

reboot

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2015 ANNUAL RESULTS

16 MARCH 2016
CHINA UNICOM (HONG KONG) LIMITED

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Forward-looking Statements

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

Mr. Wang Xiaochu

Chairman & CEO

Mr. Lu Yimin

Executive Director & President

Mr. Li Fushen

Executive Director & CFO

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Overall Results

2

Operating Performance

3

Financial Performance

1

Challenging business environment put revenue & profit under considerable pressure

2

Timely adjusted operating priorities by focusing resources on 4G to fuel mobile business momentum

3

Driven by 100Mbps offerings & video, fixed-line business maintained steady growth

4

Investing for leading network experience & future growth

5

To drive gradual turnaround with full strength, leveraging opportunities, “Focus Strategies”, innovation & cooperation development

Challenging Business Environment Put Revenue & Profit under Considerable Pressure



“Speed Upgrade & Tariff Reduction”



“One-month Mobile Data Carry-over”



“VAT Reform”



“Intensifying Competition”



Tower Disposal

(RMB Mil)	2014	2015	Change YoY
Operating Revenue	284,681	277,049	-2.7%
Service Revenue	244,878	235,278	-3.9%
EBITDA	92,771	87,502	-5.7%
<i>As % of Service Revenue</i>	37.9%	37.2%	-0.7pp
Net Profit	12,055	10,562	-12.4%
<i>As % of Service Revenue</i>	4.9%	4.5%	-0.4pp
Net Profit (Ex. Gain on Disposal of Tower Assets)	12,055	3,627	-69.9%
Basic EPS (RMB)	0.505	0.441	-12.7%

Note: Unless otherwise stated in this presentation, 1. Service revenue = operating revenue – sales of telecommunications products; 2. EBITDA = profit for the year before finance costs, interest income, shares of profit/loss of associates and joint venture, other income - net, income tax, depreciation & amortisation; 3. Net profit represented profit attributable to equity shareholders of the Company

Promptly Focused Resources on 4G to Fuel Mobile Business Momentum

Sound momentum emerged recently after increased & accelerated 4G investment

Network Upgrade

- Continuous 4G coverage in nationwide urban areas, counties & developed towns
- In-depth coverage in key cities

Terminal Upgrade

- Launched innovative handset “crowd-purchase” to improve product offerings & price-performance factor
- Leveraged edges in TDD/ FDD supply chain to boost 4G handset market share

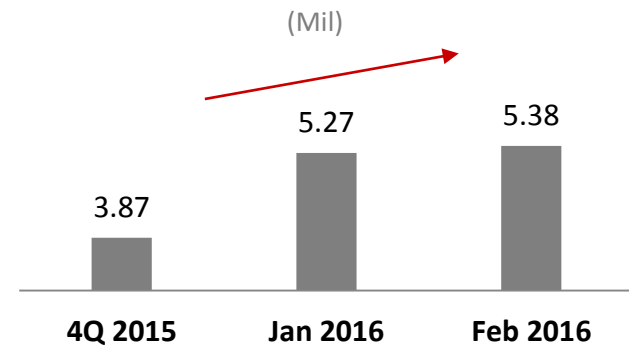
Channel Upgrade

- Facilitated self-owned outlets chain operation
- Optimised channel mix to enhance stickiness & influence on open channel

Converged Offerings Upgrade

- Integrated offering (4G + fibre broadband + TV + apps) to drive interactive promotion

Monthly Average 4G Subscriber Net Add



- Daily average mobile service revenue: Dec 2015 < Jan 2016 < Feb 2016
- In Dec 2015, ARPU & DOU for 4G subscribers were RMB 87.8 & 1.2GB, both significantly higher than mobile subscriber average

Tower Sharing to Enhance Long-term Value

Disposal Gain

- Gain on disposal before taxes of RMB 9.25 bil was recognised in 2015

Accelerating Network Deployment

- Actively take advantage of the existing towers & cell sites of other operators

CAPEX Saving

- 164k towers delivered by TowerCo in 2015

Tower Co-use Discount

- With increasing co-use ratio, future tower co-use discount on usage fee is expected to rise gradually

Potential Future Return

- As one of the major shareholders (shareholding: 28.1%), expect to benefit from the TowerCo's future profits & value enhancement

But expect tower usage fee to pressure on profit in the short-term

Expect Tower Usage Fee to Pressure on Profit in Short Term

- **Main principle for determining usage fee based on TowerCo's proposal: Cost-plus method**

$$\text{Basic usage fee} = (\text{base price} + \text{site fee} + \text{electricity input cost}) \times (1 - \text{co-use discount})$$

$$\text{Base price} = (\text{depreciation} \times (1 + \text{impairment rate}) + \text{maintenance cost}) \times (1 + \text{gross profit margin})$$

- **Current estimates with reference to TowerCo's proposal:**

Tower usage fee in 2015:

RMB 2.93 bil (including usage fee for disposed towers for Nov – Dec 2015, usage fee for “new towers” since delivery date & relevant finance costs)

Internal estimate of savings in depreciation & network maintenance in 2015*:

≈80% of tower usage fee

- **The tower usage fee is still under negotiation. It is hoped that TowerCo will strengthen cost control & strive to improve operating efficiency & tower co-usage to achieve lower tower rate on usage fee & win-win**

Note: *The internal estimate of savings is for illustration purpose only, which is unaudited and calculated based on various assumptions. In particular, it is not indicative of the future, given potential change in co-usage and new tower usage. Investors are cautioned not to rely on the above internal estimate.

Deepen Open Cooperation to Accelerate Business Development

Leverage complementary edges & resources to boost quality & efficiency for win-win

Recently Commenced Strategic Cooperation with

China Telecom

Network
Co-build
& Co-share

- Mobile network
- Transmission network
- Operation & maintenance

Promote
Six-mode
Terminal

- Enrich handset portfolio
- As national standard

Deepen
Cooperation
in Various
Fronts

- Innovative business
- Interconnectivity
- International roaming

Accelerate network roll-out, save CAPEX & OPEX to boost efficiency

Context for cooperation:

- ✓ Transport lines
- ✓ Remote villages
- ✓ New indoor distribution
- ✓ Scenery spots

Industry resources sharing

- Co-build & co-share basic telecommunications infrastructure

MVNO

- Leading with 17.75 million MVNO subscribers

Partnership with private capital

- Local access deployment for Internet Broadband

Internet companies

- Open platform capabilities

Investing for Leading Network Experience & Future Growth

CAPEX Structure

(RMB Bil)

133.9

33.5

27.5

33.8

39.1

2015

Benefit from "Focus Strategies" & Cooperation:
CAPEX ▼ RMB 58.9 bil

75.0

29.9

6.9

16.9

21.3

2016E

■ 4G

■ 2/3G

■ Fixed-line Broadband & Data

■ Infrastructure, Transmission & Others

2015

2016E

Network Deployment Strategy

- Scale investment to rapidly improve network coverage & quality, enhancing competitive edges

- Selectively & efficiently boost network coverage & quality

4G Network

- ≈400k BTS (▲≈310k yoy)
- Basic coverage in cities nationwide, in-depth coverage in key cities

- ≈680k BTS (▲≈280k BTS)
- 97% mobile data traffic with 4G coverage
- Leading customer perception in key cities

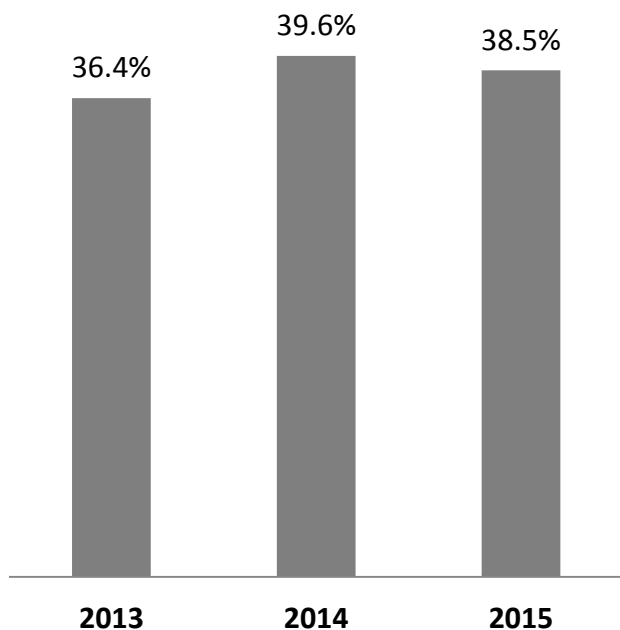
Fibre Broadband

- FTTX access port: ≈93% (▲≈15pp yoy)

- Northern China: attain "All Fibre Networks" to ensure leadership; Southern China: Focus on high-value areas

Note: 4G BTS number included outdoor base stations & indoor distribution systems

Dividend Payout Ratio

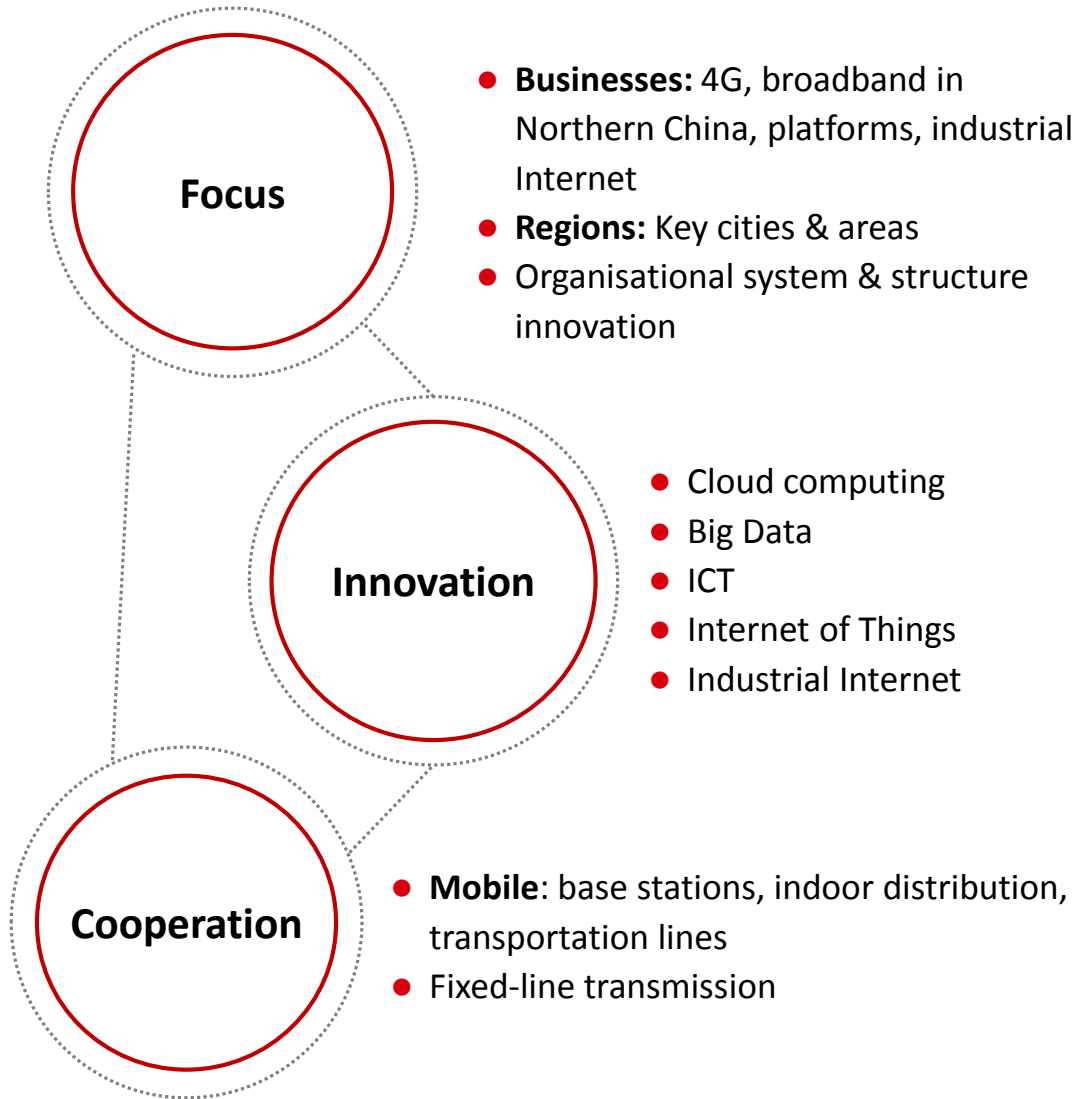


The Board recommends a final dividend of RMB 0.17 per share for fiscal year 2015

- Taking into account the return to shareholders, the Company's profitability, debt obligations, cash flow & capital required for future development, the Board recommends a final dividend of RMB 0.17 per share
- Strive to enhance future profitability & continue to create value for shareholders

Note: Dividend payout ratio = Dividend per share / Basic EPS

Fully Implement “Focus Strategies” to Enhance Value



- ✓ Return to industry leading growth trajectory
- ✓ Continuous improvement in profitability
- ✓ Remarkable results in structure optimisation
- ✓ Scale breakthrough in innovative business
- ✓ Noticeable improvement in customers' perception

1 Overall Results

2 **Operating Performance**

3 Financial Performance

Revenue Breakdown

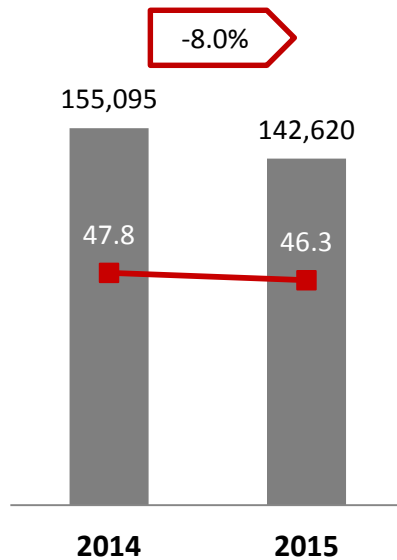
(RMB Mil)	2014	2015	Change YoY
Mobile Service Revenue	155,095	142,620	-8.0%
Voice	74,550	57,748	-22.5%
Data Traffic	53,418	61,215	14.6%
Other Value-added Services	26,396	22,314	-15.5%
Others	731	1,343	83.7%
Fixed-line Service Revenue	88,481	91,261	3.1%
Voice	18,655	15,001	-19.6%
Internet & Data	52,579	56,629	7.7%
ICT	3,469	4,334	24.9%
Others	13,778	15,297	11.0%
Other Service Revenue	1,302	1,397	7.3%
Sales of Telecommunications Products	39,803	41,771	4.9%
Total	284,681	277,049	-2.7%

Focus on 4G to Drive Future Mobile Business Turnaround

- Policies (e.g. “Speed Upgrade & Tariff Reduction”, “One-month Mobile Data Carry-over”, “VAT Reform”, “Unifying tariff for Beijing, Tianjin & Hebei”) as well as transformation in sales & marketing model posed challenges to mobile business in 2015
- Pressure on 4G by competitor with first-mover advantage

Mobile Service Revenue

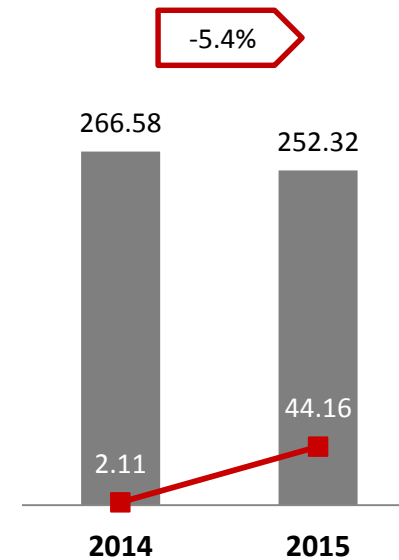
(RMB Mil)



■ Mobile Billing Subscriber ARPU (RMB)

Mobile Billing Subscriber

(Mil)

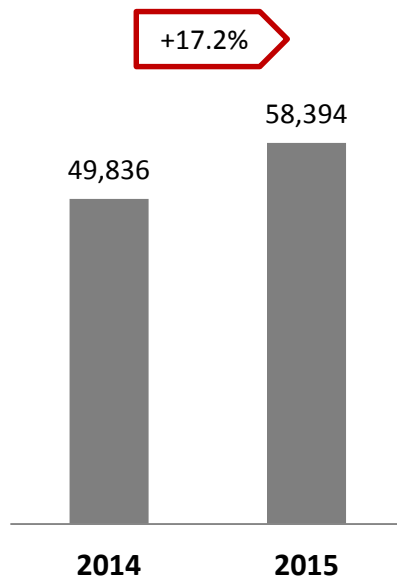


■ 4G Subscriber

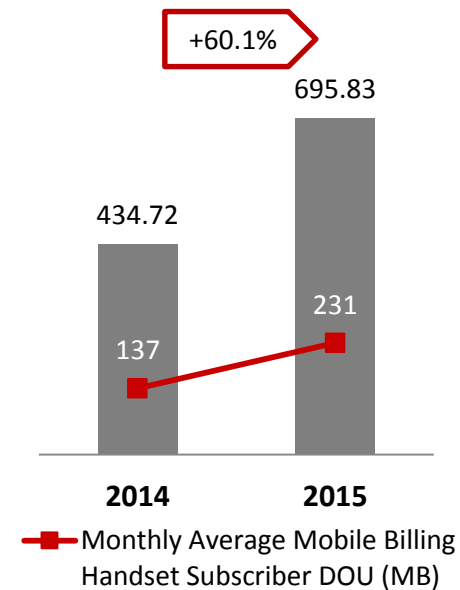
Mobile Data Business Sustained Robust Growth

Strengthen data traffic operation & leverage 4G to drive mobile data business scale development

Mobile Handset Internet Access Revenue (RMB Mil)



Total Mobile Handset Data Usage (MB Bil)



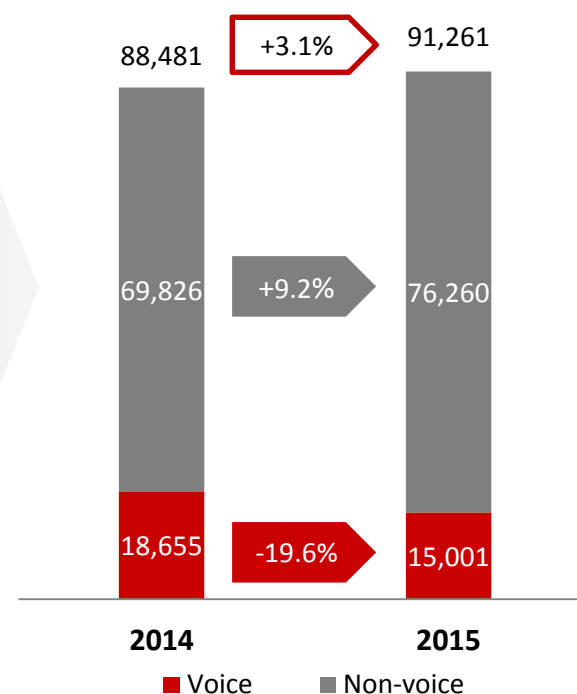
Fixed-line Business Maintained Steady & Healthy Growth

Non-voice business drove fixed-line revenue growth

- Leveraged fibre network & informatisation service strengths to accelerate development of growth businesses (Internet access, VAS & integrated information services) & effectively offset voice revenue decline
- Further strengthened integrated services of fixed-line, mobile & informatisation to enhance interactive-promotion
- Declining revenue contribution from fixed-line voice effectively mitigated operating risks

Fixed-line Service Revenue

(RMB Mil)

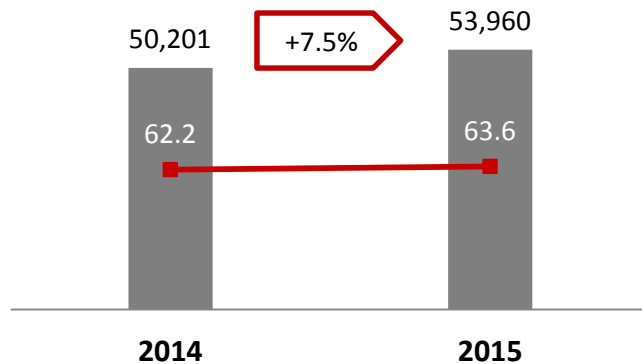


Enhance Fixed-line Broadband Value with Video Applications

- Focused on HD content & family applications to boost bandwidth demand
- Effectively drove the synergetic development of fibre broadband, TV, applications & 4G to grow subscriber scale & value (“Smart WO Family” subs: 9.59 mil since launch in May 2015)
- To strengthen investment efficiency of broadband terminals on expanding FTTH subs to reduce impact on profit for the current period

Fixed-line Broadband Revenue

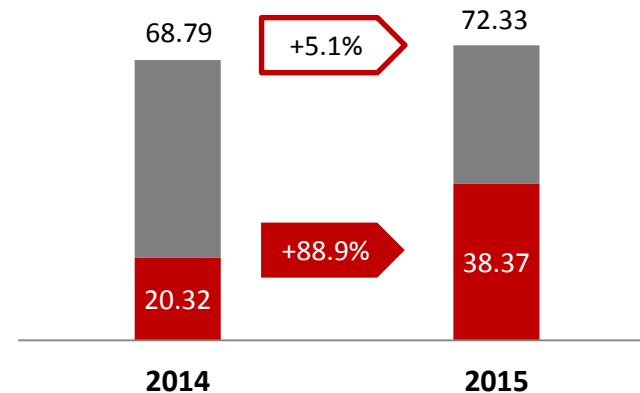
(RMB Mil)



■ Fixed-line Broadband ARPU (RMB)

Fixed-line Broadband Subscriber

(Mil)



■ FTTH Subscriber

Focus on platforms business & industrial Internet

IDC/ Cloud Computing Revenue

- Strengthen business expansion for “BAT”, government, corporate data center & cloud computing

2015: RMB 7,069 mil

+37.5% yoy

ICT Revenue

- Seize opportunities brought about by “Internet+” & smart cities for informatisation business

2015: RMB 4,334 mil

+24.9% yoy

Industrial Internet/ IoT

- Focus on key areas such as education, healthcare, auto & government affairs
- Accelerate the development of unified IoT platform, centralised support system & global business platform

Big Data

- Centralised nationwide data, open & shared capabilities, rich business models
- Joint venture with Telefónica to focus on location-based big data services

WO+ Capabilities/ Data Traffic Operation

- Promote WO+ open capabilities, develop backward/dedicated data traffic monetisation in scale
- Developed over 12 mil video & music users with third parties

Payment/ Finance

- Initially developed nationwide centralised Internet payment & finance platform
- Emerging scale of big data-based Internet finance business



1

Focus on 4G & strive to drive subscriber migration to 4G for steady rebound of mobile business

2

Promote fiber adoption with high quality content (e.g. TV) to ensure stable growth of fixed-line business

3

Establish a highly efficient innovative operating model to promote breakthrough in innovative business

4

Fully promote co-building & co-sharing of resources to enhance customer service & experience

1

Overall Results

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Operating Performance

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Financial Performance

Key Financial Information

(RMB Mil)	2015	Change YoY	% Change YoY
Operating Revenue	277,049	-7,632	-2.7%
Operating Expenses	(266,285)	507	0.2%
Interconnection Charges	(13,093)	-1,506	-10.3%
Depreciation & Amortisation	(76,738)	2,870	3.9%
Networks, Operations & Support	(42,308)	4,457	11.8%
Employee Benefit	(35,140)	488	1.4%
Costs of Telecommunications Products Sold	(44,046)	649	1.5%
- Handset Subsidy	(2,847)	-1,798	-38.7%
Selling & Marketing	(31,965)	-8,228	-20.5%
G&A & Others	(22,995)	1,777	8.4%
Operating Profit	10,764	-8,139	-43.1%
Net Finance Costs	(6,496)	2,162	49.9%
Share of Loss of Associates ⁽¹⁾	(759)	759	N/A
Share of Loss of Joint Venture	(42)	42	N/A
Other Income - Net ⁽²⁾	10,568	9,206	675.9%
Net Profit	10,562	-1,493	-12.4%

Note: (1) Share of loss of associates mainly included share of loss of TowerCo; (2) Other income – net included gain on disposal of tower assets of RMB 9.25 bil

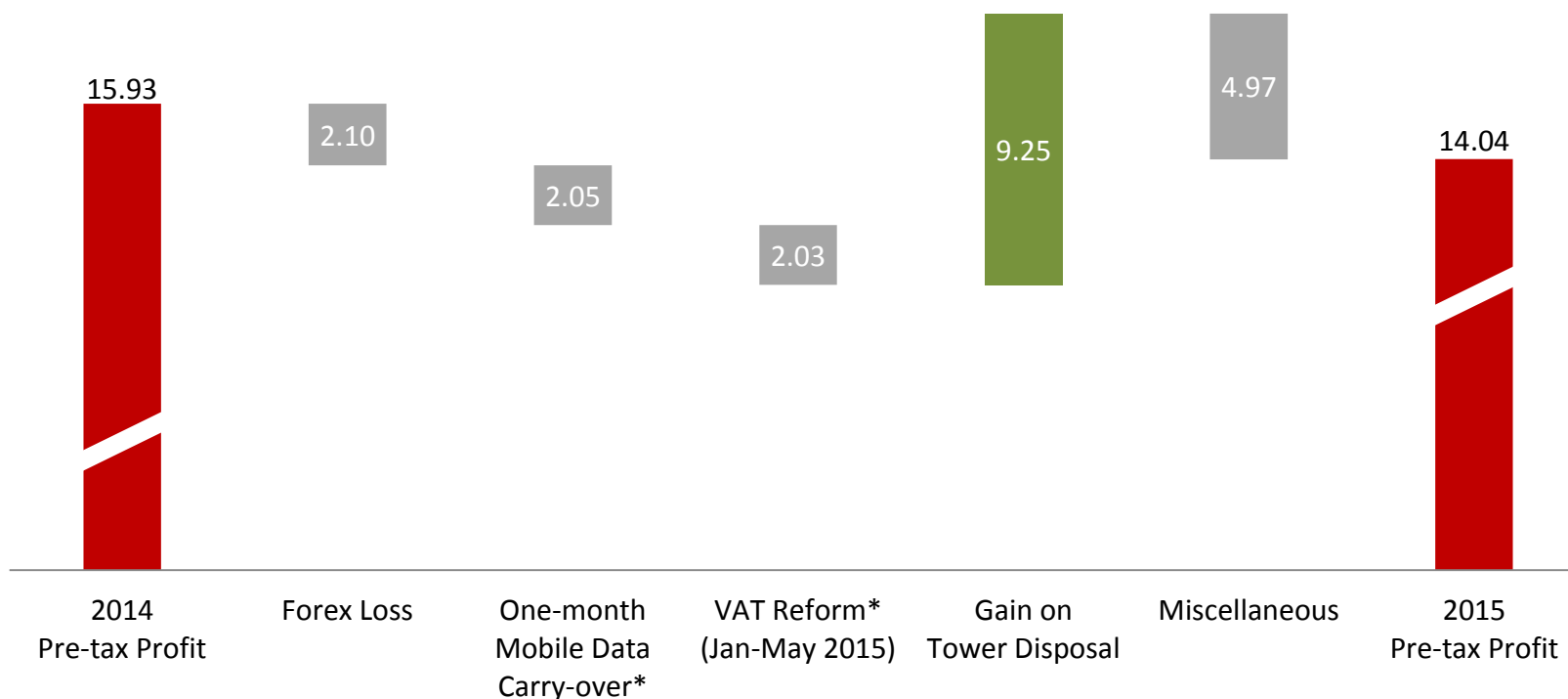
Proactively Controlled Operating Costs

As % of Operating Revenue	2015	Change	
Operating Expenses	96.1%	2.8pp	
Interconnection Charges	4.7%	-0.4pp	● Mainly due to decline in interconnection traffic volume
Depreciation & Amortisation	27.7%	1.8pp	● Mainly due to accelerated 4G & fixed-line broadband network investment
Networks, Operations & Support	15.3%	2.0pp	● Mainly due to tower usage fee kick-in & increased expenses associated with larger network scale, energy costs & property rentals, etc.
Employee Benefit	12.7%	0.5pp	
Costs of Telecommunications Products Sold	15.9%	0.7pp	
- Handset Subsidy	1.0%	-0.6pp	● Benefited from improved efficiency of handset subsidy
Selling & Marketing	11.5%	-2.6pp	● Mainly driven by transformation in sales & marketing model
G&A & Others	8.3%	0.8pp	

Note: In 2015, costs of telecommunications products sold amounted to RMB 44,046 mil, up by 1.5% yoy. Sales of telecommunications products in 2015 was RMB 41,771 mil, up by 4.9% yoy. Loss of telecommunications products sold was RMB 2,275 mil, among which RMB 2,847 mil was handset subsidy

Profit Impacted by Various Special Items

(RMB Bil)



Note: *Business tax was replaced with value-added tax in the telecommunications sector since 1 June 2014 (VAT Reform) and the Company started to implement "One-month Mobile Data Carry-over" policy since 1 October 2015. The estimated impacts of these two special items are for illustration purpose only, which are unaudited and calculated based on various assumptions. In particular, they do not take into account the impact of any corresponding change in the Company's operation arising from the two special items. They are not intended to reflect the actual operating performance of the Company as if the two special items did not happen. Investors are cautioned not to rely on the above estimated impacts.

Debts, Finance Costs & Free Cash Flow

Debts

- Added debts to fulfill capital requirements resulting from network scale investment
- Liabilities-to-assets ratio: 62.1% (▲ 3.8pp vs 12.2014)
- Net debt/EBITDA: 1.45x (▲ 0.23x vs 2014)

Finance Costs

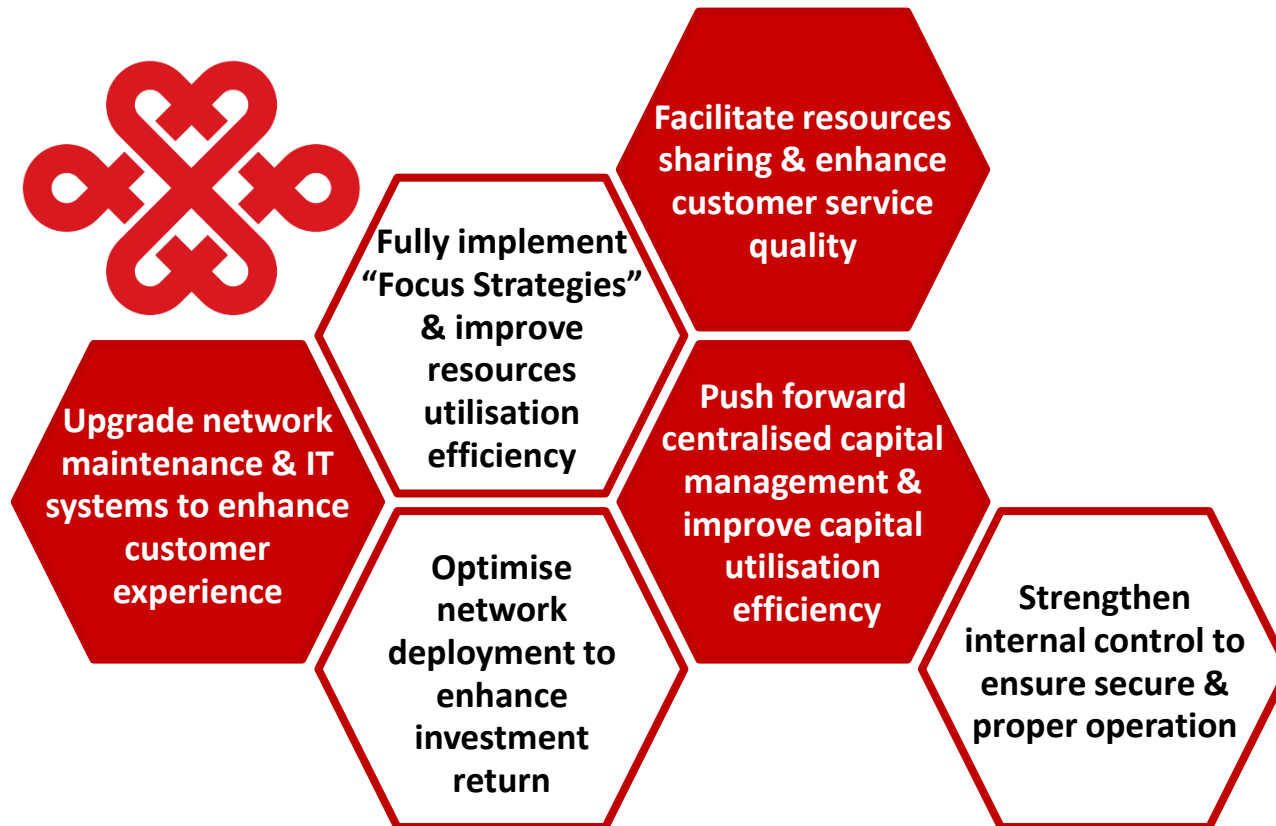
- Net finance costs: RMB 6.50 bil (▲ RMB 2.16 bil yoy) mainly due to FX loss of RMB 2.10 bil
- Essentially repaid all foreign currency debts by end of 2015

Free Cash Flow

- 2015: RMB -49.58 bil (▼ RMB 52.79 bil yoy)
- Free cash flow is expected to improve substantially as CAPEX decreases & business develops

Note: Free cash flow = Operating cash flow - CAPEX

Focus on Resources Utilisation Efficiency to Create Shareholder Value



Thank You !

Appendix I: Extract from Audited Consolidated Statement of Income for FY2015



RMB Mil	2014	2015
Operating Revenue	284,681	277,049
Operating Expenses	(265,778)	(266,285)
Finance Costs	(4,617)	(6,934)
Interest Income	283	438
Share of Loss of Associates	-	(759)
Share of Loss of Joint Venture	-	(42)
Other Income - Net	1,362	10,568
Profit Before Income Tax	15,931	14,035
Income Tax	(3,876)	(3,473)
Net Profit	12,055	10,562

Appendix II: Extract from Audited Consolidated Balance Sheet as at 2015.12.31

RMB Mil	2014.12.31	2015.12.31
Current Assets	56,574	56,670
Non-current Assets	488,498	553,676
Total Assets	545,072	610,346
Current Liabilities	291,920	336,074
Non-current Liabilities	25,611	43,056
Total Liabilities	317,531	379,130
Total Equity	227,541	231,216

Appendix III: Key Operating Metrics

		Unit	2014	2015
Mobile Business	Subscribers	Mil	299.10 (266.58)	286.66 (252.32)
	ARPU	RMB	44.1 (47.8)	40.8 (46.3)
	Handset User MOU	Mins	278 (300)	261 (293)
	Handset User DOU	MB	127 (137)	205 (231)
Inc.: Mobile Broadband	Subscribers	Mil	149.11	183.85
	ARPU	RMB	63.6	54.0
Inc.: 4G	Subscribers	Mil	2.11	44.16
	ARPU	RMB	/	87.8
	DOU	MB	/	1,203
Fixed-line Broadband Business	Subscribers	Mil	68.79	72.33
	ARPU	RMB	62.2	63.6
Fixed-line Local Access Business	Subscribers	Mil	82.06	73.86
	ARPU	RMB	18.5	17.5

Note:

(1) In order to better satisfy the strategic management needs of the Company, the Company's internal management and analysis in relation to the mobile business will focus more on the mobile billing subscribers (which in general refer to subscribers who have revenue contribution in the current month) and 4G subscribers (mobile billing subscribers who possess 4G handsets and use the 4G network of the Company) in 2016. From January 2016 onwards, the aggregate number and net addition of mobile billing subscribers and 4G subscribers will be disclosed. On the other hand, the aggregate number of mobile broadband subscribers will no longer be disclosed. The adjustment in the disclosure of subscriber statistics will not affect the Company's revenue and profit recognition

(2) Figures in brackets are based on mobile billing customers; 4G ARPU & DOU are as of December 2015