During the dispute resolution, the parties hereto shall continue to perform this Agreement in all other respects.

25. Miscellaneous

25.1 Viability of Representations, Warranties and Claims

Any representation, warranty and commitment made by the sellers under this Agreement, subject to the content of such representation, warranty and commitment, shall remain valid upon the signing of this Agreement and after the completion of this transaction.

25.2 If the target assets bear the sellers' trade trademarks and logos, the buyer's use of such target assets after accepting them shall not be deemed as infringement of the sellers' relevant intellectual property rights or goodwill. And the buyer shall be entitled to remove such trademarks and logos after notifying the sellers.

25.3 Force Majeure

In case any force majeure event occurs, the parties' obligations under this Agreement may be suspended during the period of delay caused by such force majeure event, and automatically extend for a period equal to the duration of the suspension. The party affected by such force majeure event shall notify the other parties in writing as soon as possible, and provide a valid proof of the force majeure event and its time of occurrence within 15 days. The party affected by force majeure shall take all reasonable measures to mitigate the consequences of force majeure as soon as possible. In case of force majeure, the parties hereto shall conduct consultations immediately to find an equitable solution, and make every effort to mitigate the consequences of force majeure.

25.4 Relevance

(1) Seller A2 to A32 are the subsidiaries of Seller A1, which shall exercise and perform Seller A's rights and obligations under this Agreement on behalf of the entirety of Seller A.

(2) Seller B2 is the subsidiary of Seller B1, which shall exercise and perform Seller B's rights and obligations under this Agreement on behalf of the entirety of Seller B.

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China Mobile Communications Corporation

(seal)

Legal representative or authorized representative:

China United Network Communications Corporation Limited

(seal)

Legal representative or authorized representative:

China Telecom Corporation Limited

(seal)

Legal representative or authorized representative:

China Reform Holdings Corporation Limited

(seal)

Legal representative or authorized representative:

China Tower Corporation Limited

(seal)

Legal representative or authorized representative:

Annex 1: Signatories

The contracting parties of the *Agreement on Purchasing Tower-related Assets by Issuance of Shares and Payment of Cash* are as follows:

Seller A:

Seller A1: China Mobile Communication Company Limited (China Mobile, Seller A1), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 29 Jinrongdajie, Xicheng District, Beijing; legal representative: Shang Bing;

Seller A2: China Mobile Group Jiangsu Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 59 Huju Road, Nanjing City, Jiangsu Province; legal representative: Wang Jian.

Seller A3: China Mobile Group Shandong Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 20569 Jingshi Road, Jinan City; legal representative: Yan Yongqing.

Seller A4: China Mobile Group Guangdong Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at Guangdong GoTone Building, No. 11 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou City; legal representative: Zhong Tianhua.

Seller A5: China Mobile Group Henan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 48 Jingsan Road, Zhengzhou City; legal representative: Wei Ming.

Seller A6: China Mobile Group Zhejiang Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 19 Jiefang East Road, Hangzhou City; legal representative: Zheng Jie.

Seller A7: China Mobile Group Anhui Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 609 Huangshan Road, Hefei City, Anhui Province; legal representative: Yang Jianyu.

Seller A8: China Mobile Group Hebei Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 136 Dongfeng Road, Shijiazhuang City, Hebei Province; legal representative: Li Liangui.

Seller A9: China Mobile Group Hunan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 446 3rd Section of Furongzhong Road, Tianxin District, Changsha City; legal representative: Zhou Chengyang.

Seller A10: China Mobile Group Hubei Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 66 Changqingsan Road, Jiangnan District, Wuhan City; legal representative: Guo Yonghong.

Seller A11: China Mobile Group Sichuan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 10 Gaopeng Avenue, Gaoxin District, Chengdu City; legal representative: Jian Qin.

Seller A12: China Mobile Group Liaoning Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 6 Xinlong Street, Hunnanxin District, Shenyang City; legal representative: Chen Li.

Seller A13: China Mobile Group Yunnan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at China Mobile Building (Intersection of Guangfu Road and Yongguang Road), Middle Section of Guangfu Road, Kunming City, Yunnan Province; legal representative: Ma Kui.

Seller A14: China Mobile Group Jiangxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 58 Zi'an Road, Xihu District, Nanchang City, Jiangxi Province; legal representative: Li Feng.

Seller A15: China Mobile Group Shaanxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 29 Jinyeyi Road, High-tech Industrial Development Zone, Xi'an City; legal representative: Zhao Dachun.

Seller A16: China Mobile Group Shanxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at Block A of China Mobile Building, Wuluo Street, Economic & Technological Development Zone, Taiyuan City; legal representative: Miao Jianzhong.

Seller A17: China Mobile Group Heilongjiang Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 168 Xinwan Road, Songbei District, Harbin City, Heilongjiang Province; legal representative: Zhang Hongsen.

Seller A18: China Mobile Group Inner Mongolia Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 2 Xinhua East Street, Saihan District, Hohhot City, Inner Mongolia Autonomous Region; legal representative: Hong Xiaoqin.

Seller A19: China Mobile Group Guangxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 117 Minzu Avenue, Qingxiu District, Nanning City, Guangxi Province; legal representative: Gu Xiong.

Seller A20: China Mobile Group Gansu Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 666 Beibinhe West Road, Anning District, Lanzhou City, Gansu Province; legal representative: Lu Zhihong.

Seller A21: China Mobile Group Fujian Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 140 Hudong Road, Fuzhou City, Fujian Province; legal representative is: Huang Liwei.

Seller A22: China Mobile Group Xinjiang Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 118, Nanhu North Road, Shuimogou District, Urumqi City, Xinjiang; legal representative: Liu Jian.

Seller A23: China Mobile Group Jilin Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 2899 Jiefang Avenue, Changchun City; legal representative: Tian Limin.

Seller A24: China Mobile Group Guizhou Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 19 Beijing Road, Guiyang City, Guizhou Province; legal representative: Mi Dawei.

Seller A25: China Mobile Group Shanghai Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 200 Changshou Road, Putuo District, Shanghai City; legal representative: Xu Da.

Seller A26: China Mobile Group Hainan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 88 Jinlong Road, Jinmao District, Haikou City, Hainan Province; legal representative: Lu Bing.

Seller A27: China Mobile Group Ningxia Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 217 Xinchang East Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region; legal representative: Peng Xiaochuan.

Seller A28: China Mobile Group Chongqing Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 2 3rd Xingguang Road, Yubei District, Chongqing City; legal representative: Qin Dabin.

Seller A29: China Mobile Group Tibet Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 84 Jinzhuzhong Road, Lhasa City; legal representative: Zhuo Feng.

Seller A30: China Mobile Group Qinghai Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 48 Kunlun East Road, Xining City, Qinghai Province; legal representative: Xia Bing.

Seller A31: China Mobile Group Tianjin Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 64 Zone M, Tianjin Port Free Trade Zone, Tianjin City; legal representative: Yan Jiang.

Seller A32: China Mobile Group Beijing Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 7 Dongzhimen South Avenue, Dongcheng District, Beijing; legal representative: Zhou Yi.

Seller A1 to A32 shall be collectively referred to as Seller A.

Seller B:

China United Network Communications Corporation Limited (China Unicom, Seller B1), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 21 Jinrong Avenue, Xicheng District, Beijing; legal representative: Wang Xiaochu.

Unicom New Horizon Telecommunications Company Limited (New Horizon, Seller B2), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at Room 610, 3rd Office Building, No. 18, Jianguomennei Avenue, Dongcheng District, Beijing; legal representative: Shen Hongbo.

Seller B1 and B2 shall be collectively referred to as Seller B.

Seller C:

China Telecom Corporation Limited (China Telecom, Seller C), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 31 Jinrong Avenue, Xicheng District, Beijing.

Seller A, B and C shall be collectively referred to as the "Seller".

China Reform Corporation: China Reform Holdings Corporation Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at 6F, Boxing Building, No.9 Fuxing Road, Haidian District, Beijing; legal representative: Liu Dongsheng.

Buyer/Issuer: China Tower Corporation Limited, a company limited by shares incorporated under the laws of the People's Republic of China with its registered address at 19F, No. 73 Fucheng Road, Haidian District, Beijing, China; legal representative: Liu Aili.

Annex 2: Definitions and Interpretation

I. Definitions.

In this Agreement, the following terms shall have the following meaning:

Confidential Information	Refers to	as for the buyer's obligations, it shall refer to any information related to the sellers and the target assets that is received or owned by China Tower (or any of its representatives); as for the sellers' obligations, it shall refer to any information related to China Tower that is received or owned by the sellers (or any of its representatives), or any information related to the target assets that is received or owned by the sellers (or any of its representatives) before and after the delivery; or any information related to the terms of this Agreement and other transaction documents and relevant negotiations.
This Agreement	Refers to	this <i>Agreement on Purchase of Tower-related Assets by Issuance of Shares and Payment of Cash</i> .
Force Majeure	Refers to	unforeseeable, unavoidable and insurmountable objective circumstances, including the occurrence of natural disasters such as earthquake, typhoon, floods, storm (subject to the information released by the local government, weather service or other functional departments), fire, war, any governmental act as well as changes and enactment of any law, which directly affect the performance of this Agreement or cause the affected party to be unable to perform this Agreement according to the agreed conditions.
Representatives	Refers to	as for one party and/or its affiliates, it shall refer to the directors, senior officers, employees, agents, advisors, accountants and consultants of such party and/or its affiliates.
Third-party	Refers to	other organization or individual other than the buyer and the sellers in this Agreement.
Third-party Rights	Refers to	any rights (including any purchasing right, option, right of preemption or conversion right) or any mortgage, charge, pledge, lien, transfer, security interests or any other security agreement or arrangement of any body, or any agreement that sets forth any of the above rights.
Third-party Claims	Refers to	have the meaning ascribed to it by Section 12.1 hereof.
Telecom Group	Refers to	China Telecom Corporation Limited.
Telecom Enterprises, Operators	Refers to	basic telecom service operators, including China Telecom Corporation Limited, China United Network Communications Corporation Limited, China Mobile Communication Company Limited and their parent companies, subsidiaries and other affiliated companies. For the purpose of this Agreement, the term shall only refer to telecom enterprises holding stock tower-related assets.

Power Equipment & Environment Variables Monitoring System	Refers to	the electronic system conducting centralized monitoring of power equipment and environment variables in the plant room.
Liabilities	Refers to	all liabilities, responsibilities and liabilities of various natures, regardless of whether they arise from contract, law or other causes; or whether they are present or future, actual, or some, determined or yet-to-be-determined; or whether they are owed or incurred by individually or jointly by one party as the party concerned or guarantor.
Working Day	Refers to	any day except Saturdays, Sundays and other national holidays announced by the Chinese government.
Shares Consideration	Refers to	has the meaning ascribed to it by Section 2.5 hereof.
Affiliates	Refers to	as for any party, it means the then subsidiary, parent company and any subsidiary of its any parent company.
Transition Period	Refers to	the transition period defined by Annex 7 hereto. Unless otherwise noted, the transition period contained in this Agreement shall mean the transition period of this transaction provided by Annex 7 hereto.
Mixed Plant Room	Refers to	plant room consisting mainly of mobile network and fixed-line devices.
Base Station	Refers to	a radio receiver/transmitter that transmits or receives information to/from mobile terminals via the mobile communication hub in a certain area with wireless coverage, which generally consists of transmission system, power system, power equipment & environment variables monitoring system; antenna and feeding system, BTS master device and other auxiliary equipment.
Reference Date	Refers to	the appraisal reference date set forth in the appraisal report: October 31, 2014 and March 31, 2015.
Surviving Terms	Refers to	Article 13 (Announcement), Article 14 (Confidentiality), Article 15 (Non-transferrable), Article 17 (Taxation and Expenses), Article 18 (Notice), Article 19 (Conflicts with Other Agreements), Article 20 (Exemption, Rights and Remedies), Article 22 (Entry into Force and Amendment), Article 23 (Invalidity) and Article 24 (Governing Law and Arbitration) of this Agreement and Annex 2 (Definitions and Interpretation) hereto.
Delivery	Refers to	the delivery of target assets that shall be completed in accordance with Article 5 hereto.
Delivery Date	Refers to	has the meaning ascribed to it by Section 4.1 hereof.
Handover	Refers to	the handover of target assets, related information and contracts conducted by the buyer and the sellers in accordance with Annex 7 hereto.

Handover Plan	Refers to	the specific deployment and arrangements listed in Annex 7 hereto that are made by the buyer and the sellers for the handover of target assets.
Handover Date	Refers to	has the meaning ascribed to it by Section 4.3(2) hereof.
Completion of Handover	Refers to	the handover of target assets, related information, contracts and maintenance work is completed in accordance with Annex 7 hereto.
Transaction Consideration	Refers to	has the meaning ascribed to it by Section 2.2 hereof.
Transaction Documents	Refers to	this Agreement, the Handover Plan, the List of Target Assets, the Appraisal Report (including the Breakdown of Appraised Assets), the Delivery Confirmation, the Share Subscription Agreement and other related documents.
Recipient	Refers to	has the meaning ascribed to it by Section 14.1 hereof.
Joint Work Organization	Refers to	has the meaning ascribed to it by Article 7 hereof.
China Unicom Group	Refers to	China United Network Communications Corporation Limited.
Buyer, China Tower, Tower Company	Refers to	China Tower Corporation Limited.
Sellers	Refers to	the sellers listed in Annex 1 of this Agreement.
CIETAC	Refers to	has the meaning ascribed to it by Section 24.3 hereof.
Parent Company	Refers to	any company that owns the majority of voting rights of the other company; or is the shareholder of the other company and owns the right to appoint or remove the majority of directors of the other company's board; or is the shareholder of the other company and control the majority of its voting rights in accordance with agreements with other shareholders, regardless of whether such ownership is direct or indirect through one or multiple companies.
Target Assets	Refers to	has the meaning ascribed to it by Section 1.1 hereof.
List of Target Assets	Refers to	in accordance with Section 1.2 of this Agreement, the buyer and the sellers shall determine the List of Target Assets by way of stocktaking. The List shall serve as an attachment of the "Delivery Confirmation", including the target assets of final handover, liabilities (if any), contract, maintenance work and other items.
Asset Inventory Surplus	Refers to	the newly-added assets that are found by the buyer and the sellers by way of on-site stocktaking and have not been stated on the sellers' accounts.
Dispatching	Refers to	the process of dispatching work orders by the system to the responsible persons, which is driven by warning, planned or temporary transactions.
Dispatching System	Refers to	the electronic system dispatching work orders to relevant responsible persons.

Appraisal Report	Refers to	“Appraisal Report of Tower-related Assets of Provincial Branches involved in China Telecom Corporation Limited’s Intended Subscription for China Tower Corporation Limited’s Shares” (Company Reference No.: (2015) 1286-2), “Appraisal Report of Tower-related Assets of Provincial Branches and Unicom New Horizon Telecommunications Company Limited involved in China United Network Communications Corporation Limited’s Intended Subscription for China Tower Corporation Limited’s Shares and Transfer of Its Assets” (Company Reference No.: (2015) 1286-4) and “Appraisal Report of Tower-related Assets of 31 Provincial Branches involved in China Mobile Communications Corporation’s Intended Subscription for China Tower Corporation Limited’s Shares and Transfer of Its Assets” (Company Reference No.: (2015) 1286-6) issued by China Enterprise Appraisals Co., Ltd.
Appraised Assets	Refers to	the stock tower-related assets owned by the sellers as of the appraisal reference date that are stated in the appraisal report.
Encumbrances	Refers to	any rights (including any right acquired, subscription right, right of preemption or conversion right) or any mortgage, charge, pledge, lien, transfer, mortgage credit, security interests, retention of title or any other security agreement or arrangement of any body, or any agreement that sets forth any of the above rights.
Renminbi	Refers to	the legal currency of the People’s Republic of China.
Day	Refers to	unless otherwise specified, it refers to calendar days, but in either case, if the last day of the expiry of the period agreed by this Agreement is holiday, then the first day after such holiday shall be the expiry date. Unless otherwise noted, “prior to a certain date” shall include the date, while “after a certain date” shall not include the date.
On-site Assignment	Refers to	maintenance agent or maintenance personnel go to the designated site to complete the tasks according to the work order or requirements of the party having the ownership of the assets.
Taxes	Refers to	include (a) taxes imposed on total or net revenues, profits and earnings; (b) all other taxes, levies, duties, import duties, charges and withholding taxes of any nature, including any consumption tax, property tax, VAT, sales tax, transfer tax, franchise tax, payroll tax and any national insurance or social security contributions, as well as any payment that may be payable or become payable by the person concerned to any person who pays any outstanding tax on his/her behalf, in conjunction with all fines, fees and interest imposed on any of such taxes or any late or incorrect tax return form, regardless of whether such taxes, levies, taxation, charges, withholding taxes, penalties and interest are directly or initially levied on such person concerned or any other person, or directly or initially attributed to such person concerned or any other person; and regardless of whether any relevant payment can be recovered from any other person.

Tower Assets	Refers to	devices used for erecting antenna and other communication equipment, including ground tower, floor tower, heighten frame, holding pole and other facilities (including beautification Antenna, tower facilities in integrated base station and super base station).
Provider	Refers to	has the meaning ascribed to it by Section 14.1 hereof.
China Reform Corporation	Refers to	China Reform Holdings Corporation Limited.
Contracts that have not been transferred	Refers to	has the meaning ascribed to it by Section 4.5(3) hereof.
Prerequisites	Refers to	the prerequisites contained in Section 3.1 hereof, and one prerequisite shall refer to any of these conditions.
Cash Consideration	Refers to	has the meaning ascribed to it by Section 2.5 hereof.
Newly-added Target Assets	Refers to	has the meaning ascribed to it by Section 2.2(3) hereof.
China Mobile Group	Refers to	China Mobile Communications Corporation
Contracts that shall be transferred	Refers to	has the meaning ascribed to it by Section 4.5(3) hereof.
Transfer to Fixed Assets	Refers to	The completed CIP will be transferred to fixed assets on the sellers' accounts after final acceptance and being put into operation.
Station Site	Refers to	short for station site equipment, including towers, plant room (including power equipment & environment variables monitoring) devices of unit base station
Disputes	Refers to	has the meaning ascribed to it by Section 24.2 hereof.
Support System	Refers to	related system composed of network management monitoring system and dispatching system
Intellectual Property Rights	Refers to	Patents, trademarks, service marks, company logos, trade names, domain names, design rights, copyrights (including but not limited to copyrights of computer software) and database rights, semiconductor line rights, utility models, exterior design rights, invention rights, know-how and other intellectual property rights (whether registered) as well as all the rights or form of protection having the same or similar utility anywhere in the world, and the term "registration" shall include "registration" and "application for registration".
"PRC" or "China"	Refers to	the People's Republic of China (for the purpose of this Agreement only, which excludes Hong Kong, the Macau Special Administration Region and Taiwan)
China Telecom	Refers to	China Telecom Corporation Limited
China Unicom	Refers to	China United Network Communications Corporation Limited
China Mobile	Refers to	China Mobile Communications Corporation

Material Adverse Change	Refers to	any event that individually causes loss of RMB 30 million yuan to the target assets and related businesses, or collectively causes loss of RMB 100 million yuan and above to the target assets and related businesses.
Major Defects	Refers to	defects that affect the buyer's continued legitimate ownership of target assets or rights of continuous use of related assets
Subsidiary	Refers to	the other company is any company of its parent company.
Delivery Confirmation	Refers to	the Delivery Confirmations at levels of city, province and headquarters that are agreed upon by the parties pursuant to Section 4.4 hereof and Article 6 of Annex 7.
"Comprehensive Services Agreement"	Refers to	the Comprehensive Services Agreement signed by the buyer and the sellers.

2. Interpretation.

In this Agreement, unless the context otherwise requires:

(1) the reference to "person" shall include any person, firm, group, company (regardless of whether it is a legal entity), government, state or state agencies, any joint venture, association, partnership, work council or employee representative body (regardless of whether it has independent legal status);

(2) in this agreement, the "Buyer and Sellers", "Both Parties" shall mean the buyer and the sellers, and the "Parties" shall mean each of the sellers, China Reform Corporation and the buyer;

(3) the reference to "Terms" shall mean the terms of this Agreement;

(4) the headings are for convenience only, which shall not affect the interpretation of this Agreement;

(5) the singular terms shall refer to plural and vice versa; the reference of one part of speech shall refer to all parts of speech;

(6) in order to refer to the amount of payments in RMB, the amounts in other currencies shall be considered as being converted into RMB at the exchange rates of relevant dates;

(7) any phrase led by terms such as "include(s)", "including" and "in particular" and any other similar words shall be interpreted as explanatory, which shall not restrict the meaning of words before such phrases;

(8) as for laws and regulations, including laws, administrative regulations, administrative rules, local laws and regulations, except as otherwise expressly provided in this Agreement, any explicit reference to any law or regulation (including any law or regulation in any jurisdiction) shall include: (a) such law and regulation that has been revised, consolidated or re-enacted by or pursuant to any other law and regulation before or after the signing date of this Agreement; (b) re-enacted such law and regulation (whether revised or not); and (c) any supporting regulations (including the provisions) developed pursuant to the revised, consolidated or re-enacted law and regulation (before or after the signing date of this Agreement) as described above in paragraph (a) or (b), unless any matter referred to in paragraph (a) to (c) occurs after the signing date of this Agreement, which has increased or changed the buyer or the sellers' obligations under this Agreement.

3. Annexes. Annexes shall constitute an integral part of this Agreement.

4. Inconsistency. In case any inconsistency exists between the definitions contained in Annex 2 and the definitions set forth in any term or any other annex, then for the purpose of interpreting such term or annex, the latter shall prevail.

Annex 3: Target Assets

Pursuant to Article 1 of this Agreement, the target assets shall be the stock tower-related assets owned by the sellers on the delivery date, and the buyer and the sellers agree to inject/transfer such assets to the buyer.

1. Scope of Target Assets

1.1 Towers

1.1.1 The sellers' devices used for erecting antenna and other communications equipment, including ground tower, floor tower, heighten frame, holding pole and other facilities (including beautification Antenna, tower facilities in integrated base station and super base station);

1.1.2 The towers leased to any third party by the sellers (excluding towers leased or co-constructed and shared by other telecom enterprises): such lease agreement explicitly states that the ownership of tower-related assets belongs to the sellers and the sellers have acquired such ownership.

1.2 Plant Room

1.2.1 The relatively independent base station plant rooms (excluding the sellers' own telecom bureaus/offices, comprehensive office buildings and separate plant room in their own business outlets), plant rooms in integrated base stations and super base stations supporting the towers contained in Section 1.1;

1.2.2 The following plant rooms shall not belong to the scope of target assets: (1) one small plant room located in the sellers' own telecom bureaus/offices (separate plant rooms in the sellers' own telecom bureaus/offices, comprehensive office buildings and business outlets) that supports the towers contained in Section 1.1; (2) mixed plant rooms (plant rooms mainly composed of mobile network equipment or fixed-line equipment) supporting the towers contained in Section 1.1;

1.2.3 For the towers-supporting mixed plant rooms that have not been included into the scope of contribution, in principle, a work area of about 20 square meters shall be set aside for free use by the buyer in 3 years (from the next day of Delivery Date). The Sellers shall charge the buyer for a certain amount of rental in accordance with market principles after 3 years.

1.2.4 The sellers' leased plant rooms in line with Section 1.2.1 shall be changed to the buyer's leased plant rooms.

- 1.2.5 The sellers' leased plant rooms in line with Section 1.2.2 shall be disposed of in accordance with Section 1.2.3, and shall not be changed to the buyer's leased plant rooms.
- 1.2.6 The ownership of the seller's own premises described in Section 1.2.1 shall be transferred to the buyer; the plant rooms operated by the sellers by way of rental that are described in Section 1.2.4, as well as the rights and obligations that become effective from the Delivery Date under related lease contracts shall be transferred to the buyer.
- 1.2.7 Both parties agree that, the proportion of the plant rooms described in Section 1.2.1 in the total number of the sellers' tower-supporting plant rooms shall reach 70% and above, and such proportion shall be controlled at the headquarters level.
- 1.3 Ancillary Equipment
 - 1.3.1 Power equipment, air-conditioning facilities, lightning protection facilities and security devices (including security monitoring and fire-fighting equipment) in the plant rooms agreed in Sections 1.2.1 and 1.2.4, as well as plant room-related external circuit introduction and power & environment monitoring front-end acquisition equipment;
 - 1.3.2 Transmission and platforms related to power and environment monitoring do not belong to the scope of target assets.
- 1.4 Intangible Assets
 - 1.4.1 The land use rights owned by the sellers for the lands occupied by assets stated in Sections 1.1 and 1.2.1;
 - 1.4.2 The sellers' leased land in line with Section 1.4.1 shall be changed to the buyer's leased land;
 - 1.4.3 The information owned by the sellers that is associated with the target assets described in Article 1 of this Agreement;
 - 1.4.4 The premises (including floors) occupied by the target assets described in Sections 1.1 and 1.2 shall be disposed of according to Section 1.4.
- 1.5 Construction-in-Progress and Construction Materials
 - 1.5.1 Construction-in-progress related to the target assets described in Sections 1.1 and 1.2.1;
 - 1.5.2 Construction materials related to CIPs described in Section 1.5.1.

1.6 Accounts Payable

- 1.6.1 Rentals payable of premises and sites related to the target assets described in Sections 1.2.4 and 1.4.2 that are attributable to the period after the Delivery Date, which are disclosed in the Appraisal Report and confirmed by both parties;
- 1.6.2 Costs and expenses-type accounts payable that are attributable to the period after the Delivery Date and related to the target assets;
- 1.6.3 Accounts payable related to fixed assets and construction-in-progress do not belong to the scope of target assets.

1.7 Long-term Deferred Expenses

- 1.7.1 Long-term deferred expenses related to the target assets described in Sections 1.2.4, 1.3.1 and 1.4.2, including premises of 1 year and above, venue rental, external circuit introduction costs, costs of decoration and reconstruction, etc.

1.8 Current Assets

- 1.8.1 Other receivables related to the target assets described in Sections 1.1, 1.2, 1.3 and 1.4, including deposit of electricity bill receivable, guarantee/deposit of venue and premise rental, deposit of property management fee, etc.;
- 1.8.2 Inventory related to the target assets described in Sections 1.1, 1.2, 1.3 and 1.4, including dedicated instruments, maintenance tools, energy conservation equipment, consumables, etc.;
- 1.8.3 Deferred expenses related to the target assets described in Sections 1.2.4 and 1.4.2, including premises of 1 year, venue rental, etc.

2. Methods of Confirming Target Assets

- 2.1 The list of target assets may be adjusted upon the consent of both parties. Both parties shall determine the list of target assets of final delivery by signing the Delivery Confirmation.
- 2.2 The assets and resources of other third parties that are in the possession of the sellers shall not belong to the scope of asset transfer of this transaction. However, to the applicable extent, if the sellers enjoy contract rights and interests, then in accordance with the principles determined through consultation, the rights and obligations under such contract shall be transferred to the buyer in accordance with Annex 6.

3. About Liabilities

Except Section 1.6, for avoidance of doubt, any liability or payment obligation (regardless of whether the actual payment is required to be made before or after the Delivery Date) generated by the target assets before the Delivery Date (including the day) other than those listed in the Appraisal Report and confirmed by both parties in the Delivery Confirmation shall be borne by the sellers, and the buyer shall not bear any preceding liability or payment obligation related to the target assets. Unless otherwise agreed by both parties, any liability or payment obligation generated by the target assets from the day after the Delivery Date shall be borne by the buyer.

Annex 4: Breakdown of Appraised Value of Sellers' Target Assets

Unit: RMB 10,000 yuan

No.	Sellers	Appraised Value 1 (Reference Date: Oct. 31, 2014)	Appraised Value 2 (Reference Date: Mar. 31, 2015)	Total
A1	China Mobile Communication Company Limited	—	—	—
A2	China Mobile Group Jiangsu Company Limited	618,201.23	560,404.83	1,178,606.06
A3	China Mobile Group Shandong Company Limited	749,585.23	162,409.97	911,995.19
A4	China Mobile Group Guangdong Company Limited	497,832.80	309,469.27	807,302.07
A5	China Mobile Group Henan Company Limited	622,437.68	120,466.96	742,904.64
A6	China Mobile Group Zhejiang Company Limited	443,707.79	159,495.27	603,203.06
A7	China Mobile Group Anhui Company Limited	414,845.97	186,792.93	601,638.89
A8	China Mobile Group Hebei Company Limited	495,225.28	59,064.25	554,289.53
A9	China Mobile Group Hunan Company Limited	398,885.30	114,751.66	513,636.96
A10	China Mobile Group Hubei Company Limited	315,545.29	149,161.51	464,706.80
A11	China Mobile Group Sichuan Company Limited	289,940.25	136,376.80	426,317.05
A12	China Mobile Group Liaoning Company Limited	297,719.89	116,226.59	413,946.48
A13	China Mobile Group Yunnan Company Limited	244,194.53	162,018.87	406,213.40
A14	China Mobile Group Jiangxi Company Limited	346,233.33	47,601.39	393,834.73
A15	China Mobile Group Shaanxi Company Limited	281,490.59	86,170.50	367,661.09
A16	China Mobile Group Shanxi Company Limited	262,545.13	58,375.12	320,920.25
A17	China Mobile Group Heilongjiang Company Limited	248,879.12	54,636.18	303,515.30
A18	China Mobile Group Inner Mongolia Company Limited	252,616.84	47,541.64	300,158.48

A19	China Mobile Group Guangxi Company Limited	238,868.98	52,682.01	291,550.99
A20	China Mobile Group Gansu Company Limited	221,394.34	49,099.27	270,493.61
A21	China Mobile Group Fujian Company Limited	165,760.45	83,057.18	248,817.63
A22	China Mobile Group Xinjiang Company Limited	157,911.11	64,314.89	222,226.00
A23	China Mobile Group Jilin Company Limited	158,168.31	37,009.95	195,178.27
A24	China Mobile Group Guizhou Company Limited	137,900.28	49,806.87	187,707.15
A25	China Mobile Group Shanghai Company Limited	138,991.05	42,031.70	181,022.76
A26	China Mobile Group Hainan Company Limited	86,001.53	37,827.88	123,829.42
A27	China Mobile Group Ningxia Company Limited	73,218.83	50,480.21	123,699.05
A28	China Mobile Group Chongqing Company Limited	89,687.50	32,873.62	122,561.12
A29	China Mobile Group Tibet Company Limited	72,645.15	19,409.44	92,054.59
A30	China Mobile Group Qinghai Company Limited	73,670.32	17,612.70	91,283.03
A31	China Mobile Group Tianjin Company Limited	68,924.13	19,309.03	88,233.17
A32	China Mobile Group Beijing Company Limited	66,431.38	20,689.52	87,120.91
B1	China United Network Communications Corporation Limited	4,979,850.39	1,329,365.58	6,309,215.97
B2	Unicom New Horizon Telecommunications Company Limited	8,796.28	461.86	9,258.14
C	China Telecom Corporation Limited	2,263,860.89	1,170,317.42	3,434,178.31

Annex 5: Template for Shares Subscription Agreement Shares

Subscription Agreement

(This Agreement is signed by the following parties on []/[]/2015 in Beijing)

Issuer: China Tower Corporation Limited (“China Tower”)

Subscriber: []

In view of that the issuer and the subscriber have signed the Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash on October 14, 2015. Based on the preceding agreement and the specific circumstances of delivery of tower-related assets, the issuer has determined to issue a total of [] shares with the price at RMB 1 yuan/share, and the subscriber shall be entitled to subscribe for [] shares.

1. Subscription Price

RMB 1 yuan/share.

2. Subscription Amount and Quantity

The subscriber has confirmed to pay RMB []*10000 yuan to subscriber for [] shares.

3. Subscription Method

The subscriber has agreed to subscribe for the shares issued with a combination of assets of RMB []*10000 yuan and cash of RMB []*10000 yuan.

4. Payment Method

The subscriber shall complete the payment of contribution assets within [] days.

5. Shareholders' Rights and Obligations

The Subscriber shall enjoy shareholder rights and bear the obligations of shareholders from the effective date of this Agreement.

6. Entry into Force

This Agreement shall enter into force upon signature and stamp being affixed by both parties.

(Reminder of this page intentionally left blank)

(In witness whereof, both parties have signed this Shares Subscription Agreement on the date first above written.)

Issuer: China Tower Corporation Limited (Seal)

Legal Representative:

Subscriber: []
Legal Representative:

Annex 6: Bank Accounts and Contact Info of The Parties

1. Pursuant to Section 2.7 of this Agreement, the bank account information of parties hereto is as follows:

(1) Bank Account Info of Seller A

Account Name: China Mobile Communication Company Limited

Opening Bank: Beijing Chang'an Branch of Industrial and Commercial Bank of China Limited

Account No.: 0200003309221088855

(2) Bank Account Info of Seller B

Account Name: China United Network Communications Corporation Limited

Opening Bank: Chang'an Branch of Industrial and Commercial Bank of China

Account No.: 0200003309221111116

(3) Bank Account Info of Seller C

Account Name: China Telecom Corporation Limited

Opening Bank: Beijing Chang'an Branch of Industrial and Commercial Bank of China

Account No.: 0200003309221003474

(4) Bank Account Info of China Reform Corporation

Account Name: China Reform Holdings Corporation Limited

Opening Bank: Beijing Yonganli Branch of China Construction Bank

Account No.: 11001069700059666888

(5) Account Information of Buyer/Issuer

Account Name: China Tower Corporation Limited

Opening Bank: Beijing Anhui Branch of China Construction Bank

Account No.: 11001018500059588888

2. Pursuant to Section 18.2 of this Agreement, the contact information of parties hereto is as follows:

(1) Seller A: China Mobile Communication Company Limited

Address: No. 29 Jinrong Avenue, Xicheng District, Beijing

Fax: 010-66006424

Addressee: Han Fei

(2) Seller B: China United Network Communications Corporation Limited

Address: No. 21 Jinrong Avenue, Xicheng District, Beijing

Fax: 010-66259614

Addressee: Bi Ye

(3) Seller C: China Telecom Corporation Limited
Address: No. 31 Jinrong Avenue, Xicheng District, Beijing
Fax: 010-58501824
Addressee: Tan Zuduo

(4) China Reform Corporation: China Reform Holdings Corporation Limited
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Annex 7: Handover Plan

Pursuant to this Agreement, the sellers and the buyer (including their respective branches and subsidiaries at provincial and municipal levels, and the same as below) shall complete the handover in accordance with the handover plan contained in this annex. In addition, for the purpose of successful handover, both parties agree to, in accordance with relevant arrangements of this transaction, further elaborate the handover plan and complete the handover with unified deployment and close collaboration:

1. Objectives

1.1 to ensure authentic information, clear property rights and complete handover of target assets;

1.2 to ensure smooth transition of maintenance services, quick acceptance of maintenance work, and standardized and orderly transition process.

2. Principles of Handover Work

2.1 unified physical and maintenance handovers: both physical and maintenance handovers shall become effective upon the on-site signature by both parties; the maintenance of related assets shall be transferred to the buyers; and the information and contracts of related assets shall also be transferred to the buyer in conjunction with the assets;

2.2 to complete the handover site by site and check physical items against the list: both parties shall compare and verify the on-site physical items against the “List of On-site Handover of Stock Tower-related Physical Items” (refer to Appendix 1 of this Annex for the template), accurately record change information, asset status information such as overage, shortage and damage of physical items of the handover as well as contents of business handover;

2.3 smooth transfer and guaranteed operations: by fully relying on the sellers’ existing resources, the handover work shall ensure stable operation quality after site handover, successful transfer of maintenance work and business, smooth operations in the transition period and stable network quality;

2.4 both parties shall, based on the principle of good faith and fairness, properly handle the disputes and differences arising out of handover work, and complete the handover of target assets through cooperation.

3. Organizational Arrangements for Handover

According to the needs of handover work, both parties shall establish joint work organizations at headquarters, provincial and municipal levels to be responsible for the handover of target assets within their respective territories.

4. Preparations for Handover

4.1 After the signing of this Agreement, for the purpose of the handover of target assets, both parties agree to complete the following preparation-related work.

4.1.1 The specific preparations for asset handover shall include:

(1) both parties shall jointly organize training programs on the handover;

(2) both parties shall jointly provide the required equipment for the handover, including tools and apparatus, vehicles, handover forms, labels, etc.;

(3) both parties shall import the breakdown of appraised assets into the asset stocktaking system to generate a preliminary list of target assets, and formulate the “List of On-site Handover of Stock Tower-related Physical Items” as the data basis for on-site handover;

(4) both parties shall determine the specific arrangements of handover work by mutual consultation, including but not limited to time schedule, roadmap, organization & implementation and other arrangements;

(5) the sellers shall provide its breakdown of newly-added target assets as of the Delivery Date in the form of “Breakdown of Stocktaking and Appraisal of Tower-related Assets” in the second asset stocktaking.

4.1.2 Preparations for Maintenance Handover

(1) provincial and municipal companies of both companies shall make adequate communication to complete preparations such as building alignment mechanism, developing handover plan, determining maintenance units, preparing support system and conducting pilots in existing networks, and reach consensus on handover time of maintenance work, maintenance interface, maintenance handover organization, continuation of maintenance teams, maintenance plan for monitoring and dispatching;

(2) regarding maintenance interface, both parties agree to the related maintenance division of labor interface contained in the “Comprehensive Services Agreement”;

(3) regarding maintenance quality, relevant requirements of the “Comprehensive Services Agreement” shall be executed, which, in principle, shall not be lower than the sellers’ existing maintenance level;

(4) both parties agree that, before completing reconstruction and construction of power and environment monitoring system of stock sites, the buyer shall conduct monitoring and dispatching by relying on the sellers’ network management system or power and environment monitoring system or dispatching system; and provincial companies of both parties shall determine specific maintenance programs through consultation;

(5) the sellers shall provide the buyer with power and environment monitoring data in a certain period before the Delivery Date, and the specific period shall be determined by provincial companies of both parties through consultation;

(6) provincial companies of both parties shall jointly the list of site names for site names and serial numbers in the stage of asset stocktaking, the sellers’ network management system or power and environment monitoring system;

(7) regarding emergency communication support, the provincial companies of both parties shall jointly determine division of responsibilities, scope of assurance, assurance standards, contingency plans and liaison system through consultation;

(8) provincial companies of both parties shall determine related matters such as on-site collaboration, troubleshooting (including power generation), information push, emergency support and retaining sites;

(9) provincial and municipal branches of both parties shall jointly determine the specific arrangements of handover of property management, water and electricity supply through consultation;

(10) in order to maintain the stability of maintenance teams as far as possible, the sellers shall provide the buyer with maintenance mode list of stock sites, information of co-location agreements, co-location agreements and records of co-location appraisal for nearly a year; the buyer shall consult with the former maintenance organization about co-location matters to ensure the smooth transition of maintenance work.

4.1.3 Preparations of Support Systems

(1) Network management system or power and environment monitoring system

For stock sites without power & environment monitoring system or needing alteration, both parties shall conduct communication and consultation on construction and alteration arrangements, and the sellers shall provide the buyer with necessary assistance. Before the buyer completes alteration and construction of power & environment monitoring system of stock sites, it shall conduct monitoring and dispatching by relying on the sellers' network management system or power & environment monitoring or dispatching system, and the sellers shall provide it with necessary assistance. On the premise of ensuring normal implementation of maintenance work and system security, the sellers shall open use rights of relevant network management system or power & environment monitoring or dispatching system, and the buyer may use such systems according to the sellers' authorization.

4.1.4 Preparations for Information Handover

(1) both parties shall jointly determine the specific arrangements for handover of information and contracts through consultation;

(2) the sellers shall make an itemized list of information in accordance with Article 9 of this Annex (refer to Appendix 2 hereto for the template) and prepare relevant information.

5. Implementation of Handover

5.1 For the purpose of the handover, both parties agree to:

5.1.1 Centralized Handover of Information

(1) both parties shall complete centralized handover of relevant information in accordance with the agreed plan and the requirements of Article 9 of this Annex;

(2) both parties shall sort out key materials (contracts of electric supply, property lease and co-location) according to sites;

(3) both parties shall faithfully record the information that the sellers fail to provide in the "List of Information Handover for Stock Towers" (refer to Appendix 3 of this Annex for the template);

(4) both parties agree to prioritize the handover and collation of key materials, and the handover of other information can be completed in subsequent handover.

5.1.2 On-site Handover

(1) For the sites corresponding to plant rooms included into the scope of target assets, the on-site handover shall be completed by following the following procedure:

confirm the existence of assets, verify and confirm the physical information of asset handover, and supplement and record asset inventory surplus in accordance with the “List of On-site Handover of Stock Tower-related Physical Items”; assets with inventory surplus need to be photographed; record types and integrity of door locks and electricity meter readings, hand over access cards and keys; both parties shall affix their signatures on the site to confirm that all entries of the “List of On-site Handover of Stock Tower-related Physical Items” are correct; the List is done in duplicate, each party holding one copy; the maintenance work for target assets located in such site shall be assumed by the buyer.

(2) For the sites corresponding to plant rooms that are not included into the scope of target assets, the on-site handover shall be completed by following the following procedure:

confirm the existence of tower-related assets, verify and confirm the physical information of tower-related assets and supplement and record asset inventory surplus and affix resources labels; assets with inventory surplus need to be photographed; record the location and size of defined area in plant room, and record whether such area is equipped with antenna feeder, cable and ingress and egress routes, and whether is convenient for pass-through of personnel and equipment; both parties shall affix their signatures on the site to confirm that all entries of the “List of On-site Handover of Stock Tower-related Physical Items” are correct; the List is done in duplicate, each party holding one copy; the maintenance work for target assets located in such site shall be assumed by the buyer.

(3) Both parties shall, in accordance with the “List of On-site Handover of Stock Tower-related Physical Items” confirmed by their signatures, import the results of on-site handover into the asset stocktaking system, and aggregate inventory overage and shortage, differences of information and views.

5.1.3 Other

(1) Both parties shall jointly complete related transfer of water and electricity use rights, transfer and registration of property management relations through collaboration;

(2) Both parties shall jointly apply for registration of change of ownership for the assets which need such procedure to be validly transferred, except those recognized by both parties as without such need or cannot apply;

(3) The consent/confirmation of third party shall be obtained or the contract name shall be transferred for the matters requiring such consent or confirmation, except the contracts that have not been transferred and held by the sellers on behalf of the third party. Where actual contractual relations exist between the sellers and any third party without signing any written contract, the sellers shall provide the buyer with information of such third party, and assist it in directly signing agreements with such third party. The specific implementation shall be in accordance with Article 10 of this Annex;

(4) The sellers shall hand over the control and use rights of access system to the buyer;

(5) Both parties agree to complete the handover of core items within the period agreed in Section 4.4 of this Agreement, including physic assets, maintenance work, electricity supply and property management relations, key materials (contracts of electric supply, property lease and co-location) and the confirmation of accounts payable. The deadlines of subsequent handover matters, such as registration of asset transfer, transfer of contract names and handover of other information, shall be otherwise agreed by both parties in the Delivery Confirmation.

5.1.4 The above arrangements shall not impede any other arrangements of the target assets made by both parties through consultation.

6. Confirmation of Handover

6.1 Both parties shall confirm the list of target assets of final handover by signing the Delivery Confirmation. The parts of unfinished handover (assets, businesses, contracts) shall be specified in the list as the basis for subsequent handover, and both parties shall continue to complete handover of such parts in accordance with this Agreement or the provisions of "Delivery Confirmation".

6.2 Both parties shall, according to the levels of assets management, arrange branches at provincial and municipal levels to confirm the handover, sign the Delivery Confirmation and report the results to the headquarters level by level. The branch at the next higher level shall ensure that the Delivery Confirmation submitted by the branch at the next lower level is complete.

7. Subsequent Handovers

7.1 Both parties shall indicate the target assets, contracts, businesses that they need to continue to hand over in the Delivery Confirmation, which shall be handed over in accordance with this Annex.

7.2 Both parties agree that:

(1) they shall continue to apply for contract changes or obtain the consents of third parties according to the scope, program, method and schedule commonly recognized by them;

(2) they shall apply for transfer and registration of land use rights and property rights as well as registration formalities of related ownership according to the scope, program, method and schedule commonly recognized by them;

(3) unless otherwise specified, the sellers shall bear and be responsible for the settlement of the assets-related costs before the Delivery Date, including but not limited to rent and maintenance fees. In case the outstanding costs before the Delivery Date is actually borne by the buyer, the sellers shall truly settle such costs and pay related fees.

8. Handover Methods and Standards for Target Assets

8.1 Fixed Assets

8.1.1 Towers

Base on the List of On-site Handover of Stock Tower-related Physical Items, the sellers shall hand over towers to the buyer, and the handover shall be deemed as completed after the buyer takes stock and sign the Delivery Confirmation (unless otherwise specified, it shall refer to the Delivery Confirmation at headquarters level, the same below).

8.1.2 Plant Rooms

(1) premises for which any party can apply for housing ownership right certificates: the sellers and the buyer shall confirm the list of target assets of final handover by signing the Delivery Confirmation; both parties shall jointly apply for change of housing ownership right certificate at relevant housing authorities, and the handover shall be deemed as completed when the transfer procedures of housing ownership right certificate is completed; after such change, the handover of such housing ownership right certificate shall be deemed as completed after the buyer becomes the owner.

(2) plant rooms that any party cannot apply for the housing ownership right certificate or both parties confirmed no need for applying for such certificate: the sellers shall hand over such plant rooms to the buyer, and the handover shall be deemed as completed when the buyer takes stock and signs the Delivery Confirmation.

(3) plant rooms leased by the sellers: both parties shall complete the handover of contract in accordance with Article 10 of this Annex, and the handover of such plant rooms shall be deemed as completed when the Delivery Confirmation is signed.

(4) processing fees for transfer and registration of property rights shall be borne by the buyer.

(5) for the mixed plant rooms that have not been included into the scope of contribution, in principle, a work area of about 20 square meters shall be set aside for free use by the buyer in 3 years. The Sellers shall charge the buyer for a certain amount of rental in accordance with market principles after 3 years.

8.2 Ancillary Equipment

Base on the List of On-site Handover of Stock Tower-related Physical Items, the sellers shall hand over such equipment to the buyer, and the handover shall be deemed as completed after the buyer takes stock and sign the Delivery Confirmation.

8.3 Land Use Rights

(1) where the land use rights can be applies for, both parties shall confirm the list of target assets of final handover by signing the Delivery Confirmation; the handover shall be deemed as completed when the transfer procedures of land use right certificate is completed and the certificate is handed over to the buyer.

(2) for the land use rights that the sellers have disclosed the existence of defects or the sellers cannot apply for relevant ownership certificate or transfer procedures, both parties agree to hand over such rights as is, and the handover shall be deemed as completed when the Delivery Confirmation is signed.

(3) land that any party temporarily cannot apply for land use right certificate or is applying for such certificate: the buyer shall subsequently apply for and improve legal relations and formalities of such land and bear related costs generated after the Delivery Date; the sellers shall give the buyer necessary assistance, including but not limited to providing necessary information for applying for related certificates.

(4) lands/venues leased by the sellers: both parties shall complete the handover of contract in accordance with Article 10 of this Annex, and the handover of such lands/venues shall be deemed as completed when the Delivery Confirmation is signed.

(5) processing fees for transfer and registration of land use rights shall be borne by the buyer.

8.4 Construction-in-progress and Construction Materials

(1) On the premise of guaranteeing project quality, the sellers shall do their utmost to complete final accounts of projects under construction and transfer them into fixed assets (“transfer to fixed assets”) prior to the Delivery Date, and hand them over to the buyer in the form of assets.

(2) For projects that truly cannot be transferred to fixed assets on schedule due to specific causes, both parties shall confirm book values of such projects on the Delivery Date, and hand them over in the form of CIPs. The handover shall be deemed as completed after both parties confirm the list of target assets of final handover by signing the Delivery Confirmation.

(3) At the buyer’s specific request, for buildings under construction, the subjects of Construction Land Use Permit, Land Planning Permit, Project Planning Permit, Project Construction Permit and other relevant materials originally applied by the sellers to local governments shall be changed from the sellers to the buyer. The two parties shall jointly go through relevant procedures by collaboration if required. Relevant change procedure fees shall be borne by the buyer.

8.5 Long-term Deferred Expenses

(1) The handover shall be deemed as completed when contract change procedure and other procedures with the third party of the contracts are completed with on-site stock-taking and signature confirmation, and the change of electricity user registered at the power supplier is completed (if necessary).

(2) Other long-term deferred expenses (such as plant room renovation expenses, site and house lease etc.) shall be based on the List of On-site Handover of Stock Tower-related Physical Items, and the account entry basis shall be provided by the sellers. The handover shall be deemed as completed after the contract change procedures with the third party are completed.

8.6 Current Assets

(1) Other Receivables

The handover shall be deemed as completed when contract change with the third party is completed or the sellers as creditors inform the debtors of the transfer of creditors’ rights.

(2) Stock

In accordance with the List of On-site Handover of Stock Tower-related Physical Items, transfer is made by the sellers to the buyer in kind. The handover shall be deemed as completed after both parties confirm the target assets list for final handover by taking stock and signing the Delivery Confirmation.

(3) Deferred Expenses

Relevant site and house rental agreement shall be handled in accordance with the delivery methods in Article 10 of this Annex. The balances of deferred expenses and corresponding deadlines and ownership shall be determined by both parties, and sellers shall provide account entry bases. The handover shall be deemed as completed upon the signing of Delivery Confirmation by both parties.

8.7 Liabilities

Regarding liabilities transferred to the buyer, the handover shall be deemed as completed after both parties' complete contracts changes with the third party and/or the sellers as debtors inform the creditors of the transfer of debts with the consent of creditors, and both parties confirm the target assets list for final handover by signing the Delivery Confirmation.

8.8 Other

(1) Unless otherwise provided herein, pursuant to the scope of target assets provided in Annex 3, for assets and relevant materials and agreements that are owned by the sellers but not included in the List of On-site Handover of Stock Tower-related Physical Items or within the scope of appraised assets, if confirmed by both parties as within the scope of target assets of this transaction, such assets shall be handed over by the sellers to the buyers in accordance with this Annex. The handover shall be deemed as completed when both parties confirm the target assets list for final handover by signing the Delivery Confirmation.

(2) Pursuant to the scope of target assets provided in Annex 3, for assets that are included in the List of On-site Handover of Stock Tower-related Physical Items or within the scope of appraised assets but confirmed by both parties as not within the scope of target assets of this transaction, no delivery shall be made upon agreement by both parties.

(3) The sellers shall be responsible for removing other limitation of rights (if any).

9. Handover Methods and Standards for Materials

9.1 The sellers shall make reasonable efforts to provide following materials within the material scope of this transaction that are owned by them:

(1) Tower-related materials: project archives (including: designs, design approvals, contracts, construction drawings, final acceptance documents and final accounts report), planning permission, construction permits and other project-related documents; purchase agreement for directly purchasing tower (if any) and photocopies of purchase invoices; operation instructions, warranty cards and repair records and other relevant materials; environment protection acceptance materials; for leased towers, in addition to aforementioned materials, a letter of approval from the third party in support of transferring the ownership to the buyer or an agreement regarding the ownership of tower-related assets and other arrangements signed by both parties with the third party and rental payment vouchers are required.

(2) House assets related materials: for out-purchased houses, original copies of house purchase contracts and photocopies of house ownership certificate and invoices are required; for self-built houses, photocopies of house ownership certificate, Land Planning Permit, Project Planning Permit, Project Construction Permit, completion acceptance documents and relevant project documents (original, including designs, design approvals, contracts, construction drawings, final acceptance documents, final accounts report and other relevant materials); house ownership transfer registration materials are required; for materials required for leased houses, please refer to Item (6) of this Annex.

(3) Materials related to electricity, accumulators, air conditioning equipment, fire fighting equipment and security equipment: purchase contracts (if any), photocopies of purchase invoices, operation instructions, warranty cards & repair records, and other relevant materials.

(4) Land use right related materials: original copies of State Land Use Certificate, original copies of land sale/transfer contract, original copies or photocopies of relevant government approvals, land asset change records and corresponding proofs; original copies of collective construction land use right certificate, original copies of land circulation contract, original copies or photocopies of related government approvals, as well as land assets change records and corresponding proofs; land use right transfer registration materials; for materials required for leased sites, please refer to Item (6) of this Annex.

(5) Construction-in-progress related materials: statements of outstanding amount of project payments as of Delivery Date corresponding to project image progress, breakdown of project expenses, project management materials (provided in line with practical situation of a specific project, including feasibility study materials, feasibility approvals, designs, design approvals, contracts, consignment sheets, image progress reports, preliminary testing documents, trial operation reports etc.); relevant financial data (such as photocopies of invoices, preliminary accounts data etc.); other related materials shall be obtained through friendly consultation between two parties, including but not limited to environment assessment report issued by government departments, resource use approvals, assets receipt sheets, supervision reports, integration reports, inspection records of concealed works, equipment operation instruction, installation manuals, project acceptance specification etc.

(6) Long-term deferred expenses related materials: for house land asset related long-term deferred expenses, the following documents are required: house lease contracts, original copies of land lease contracts/ land occupation compensation contracts, photocopies of rental/ compensation invoices and receipts, photocopies of land ownership certificates/land use right certificates, property ownership certificates, confirmation letter stating that the property owner agrees to sublease or authorizes the lessor to lease the property or other documentary proofs that guarantee buyer's rights (applicable if the lessor is not the property owner), the lessor's original delivery list and video, leased items handover list etc.

(7) Other receivables-related materials: relevant contracts, original agreements, original copies of corresponding invoices, receipts and their attachments, change records from appraisal base date to Delivery Date and corresponding proofs.

(8) Stock related materials: stock related purchase contract, photocopies of purchase invoices, and stock out-put & in-put of warehouse records from Delivery Date to actual receipt date confirmed by both parties.

(9) Deferred expenses related materials: original copies of relevant contracts and agreements, photocopies of corresponding invoices and receipts, and change records from appraisal base date to Delivery Date and corresponding proofs. For materials required for deferred expenses related to house and land assets, please refer to Item (6) of this Annex.

(10) Liabilities-related materials: original copies of relevant contracts and agreements, photocopies of corresponding invoices, receipts and deposit certificates, and change records from appraisal base date to Delivery Date and corresponding proofs.

(11) Contract-related materials: original copies of contracts and agreements that are not included in the above categories but related to target assets (such as electricity fee contracts, house lease contracts and site lease contracts).

(12) Maintenance-related materials: technical specifications, mobile base station commission maintenance lists, mobile comprehensive commission maintenance lists, commission maintenance technology answering letters, commission maintenance management system, base station blackout emergency management methods, safety in production administrative measures & agreements, letters of commitment regarding integrity, evaluation system documents, base station maintenance service examination methods, base station maintenance service examination methods/commission maintenance methods, technical files, technical materials, asset lists, standby material plans within one year prior to the Delivery Date, commission maintenance unit examination records within one year, asset maintenance materials and resource occupation account, maintenance inspection records, equipment maintenance contracts, maintenance contact person accounts, maintenance records, inspection and check records, renovation and transformation project materials, proprietor maintenance accounts, rentals, electricity fee payment accounts etc.

(13) Above materials involving contracts and agreements shall include the original copies of all their attachments, supplemental agreements and memorandums, letters of authorizations, payment/charge vouchers, letters of approval from the other party of the contract obtained for this transaction, statements of contract implementation, and other documents and materials regarding the signing, implementation, termination and interpretation of the contracts.

9.2 The sellers shall provide a document list for the buyer, and hand over above materials as their original forms and /or photocopies (including paper and electronic texts and other forms). The original copies of land use certificate and housing ownership certificate shall be provided. Both parties shall check and confirm the correspondence between the materials provided and station sites. The handover shall be deemed as completed upon the signing of the Delivery Confirmation by the two parties.

10. Handover Methods and Standards for Asset-Related Contract Relations

10.1 Summary

(1) Unless otherwise agreed, in principle, the names of the sellers' contracts with external parties that are related to the target assets shall be transferred to the buyer ("contracts that shall be transferred"), including but not limited to property lease contracts, land lease contracts, site lease contract, land occupation compensation agreements, commission maintenance agreements, maintenance and protection agreements, external cable entrance contracts, electricity supply contracts, quality guarantee contracts, as well as *de facto* contracts based on which two parties perform their rights and obligations despite the fact that the sellers do not sign them.

(2) For contracts that shall be transferred, their rights and obligations shall be divided as follows: original sellers' rights and obligations before the Delivery Date (including this day) shall be enjoyed and assumed by the sellers; the original sellers' rights and obligations after the Delivery Date under such contracts shall all be enjoyed and assumed by the buyer.

(3) The contracts that have been officially transferred to the buyer by the sellers without agreement of other signatories before the Delivery Date due to problems concerning time and quantity shall be deemed as "contracts that have not been transferred".

10.2 Handover of contracts that shall be transferred

(1) For contracts that shall be transferred, following procedures shall be implemented:

i. Both parties shall make efforts to make other signatories of the contracts agree the buyer to replace the sellers to become a party of such contracts from the Delivery Date. Such replacement shall be completed by the signing of modification agreements among other signatories, the sellers and the buyer, or issuance of letter of approval by the other signatories to the sellers and buyer.

ii. For expired contracts, or contracts that are not expired but will terminate prior to the Delivery Date, the sellers agree to take necessary actions to extend the term of such contracts to the Delivery Date or any other reasonable dates after the Delivery Dates provided that the extension is feasible, reasonable and necessary. For contracts whose term is extended to the Delivery Date, the sellers shall offer information related to the other party of the contracts to the buyer so as to assist the buyer to develop relevant agreements; for contracts whose term is extended to a reasonable date after the delivery date, the handover shall be completed at the earliest time possible in line with provisions regarding contracts that shall be transferred in this Annex. Costs incurred by extension after the Delivery Date shall be borne by the buyer.

(2) Contracts that have not been transferred could temporarily be owned by the sellers on behalf of the buyer. Special arrangements between the two parties are as follows:

i. Unless otherwise provided in this Agreement, the rights, obligations, profits or losses owned by the sellers since the Delivery Date under the “contracts that have not been transferred” shall belong to the buyer. Any profits collected or owned by the sellers from contracts that have not been transferred shall belong to the buyer.

ii. The sellers shall execute and perform rights and obligations under contracts that have not been transferred in accordance with the buyer’s demands after the Delivery Date. Unless otherwise required by the buyer, the sellers shall not modify any terms of contracts that have not been transferred nor terminate any such contracts.

iii. If the buyer’s rights under contracts that have not been transferred shall be executed by the sellers in the name of the buyer (including filing legal proceedings or arbitration, or taking other necessary actions), the sellers shall assist the buyer to execute such rights in the sellers’ names.

iv. Both parties shall make their best reasonable efforts to complete the transfer procedure and/or obtain the letter of approval from the other parties of contracts that have not been transferred within the period agreed by the two parties otherwise.

v. All actual costs incurred by the Sellers’ performance of obligations under Item (i) (ii) (iii) (iv) hereof shall be chargeable to the buyer.

10.3 Special Agreement Regarding Lease Contract

(1) For contracts that will expire within one year after the Delivery Date, they could be temporarily owned by the sellers on behalf of the buyer. The buyer will sign contracts with the third parties directly prior to the expiration of agreements.

(2) If both parties agree not to transfer a contract, or a contract could not be transferred due to disagreement of the third party or any other reasons, or the third party remarkably raises the price causing substantial increase of rental costs, both parties shall agree that the contract shall be temporarily owned by the sellers on behalf of the buyer. The buyer will sign contracts with the third parties directly prior to the expiration of agreements.

(3) The sellers shall inform the lessor and make reasonable efforts to arrange the lessor to participate in the handover of leased properties.

10.4 Other

For the avoidance of doubt, arrangements mentioned above shall be without prejudice to other arrangements regarding the handover of target assets related contractual relationship made by both parties through negotiation.

11. Special Agreement Regarding Handover of Sellers' Assets

11.1 Use right of Intellectual Property

The handover of use right of Intellectual Property attached to the target assets (if any) shall be implemented pursuant to the methods and procedures provided in relevant contracts above.

11.2 Sellers' Affiliated Companies and Third Party Assistance

If the contracts related to target assets involve the sellers and their affiliated companies and third parties, the sellers shall arrange involved subjects or their representatives to go through handover procedures uniformly.

12. Special Agreement Regarding Transition Period after Handover

12.1 Transition Period

Transition period of a single station site refers to the period from Handover Date to Delivery Date, or Delivery Date to Handover Date; the transition period of the transaction hereof refers to the period from Delivery Date to the date when the establishment and reform of the dynamic environment monitoring system of the stock towers carried out by the buyer is completed. The buyer plans to complete the establishment and reform of the dynamic environment monitoring system before June 30, 2016.

12.2 Special Agreement during Transition Period

In order to guarantee the smooth transition and operation of target assets, the normal operation of business relying on the target assets and service quality, and to avoid major negative impacts on the current production and business order of both parties, the two parties agree to perform their own duties and obligations during the transition period as follows:

(1) Prior to the completion of the buyer's reform and establish dynamic environment monitoring system for existing station sites, the buyer shall utilize the sellers' existing monitoring and maintenance methods to carry out maintenance work. The sellers agree that the buyer could use relevant network management system or dynamic environment monitoring system and worksheet processing system with the sellers' authorization, and the sellers shall provide relevant support.

(2) Provincial branches of both parties shall implement daily maintenance work accordance with the maintenance handover plan agreed by both parties. The buyer shall make positive responses to the maintenance requirements made by the sellers. During maintenance the sellers shall provide assistance and support for the buyer to guarantee smooth transition.

Annex 7 Appendix 1 List of On-site Handover of Stock Tower-related Physical Items

List of On-site Handover of Stock Tower-related Physical Items

Operator physical station site No.			Tower company physical station site No.			Operator		Location			
Breakdown of appraised assets	Serial No.	Asset name	Operator asset No./ tag number	Tower company asset No.	Unit of measurement	Quantity	Specification & model	Manufacturer	Use status	Exist or not	Note
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
Breakdown of newly-added target assets	Serial No.	Asset name	Operator asset No./ tag number	Tower company asset No./ Temporary No.	Unit of measurement	Quantity	Specification & model	Manufacturer	Use status	Exist or not	Note
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
										<input type="checkbox"/> Yes <input type="checkbox"/> No	
On-site maintenance record	Ammeter No.:										
	Closing ammeter readings:										
	Key to the plant room:		<input type="checkbox"/> Key card <input type="checkbox"/> General key <input type="checkbox"/> Dedicated key <input type="checkbox"/> Property management key								
	Hand over keys or not		<input type="checkbox"/> Yes <input type="checkbox"/> No								
	Defined area satisfies the needs or not		<input type="checkbox"/> Yes <input type="checkbox"/> No								
	Electricity supply mode		<input type="checkbox"/> Transferring supply <input type="checkbox"/> Direct supply <input type="checkbox"/> Self-built transformer								
	Property management contact person & telephone:										
	Electricity supply contact person & telephone:										
	Dispute record										

Operator:
Tower company:
Commission maintenance company:
Handover date:

Annex 7 Appendix 2 Contract List Template

Serial No.	Operator contract subject	Contract No.	Contract Name	The other subject	Start date	Termination date	Contract status	Handling progress (to be completed by joint work organization)	Held by the other company on behalf of the subject or not (to be completed by joint work organization)
1									
2									
3									

Annex 7 Appendix 3 List of Information Handover for Stock Towers

List of Information Handover for Stock Towers

Operator:		Filled in by:		Date of filling in:	
Tower Company:		Recipient:		Date of receipt:	
Serial No.	Material type	Material name	No.	Storage type	Note
1					
2					
3					
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Appendix 3-2 Breakdown of A single Station List of Information Handover for Stock Towers-Breakdown of A single Station

Physical station site No.	Property Ownership Certificate (Original)	Land Certificate (Original)	Tower Lease Contract	Property Lease Contract	Land Lease Contract	Property Purchase Contract (Original)	Land Purchase Contract (Original)	Co-building & Sharing Agreement and Settlement List	Commission Maintenance Agreement	Energy (Electricity fee) Agreement	Design documents relevant to the towers and base station plant room and completion files	Tower/Switching Power Supply/ Accumulator/ Air Conditioning Equipment Purchase Agreement after January 1, 2014	Other

Note: Unless otherwise specified, documents could be provided in the forms of original copies, photocopies and scanning copies.

Annex 8: Sellers' Representations and Warranties

As of the Signing Date and Delivery Date of this Agreement, in addition to what has been disclosed in writing in transaction documents (including the breakdown of appraised assets disclosed by the sellers) or as otherwise agreed by both parties, in all material respects, the sellers make the following representations and warranties to the buyer:

1. Information

- 1.1 All target assets-related information that is provided to the buyer or its representatives and consultants is authentic, accurate and complete in all material respects, which has no false representation, major omission or misleading statement in material respects.

2. Target Assets

2.1 Ownership

- (1) regarding the target assets whose ownership is transferred by the sellers to the buyer, in addition to those disclosed in the list of target assets or other transaction documents, it shall include the completed ownership and/or right of disposal legally owned by the sellers (or their subsidiaries) for such target assets;
- (2) regarding the target assets bought by the buyer pursuant to this Agreement, except as otherwise agreed in this Agreement, the buyer shall be entitled to all relevant rights that shall be legally enjoyed by the owner and user of such target assets according to the original property status, and transfer and dispose of such rights in accordance with the law, and shall not be restricted by any seizure, mortgage, burden, other third-party right and security right.

2.2 Setup, existence and actual use of target assets

- (1) the sellers' operation and management of target assets conform to established practices;
- (2) comply with national laws and policies, national and industry standards, which can function normally and don't have critical flaws.

2.3 Changes to target assets

- (1) comply with relevant national laws and regulations and internal management requirements of the sellers, and will not materially and adversely affect handover and operations of target assets;
- (2) the sellers shall conduct assets management and construction in its usual manner, and promptly inform the buyer of material changes involving the target assets.

3. Intellectual Property Rights

In addition to the restrictions of intellectual property rights agreements signed by the sellers, all necessary intellectual property licenses shall be obtained for the operations of target assets to enable the buyer to continue to use such licenses within the period in the same way before the signing date of this Agreement.

4. Assets-related Contracts

4.1 Contractual relations and operational arrangements included into target assets:

- (1) all conform to the general business principles, which are concluded based on fair and reasonable commercial terms in the normal course of operations;
- (2) shall be handled in accordance with the principles and approaches set forth in this Agreement, and there is no substantial obstacles.

5. Compliance with Taxation and Other Laws

- 5.1 the sellers shall comply with the requirements of taxation and other laws, and shall bear all the taxes and other legal liability arising from it and the target assets prior to the Delivery Date (including the day);
- 5.2 the taxes and other legal liability generated prior to the Delivery Date that continue thereafter shall be borne by the sellers.

6. Litigations and Investigations

6.1 Litigations

- (1) to the best knowledge of the sellers, except the sellers' recovery of debts arising from the ordinary course of business, there is no important litigation, arbitration or administrative procedure, government or official investigation involving target assets which is ongoing, threatened to be conducted or pending;
- (2) to the best knowledge of the sellers, there is no situation that may result in the above procedures, investigations or reviews.

6.2 the sellers shall continue to be responsible for any significant litigation, arbitration, administrative investigation and other dispute related to target assets that is brought about on the Delivery Date or before such date, and bear the corresponding responsibilities.

Contract No.: CTC-ZBZB-2016-000011

Shares Subscription Agreement

(This Agreement is signed by the following parties on January 29, 2016 in Beijing)

Issuer: China Tower Corporation Limited (“China Tower”)

Subscriber: China United Network Communications Corporation Limited

In view of that the issuer and the subscriber have signed the Agreement on Purchase of Stock Tower-related Assets by Issue of Shares and Payment of Cash. Based on the preceding agreement and the specific circumstances of delivery of tower-related assets, the issuer has determined to issue a total of 119,344,615,024 shares with the price at RMB 1 yuan/share.

1. Subscription Price

RMB 1 yuan/share.

2. Subscription Amount and Quantity

The subscriber has confirmed to pay RMB 33,335,836,822 yuan to subscriber for 33,335,836,822 shares.

3. Subscription Method

The subscriber has agreed to subscribe for the shares issued by investing with assets.

4. Payment Method

The subscriber has completed the actual payment of contribution before December 31, 2015.

5. Shareholders' Rights and Obligations

Both parties have confirmed that the subscriber shall become the owner of shares it subscribed for in this transaction from the effective date of this Agreement, and it shall enjoy shareholder rights and bear the corresponding obligations for such shares. And both parties agree that the issuer shall complete change to register of shareholders, revision of Articles of Association and change to industrial and commercial registration within 30 days after signing the Shares Subscription Agreement.

6. Entry into Force and Counterparts

This Agreement shall enter into force upon signature and stamp being affixed by both parties, dating back to December 31, 2015. This agreement is executed in sextuplicate, each party holding two copies, and the rest shall be submitted for examination and approval/record filing.

(Reminder of this page intentionally left blank)

China Tower Corporation Limited

(seal)

Legal representative or authorized representative:

China United Network Communications Corporation Limited

(seal)

Legal representative or authorized representative:

**Capital Contribution Agreement between China United
Network Communications Group Co., Ltd. and China United
Network Communications Limited Concerning the
Establishment of China Unicom Finance Limited**

In compliance with the related requirements on establishment of a finance company from the Measures for the Administration of Enterprise Group Finance Company (No. 8 of 2006), the Measures for the Implementation of Matters relating to Administrative Permission for Non-banking Financial Institutions of China Banking Regulatory Commission (No. 13 of 2007) and the Operating Rules for Applying for the Establishment of Finance Companies of Enterprise Groups (No. 12 [2007] of China Banking Regulatory Commission), China United Network Communications Group Co., Ltd. (hereinafter referred to as “Unicom Group”) and China United Network Communications Limited (hereinafter referred to as “Unicom Limited”), both as the contributor of China Unicom Finance Limited, has agreed on the contribution matters as follows:

1. China Unicom Finance Limited, with a registered capital of RMB 3 billion yuan, is established with Unicom Group contributing a monetary capital contribution of RMB 270 million yuan, accounting for 9% of its registered capital and Unicom Limited contributing a monetary capital contribution of RMB 2.73 billion yuan, accounting for 91% of its registered capital.

Once the capital contribution is made by the shareholders, a legally established capital verification institution shall verify the contribution and issue an appropriate certificate. Upon its incorporation, the Finance Company shall prepare and distribute the capital contribution certificates to its shareholders.

2. China Unicom Finance Limited operates the following businesses: providing finance and funding related advisory services, credit investigation and other related consulting and agent services to group member companies; fund settlement for transactions entered into by group member companies; providing insurance related agent services with approval from relevant regulators; providing guarantee to group member companies; arranging for entrusted loans/entrusted investment transactions between group member companies; accepting or discounting bank drafts/commercial notes for group member companies; fund settlement between group member companies and designing fund settlement/clearance plans and processes for group member companies; taking deposits from group member companies; providing loans and financial leasing services to group member companies; inter-bank borrowing/lending transactions and other services approved by China Banking Regulatory Commission.

The finalized scope of business of China Unicom Finance Limited shall be subject to the scope approved by China Banking Regulatory Commission and registered at the business administrations.

3. The contributors shall transfer in full amount the monetary capital contribution as scheduled. The shareholders shall, upon the entry into force of this Agreement and prior to the application for business commencement submitted by the Finance Company to be established to China Banking Regulatory Commission, remit the contribution capital in full amount to the account for capital verification (an interim account established by the Finance Company for the purpose of capital verification) to complete the capital verification process.
4. Unicom Group and Unicom Limited undertake to pay in full their respective subscribed capital contributions as specified by the related national laws and regulations, so as to ensure that China Unicom Finance Limited is fully funded in a timely manner.
5. Any contributor failing to pay in full its contribution capital as scheduled shall bear the appropriate legal obligations in accordance with the related provisions of the Company Law. Any Party that fails to pay the capital contribution as provided shall not only pay in full the contribution in time, but also be liable to the Party that has paid in full the contribution as scheduled for its breach of this Agreement.
6. Unicom Group and Unicom Limited have proceeded with the internal decision-making processes on the establishment of China Unicom Finance Limited in accordance with the Articles of Association.

7. The Finance Company to be established is a limited liability company, where the shareholders shall assume liability to the extent of their respective capital contributions while the Finance Company shall assume liability for its debts to the extent of all its assets.
8. This agreement shall take effect after being reviewed and endorsed by the board of directors of China United Network Communications Co., Ltd and China United Network Communications (Hong Kong) Co. Ltd, signed and sealed by both Parties to this agreement and approved by China Banking Regulatory Commission to establish the financial company.
9. Once this agreement is signed, China Unicom Co., Ltd shall agree to authorize China Unicom Group as its applicant to represent all investors in the establishment of China Unicom Financial Co., Ltd. The letter of authorization is attached hereto.

China United Network Communications Group Co., Ltd.

(seal)

Legal representative or authorized representative:

China United Network Communications Limited

(seal)

Legal representative or authorized representative:

Annex:

Letter of Authorization

It is hereby certified that China United Network Communications Co., Ltd is authorized as the applicant of all investors including our company with regard to relevant procedures in establishing China Unicom Financial Co., Ltd. This authorization includes but not limited to actions to prepare and draft application documents for entity establishment; submit application documents to regulators; make addition or adjustments to the application documents based on regulatory opinions; engage institutions concerned to issue relevant documents, etc.

This Letter of Authorization takes effect on the date when signed by our company and terminates on the date when procedures for establishing China Unicom Financial Co., Ltd have been completed.

China United Network Communications Co., Ltd (seal)

Legal Representative (signature)

December 6, 2013

Amendment Agreement
of
the 2014-2016 Comprehensive Service Agreement between
China United Network Communications Group Co., Ltd and
China United Network Communications Corporation
Limited

Party A: China United Network Communications Group Co., Ltd.

Party B: China United Network Communications Corporation Limited

Whereas,

Party A and Party B entered into the 2014-2016 Comprehensive Service Agreement between China United Network Communications Group Co., Ltd and China United Network Communications Corporation Limited (Reference No.: CU12-1001-2013-001118, hereinafter referred to as the "Original Agreement") on October 24, 2013. The Parties agreed to make the following amendments to certain terms and conditions provided in the Original Agreement due to the raise of the annual caps for comprehensive support services:

1. The Parties agreed that, the arrangement stipulated in Article 5, Annex VII of the Original Agreement, "In 2014, 2015 and 2016, the transaction caps for the comprehensive support services provided by Party A to Party B shall be RMB 1 billion yuan", shall be amended as follows: "In 2014, 2015 and 2016, the transaction caps for the comprehensive support services provided by Party A to Party B shall be RMB 1 billion yuan, RMB 2 billion yuan and RMB 3.5 billion yuan respectively", while the remaining part of this Article shall remain unchanged;
2. Except as specifically amended hereby, the Original Agreement shall remain in full force and effect.
3. This Agreement shall come into effect on the date as signed and sealed by the authorized representatives of the Parties.
4. This Agreement is executed in four copies with each Party holding two copies, and all copies shall be equally authentic.

Party A: China United Network Communications Group Co.,
Ltd.

Authorized representative:

Date: August 21, 2015

Party B: China United Network Communications
Corporation Limited

Authorized representative:

Date: August 21, 2015

List of Significant Subsidiaries

<u>Name of Subsidiary</u>	<u>Place of Incorporation</u>	<u>Ownership Interest</u>
China United Network Communications Corporation Limited	China	100%
Unicom Vsens Telecommunications Company Limited	China	100%
Unicom New Horizon Telecommunications Corporation Limited	China	100%
China Unicom (Hong Kong) Operations Limited	Hong Kong	100%
China Unicom (Americas) Operations Limited	United States	100%
China Unicom (Singapore) Operations Pte. Ltd.	Singapore	100%
China Unicom (Europe) Operations Limited	United Kingdom	100%
China Unicom (Japan) Operations Corporation	Japan	100%
Billion Express Investments Limited	British Virgin Islands	100%
China Unicom (South Africa) Operations (Pty) Limited	South Africa	100%
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar	100%
China Unicom (Australia) Operations Pty Limited	Australia	100%
China Unicom Global Limited	Hong Kong	100%

Certification

I, Wang Xiaochu, certify that:

1. I have reviewed this annual report on Form 20-F of China Unicom (Hong Kong) Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 21, 2016

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chief Executive Officer

Certification

I, Li Fushen, certify that:

1. I have reviewed this annual report on Form 20-F of China Unicom (Hong Kong) Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 21, 2016

By: /s/ Li Fushen
Name: Li Fushen
Title: Chief Financial Officer

Certification

Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. § 1350, the undersigned officer of China Unicom (Hong Kong) Limited (the “Company”), hereby certifies that the Company’s Annual Report on Form 20-F for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 21, 2016

By: /s/ Wang Xiaochu

Name: Wang Xiaochu

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C § 1350 and will not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section.

Certification

Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. § 1350, the undersigned officer of China Unicom (Hong Kong) Limited (the “Company”), hereby certifies that the Company’s Annual Report on Form 20-F for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 21, 2016

By: /s/ Li Fushen

Name: Li Fushen

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C § 1350 and will not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section.