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, 2016

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	**Hong Kong**
(Translation of Registrant's Name Into English)	**(Jurisdiction of Incorporation or Organization)**

75th Floor, The Center
99 Queen's Road Central
Hong Kong
(Address of Principal Executive Offices)

Yung Shun Loy Jacky
Telephone: +852 2121 3220
Facsimile: +852 2121 3232
75th Floor, The Center
99 Queen's Road Central
Hong Kong
(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:

Title of Each Class	Name of Each Exchange On Which Registered
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 depositary 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, 2016, 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, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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:

- our ability to effectively sustain our growth and to achieve or enhance profitability;
- 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, 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 China Tower Corporation Limited, or the Tower Company (formerly known as China Communications Facilities Services Corporation Limited);

- 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 and Interpretations

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. Certain 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, and such statistical information may not be consistent with other statistical information from other sources within or outside China;
- 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;
- 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, 2012, 2013, 2014, 2015 and 2016. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data (other than ADS data) for the years ended December 31, 2014, 2015 and 2016 and the consolidated statement of financial position data as of December 31, 2015 and 2016 set forth below 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 (other than ADS data) for the years ended December 31, 2012 and 2013 and the consolidated statement of financial position data as of December 31, 2012, 2013 and 2014 set forth below should be read in conjunction with and are qualified in their entirety by reference to our audited consolidated financial statements that are included in our previous annual reports on Form 20-F. Our consolidated financial statements as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 have been prepared and presented in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

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 “A. History and Development of the Company — Establishment of the Tower Company and the Disposal of Telecommunications Towers” 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 through our wholly owned subsidiary, CUCL, from Unicom Group, or the 2012 Acquisition. 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,					
	2012	**2013**	**2014**	**2015**	**2016**	**2016**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$(1)**
	(in millions, except for per share data)					
Consolidated Income Statement Data:						
Revenue						
Mobile services						
Service revenue	126,036	151,133	155,095	142,620	145,018	20,887
Sales of mobile telecommunications products	38,735	56,393	39,743	41,665	33,061	4,762
Total mobile telecommunications revenue	164,771	207,526	194,838	184,285	178,079	25,649
Fixed-line services						
Service revenue	83,213	86,487	88,481	91,261	94,659	13,634
Sales of fixed-line telecommunications products	64	78	60	106	154	22
Total fixed-line telecommunications revenue	83,277	86,565	88,541	91,367	94,813	13,656
Unallocated amounts						
Service revenue	878	947	1,302	1,397	1,305	188
Total revenue	**248,926**	**295,038**	**284,681**	**277,049**	**274,197**	**39,493**
Total service revenue	210,127	238,567	244,878	235,278	240,982	34,709
Total sales of telecommunications products	38,799	56,471	39,803	41,771	33,215	4,784
Total costs, expenses and others	**(239,405)**	**(281,324)**	**(268,750)**	**(263,014)**	**(273,413)**	**(39,380)**
Income before income tax	**9,521**	**13,714**	**15,931**	**14,035**	**784**	**113**
Income tax expenses	(2,425)	(3,306)	(3,876)	(3,473)	(154)	(22)
Net income	**7,096**	**10,408**	**12,055**	**10,562**	**630**	**91**
Earnings per share for income attributable to equity shareholders during the year						
-Basic earnings per share(2)	0.30	0.44	0.51	0.44	0.03	0.004
-Diluted earnings per share(2)	0.30	0.43	0.49	0.44	0.03	0.004
-Basic earnings per ADS(3)	3.01	4.40	5.05	4.41	0.26	0.04
-Diluted earnings per ADS(3)	2.96	4.31	4.95	4.41	0.26	0.04
-Number of shares outstanding for basic earnings per share(2)	23,565	23,658	23,852	23,947	23,947	23,947
-Number of shares outstanding for diluted earnings per share(2)	24,664	24,656	24,795	23,947	23,947	23,947
-Number of ADS outstanding for basic earnings per ADS(3)	2,357	2,366	2,385	2,395	2,395	2,395
-Number of ADS outstanding for diluted earnings per ADS(3)	2,466	2,466	2,480	2,395	2,395	2,395

	As of or for the year ended December 31,					
	2012	2013	2014	2015	2016	2016
	RMB	RMB	RMB	RMB	RMB	US$(1)
	(in millions, except for per share data)					
Consolidated Statement of Financial Position Data:						
Cash and cash equivalents and short-term bank deposits and restricted deposits	18,282	21,560	25,364	21,957	25,387	3,657
Property, plant and equipment	430,997	431,625	438,321	454,631	451,115	64,974
Inventories and consumables	5,803	5,536	4,378	3,946	2,431	350
Prepayments and other current assets	9,580	9,664	10,029	10,864	14,023	2,020
Financial assets at fair value through other comprehensive income	5,567	6,497	5,902	4,852	4,326	623
Total assets	**516,124**	**529,171**	**545,072**	**610,346**	**614,154**	**88,457**
Accounts payable and accrued liabilities	108,486	102,212	120,371	167,396	143,224	20,631
Short-term bank loans	69,175	94,422	91,503	83,852	76,994	11,089
Commercial papers	38,000	35,000	9,979	19,945	35,958	5,179
Current portion of long-term bank loans	850	48	45	84	161	23
Current portion of other obligations	2,642	2,672	2,698	2,797	3,141	452
Current portion of corporate bonds	5,000	—	—	—	2,000	288
Current portion of promissory notes	15,000	—	—	2,499	18,976	2,733
Long-term bank loans	536	481	420	1,748	4,495	647
Promissory notes	—	—	21,460	36,928	17,906	2,579
Convertible bonds	11,215	11,002	11,167	—	—	—
Corporate bonds	2,000	2,000	2,000	2,000	17,970	2,588
Tax payable	1,820	2,634	1,466	3,163	732	105
Total liabilities	**306,619**	**310,272**	**317,531**	**379,130**	**386,472**	**55,664**
Equity attributable to equity shareholders of the Company	209,505	218,899	227,541	231,216	227,407	32,753
Share capital(4)	2,311	2,328	179,101	179,102	179,102	25,796
Non-controlling interests	—	—	—	—	275	40
Total equity	209,505	218,899	227,541	231,216	227,682	32,793

	As of or for the year ended December 31,					
	2012	2013	2014	2015	2016	2016
	RMB	RMB	RMB	RMB	RMB	US$(1)
	(in millions, except for per share data)					
Other Financial Data:						
Net cash inflow from operating activities	70,620	78,482	88,094	84,301	74,593	10,744
Net cash outflow from investing activities	(99,480)	(77,110)	(75,319)	(91,354)	(95,749)	(13,791)
Net cash inflow/(outflow) from financing activities	32,004	1,926	(8,973)	3,427	22,877	3,295
Net increase/(decrease) in cash and cash equivalents	**3,144**	**3,298**	**3,802**	**(3,626)**	**1,721**	**248**
Dividend declared per share	**0.12**	**0.16**	**0.20**	**0.17**	**—**	**—**

(1) The translation of RMB into U.S. dollars has been made at the rate of RMB6.9430 to US$1.00, representing the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board on December 30, 2016. The translations are solely for the convenience of the reader.

(2) See Note 14 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.

(3) Earnings per ADS is calculated by multiplying earnings per share by 10, which is the number of shares represented by each ADS.

(4) 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 27 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 30, 2016 (RMB6.9430 to US$1.00 and HK$7.7534 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 RMB6.8865 = US$1.00 and HK$7.7737 = US$1.00, respectively, on April 13, 2017. 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 2016	6.7819	6.6685	7.7600	7.7536
November 2016	6.9195	6.7534	7.7581	7.7546
December 2016	6.9580	6.8771	7.7674	7.7534
January 2017	6.9575	6.8360	7.7580	7.7540
February 2017	6.8821	6.8517	7.7627	7.7575
March 2017	6.9132	6.8687	7.7714	7.7611
April 2017 (up to April 13, 2017)	6.8988	6.8832	7.7737	7.7687

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 2012, 2013, 2014, 2015 and 2016, calculated by averaging the daily exchange rate on the last day of each month during the relevant years.

Average Exchange Rate

	RMB per US$1.00	HK$ per US$1.00
2012	6.2990	7.7556
2013	6.1412	7.7565
2014	6.1704	7.7554
2015	6.2869	7.7519
2016	6.6549	7.7618

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 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 from time to time introduces new policies that may intensify competition among the three telecommunications operators, such as the policies that 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. See “Business Overview — Mobile Telecommunications Resale Business” under Item 4.

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.

Our net income and ARPU of mobile billing subscribers may continue to decline in the future.

Our net income decreased by 12.4% from RMB12.06 billion in 2014 to RMB10.56 billion in 2015, and decreased further by 94.0% from RMB10.56 billion in 2015 to RMB0.63 billion in 2016. The significant decrease in 2016 was primarily because (i) we had a one-off net gain in an amount of RMB9.25 billion (before tax) on disposal of telecommunications towers and related assets to the Tower Company in 2015, (ii) our network, operation and support expenses increased by RMB8.86 billion, or 20.9%, from 2015 to 2016, and (iii) our selling and marketing expenses increased by RMB2.68 billion, or 8.4%, from 2015 to 2016. The significant decrease was partially offset by the increase in our total service revenue by RMB5.70 billion, or 2.4%, from 2015 to 2016. See "Operating and Financial Review and Prospects — Operating Results — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015" under Item 5. Some of these factors, such as increases in network, operation and support expenses and selling and marketing expenses may continue in the future, which could continue to have a material adverse effect on our net income in future years. In addition, our average revenue per subscriber per month, or ARPU, of mobile billing subscribers decreased by 3.1% from 2014 to 2015, although it remained stable in 2016 compared to 2015. We may not be able to increase ARPU of mobile billing subscribers or even experience declining ARPU of mobile billing subscribers in the foreseeable future, which could have a material adverse effect on our financial condition and results of operations.

Although we have been making various efforts to increase our ARPU and to improve our profitability, including promoting the migration of our subscribers of Global System for Mobile Communications, or GSM or 2G, services and third generation mobile telecommunications, or 3G, services to our 4G services, developing our high-end customers, and promoting our integrated mobile and fixed-lined services to encourage more usage of our services. We have also cooperated with Internet companies on initiating targeted marketing based on big data technology and providing products tailored to our subscribers' need, to facilitate the development of our 4G services and increase our profitability at low incremental cost. However, we cannot assure you that these efforts will achieve the anticipated results, or at all.

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 are a critical part. We commercially launched our 4G services in March 2014. We will continue to make investments in our 4G networks in the future, to expand our network coverage and improve our network quality. 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 network, operation and support expenses increased by RMB8.86 billion, or 20.9%, from 2015 to 2016, primarily due to the operating lease and other service charges payable to the Tower Company with respect to the telecommunications towers and related assets we lease from the Tower Company after we transferred our then-owned telecommunications towers and related assets to the Tower Company in October 2015, as well as the expansion of our networks. In the same period, our service revenue from mobile services increased by only RMB2.40 billion, or 1.7%. If such expenses continue to increase without corresponding increase in the relevant service revenue, our profitability would be adversely affected.

Our business relies on the lease arrangements with the Tower Company as to telecommunications towers and related assets, and we may not be able to achieve the expected benefits from the establishment of the Tower Company and such lease arrangements. Furthermore, it remains unclear whether the SEC considers its certain comments with respect to the transactions with the Tower Company unresolved and whether and how those unresolved comments would require our amendment of past or current disclosure.

In July 2014, we, China Mobile and China Telecom, the three major telecommunications operators in China, jointly established the Tower Company, which engages primarily in the construction, maintenance and operation of telecommunications towers and other ancillary facilities in China, as well as the provision of maintenance services of base station equipment. In October 2015, the Tower Company acquired all telecommunications towers and related assets from us, China Mobile and China Telecom. In July 2016, we, through our wholly owned subsidiary, CUCL, and the Tower Company entered into a commercial pricing agreement, or the Pricing Agreement, in relation to the leasing of the telecommunications towers and related assets acquired and newly constructed by the Tower Company. See "A. History and Development of the Company — Establishment of the Tower Company and the Disposal of Telecommunications Towers" under Item 4.

The main purpose for us to participate in the establishment of the Tower Company and lease telecommunications towers and related assets from the Tower Company is to enhance our telecommunications network coverage and capacity, realize long-term investment returns through the equity investment in the Tower Company and reduce capital expenditure as we ceased to construct telecommunications towers on our own. However, there is no assurance that these benefits will be achieved in the near future, or at all. In 2016, our network, operation and support expenses increased by RMB8.86 billion, or 20.9%, largely as a result of the operating lease and other service charges payable to the Tower Company, which may be larger than the depreciation and amortization expenses and maintenance costs we would have incurred if we own and operate our own telecommunications towers and related assets. In addition, the Pricing Agreement provides for a pricing adjustment mechanism, which could result in a significant adjustment of the fees charged to us by the Tower Company in the future if there is a material change in the actual operations, operating data and forecast of the Tower Company or any significant fluctuation in steel price, inflation and condition of the real estate market. Furthermore, since it is expected that, in principle, none of us, China Mobile or China Telecom will construct any telecommunications towers in the future, our business will rely on the lease arrangements with the Tower Company. Although we could renegotiate with the Tower Company on the lease fees based on the then current economic condition and benefit-cost analysis upon the expiry of the initial five-year lease term, we cannot assure you that such negotiation would result in the terms of the new lease commercially favorable to us. Moreover, 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, our sale of telecommunications towers and related assets and our lease of such assets from the Tower Company will achieve the anticipated results in the near future as expected, or at all.

As part of its periodic review of our filings, the staff of the Division of Corporation Finance of the SEC sent us three rounds of comments in September 2016, November 2016 and February 2017, respectively, regarding our annual report on Form 20-F for the fiscal year ended December 31, 2015. These comments mainly relate to the background, execution process and accounting treatments of the aforesaid transactions with the Tower Company. We have responded to the latest comments in March 2017, and have not yet received a formal reply from the SEC to our latest response letter. Thus we do not know if the SEC considers certain comments to remain unresolved, and whether and how those unresolved comments could affect any of our past or current disclosure. As such, there remains uncertainty whether we would be required to amend our past or current disclosure, including the financial statements, which could result in us incurring costs and divert the attention of our management and employees. To the extent that any such amendment occurs, we cannot assure you that it would not cause any adverse effect on our stock price.

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

As the technology of mobile services evolves, the trend of mobile service migration from older generations to new generations would generally have an adverse effect on our older generations services, including a growth slowdown or a decrease in the number of subscribers and usage. In particular, our 2G services and 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 2016. Although such trend of migration would increase our 4G service subscribers and revenue, we cannot guarantee that such increase can always fully offset the adverse effect. Likewise, 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, 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.

We have been taking various measures to retain our subscribers and their service usage of our fixed-line local telephone services, attract our older generations mobile service subscribers to migrate to our 4G networks, and attract mobile service subscribers from other telecommunications operators to our mobile service network, in particular, the 4G networks. Such measures include improvement of our products and services, acceleration of the construction and enhancement of 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 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 operators 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 2016, 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 abrupt 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 transferred our then-owned telecommunications towers and related assets to the Tower Company in October 2015, and since then have ceased to construct, maintain or operate telecommunications towers and we expect that our capital expenditure will decrease significantly as a result. However, we continue to have capital expenditure requirements for our mobile networks, broadband and data networks, telecommunications infrastructure and transmission networks, and debt service requirements necessary to implement our business strategies. We incurred capital expenditure of RMB72.11 billion in 2016. 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.

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 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. In March 2017, we announced that we plan to substantially reduce Internet private line access tariff for small and medium enterprises customers and international long-distance call tariff. In addition, we expect that starting from October 1, 2017, we will cease to charge mobile handset subscribers domestic long-distance and roaming fee. See "B. Business Overview — Regulatory and Related Matters — Tariff Setting" under Item 4. The tariff reduction measures have resulted in and may continue to have a negative impact on our operating revenue and profitability. 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.

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.

Furthermore, personal privacy, information security, and data protection are increasingly significant issues in China. The regulatory framework governing the collection, processing, storage and use of business information and personal data is rapidly evolving. For example, the Cyber Security Law of the PRC will come into force on June 1, 2017. Any failure or perceived failure to comply with applicable privacy, security, or data protection laws or regulations may adversely affect our business.

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.

We are exposed to reputational and legal risks associated with telecommunications fraud carried out on our network.

Telecommunications fraud, in which a person defrauds another by means of telecommunications technologies including SMS, telephone, and Internet, exposes us to reputational and legal risks. If telecommunications fraud is committed on our network, we may be held liable for our failure to fully comply with PRC regulatory requirements to prevent telecommunications fraud. In September 2016, the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Public Security, the MIIT, the People's Bank of China and the China Banking Regulatory Commission jointly issued the Notice on the Prevention and Combating of Telecommunications Network Fraud, and, in November 2016, the MIIT issued the Practice Opinions on Further Prevention and Combating Telecommunications Information Fraud, both of which require telecommunications operators to strictly require customers to register under their real names when applying for telecommunications services, which requires us to fully and promptly comply with the requirements on real-name registration. We have implemented various measures to strengthen our management and control over sales and distribution channels, including carrying out the real-name registration system for our customers in accordance with the requirements of government authorities. However, telecommunications fraud may still result in claims being brought against us and may damage our reputation and could have an adverse effect on our business and results of operations.

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 13, 2017 and all of our four executive directors also concurrently served as directors or executive officers of Unicom Group as of the same date. 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.

Our controlling shareholder, Unicom Group, is contemplating, developing and processing the plan relating to the mixed ownership reform. The finalization and future implementation of such plan are still subject to substantial uncertainty.

In April 2017, we were notified by Unicom Group, our ultimate controlling shareholder, that its management was contemplating, developing and processing significant matters relating to the mixed ownership reform, which may potentially involve change in the shareholding structure of the A Share Company, our controlling shareholder and a subsidiary of Unicom Group. The mixed ownership reform is to encourage investment by private capital into the Unicom Group and its affiliates, with a view to improving its corporate governance, incentive system and management efficiency. However, the related plan for these matters is still under deliberation. There is no assurance that the plan will be finalized and adopted, and, even if it does, there is substantial uncertainty with respect to the implementation of such plan and the participation of private investors. As such, we may not be able to realize the expected benefits, if at all.

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, 2016 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by our independent registered public accounting firm, as stated in its report. 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 misconduct or alleged misconduct by our executive officers or employees, including our former chairman and chief executive officer, may adversely impact the Company, including potentially by damaging our reputation, creating litigation risk, and adversely impacting the trading price of our ordinary shares and ADSs.

We are aware that certain management personnel of the Company and/or our subsidiaries engaged in or are alleged to have engaged in unlawful conduct, including acceptance of bribes. For example, our former chairman and chief executive officer, Mr. Chang Xiaobing, was accused in the court of accepting bribes worth approximately RMB3.76 million between 1998 and 2014. On April 18, 2017, Mr. Chang pleaded guilty to these charges at trial and is awaiting sentencing. Mr. Chang served as our chairman and chief executive officer between 2004 and 2015.

We are aware that, on or around April 18, 2017, certain law firms in the United States that specialize in representing investors as plaintiffs in class action litigation have publicly stated that they are investigating potential federal securities laws claims against the Company and its representatives on behalf of our investors relating to the misconduct of Mr. Chang. We were not aware of any actual claims or legal proceedings in this regard as of the date of this annual report. However, the aforementioned investigations and any other threatened or actual claims or legal proceedings against the Company or its representatives, regardless of whether or not they are meritorious, could materially and adversely affect our reputation, operations and the trading price of our ordinary shares and ADSs.

In response to management misconduct, we have taken and will continue to take various measures, including enhancing our employees' compliance awareness and taking steps to confirm that our risk management and internal control procedures are robust. However, we cannot be certain that these measures will effectively detect or prevent future employee misconduct. If these measures prove ineffective in detecting or preventing future employee misconduct, among other things our reputation could be harmed, our operations could be disrupted and the trading price of our ordinary shares and ADSs could be adversely impacted.

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 and 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. 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.

Potential changes in laws, regulations and policies 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 laws, 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. The PRC Government has been adjusting and improving its regulatory oversight of the telecommunications industry, including further deregulating telecommunications tariffs.

For example, in December 2016, the amended Regulations of People's Republic of China on the Management of Radio Operation came into effect, which provides that permission for using certain radio frequency bands, including those for fifth generation mobile telecommunications, or 5G, services, may be obtained through bidding processes or auctions. As such, competition for radio frequencies could become more intensive in the future, and as a result we may not be able to obtain all desirable radio frequencies at commercially acceptable terms, or at all, which may have a material adverse effect on our results of operations and growth prospects.

Relevant departments of the PRC government, under the direction of the State Council, are 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 experienced certain restructuring 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. For instance, in December 2015, the Ministry of Finance, or MOF, 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. 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 6.7% in 2016. 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 foreign court judgments against us and our management in China.

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 2016, 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. 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.

The PCAOB has conducted inspections of independent registered public accounting firms outside of China and has at times identified deficiencies in the audit procedures and quality control procedures of those accounting firms. Such deficiencies may be addressed in those accounting firms' future inspection process to improve their audit quality. Due to the lack of PCAOB inspections of audit work undertaken in China, our investors do not have the benefit of the regular evaluation by PCAOB of the audit works, audit procedures and quality control procedures of our independent registered public accounting firm.

Proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

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 our independent registered public accounting firm, 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.

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 registered public accounting firm to audit and issue an opinion on our financial statements. 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 depositary and may only exercise voting rights by appointing the depositary 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 depositary are delayed or if the depositary 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 depositary 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

In May 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 service 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 service 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 service 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

In October 2008, we, through CUCL, disposed of our CDMA business and certain other assets to China Telecom, which included (i) the entire CDMA business 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. The consideration for the disposal was RMB43.8 billion in cash. In addition, in connection with the disposal, Unicom Group and Unicom New Horizon also disposed of their CDMA network to China Telecom at a consideration of RMB66.2 billion in October 2008.

Merger with China Netcom and Related Transactions

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. 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, and our name changed from "China Unicom Limited" to "China Unicom (Hong Kong) Limited" on October 15, 2008. Our stock trading code on the HKSE and our ticker symbol on the NYSE remain unchanged.

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).

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.

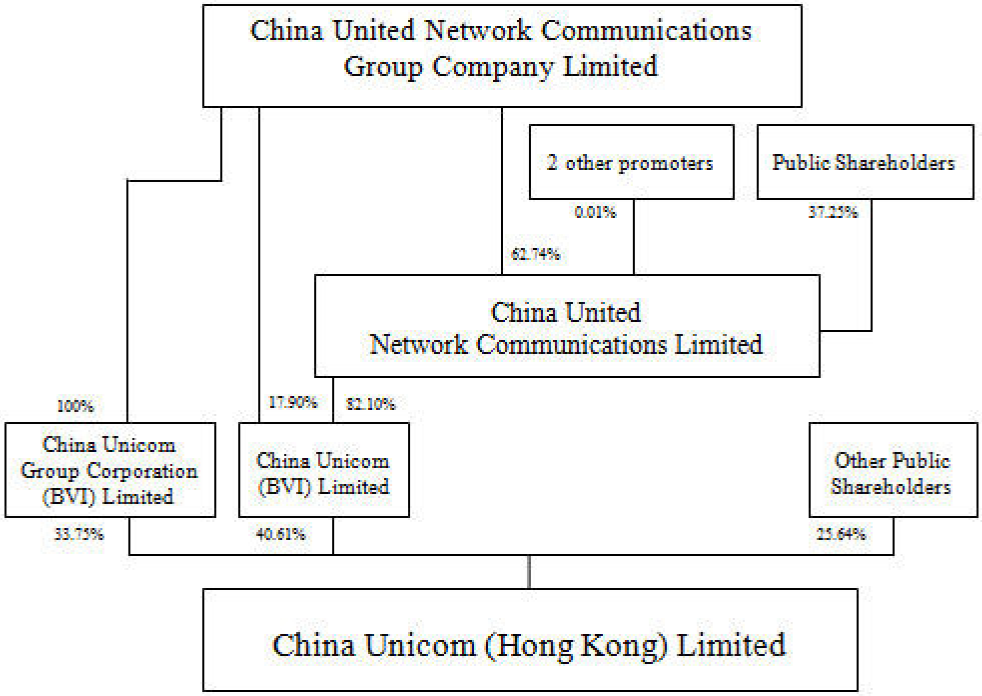
Our Relationship with Unicom Group

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 initial public offering, or 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 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.

Set forth below is our shareholding structure as of April 13, 2017.



Two-Step Voting Arrangements

As a result of a series of internal restructurings of Unicom Group's shareholding in us following our IPO, China Unicom (BVI) Limited, or 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.

Establishment of the Tower Company and the Disposal of Telecommunications Towers

In July 2014, we, through our wholly owned subsidiary, CUCL, a subsidiary of China Mobile and a subsidiary of China Telecom jointly established the Tower Company. We subscribed for 3.01 billion shares of the Tower Company at RMB1.00 per share, representing 30.1% of the registered capital of the Tower Company, and the remaining 40.0% and 29.9% of the registered capital of the Tower Company were subscribed for by China Mobile and China Telecom, respectively, at the same price. The Tower Company primarily engages 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 owned subsidiaries, CUCL and Unicom New Horizon, entered into a transfer agreement with (i) China Mobile Communication Company Limited, a subsidiary of China Mobile, and its 31 subsidiaries, (ii) China Telecom Corporation Limited, a subsidiary of 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, the Tower Company would issue and allot shares in the Tower Company and/or pay certain cash as consideration for such transfers, and China Reform Holding Company Limited agreed to subscribe for new shares in the Tower Company in cash. As of April 13, 2017, 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.

In July 2016, we, through our wholly owned subsidiary, CUCL, and the Tower Company entered into the Pricing Agreement under which we lease telecommunications towers and related assets from the Tower Company for an initial term of five years. See “B. Related Party Transactions” under Item 7 for major items of the Pricing Agreement, including pricing for the lease.

Establishment of China Unicom Finance Company Limited

On December 6, 2013, CUCL and Unicom Group entered into a capital contribution agreement regarding the establishment of China Unicom Finance Company Limited, or the Finance Company. Pursuant to the capital contribution agreement, CUCL and Unicom Group invested RMB2,730 million and RMB270 million, representing 91% and 9% of the total registered capital of the Finance Company, respectively. The Finance Company was established for the purposes of providing various financial services to Unicom Group, its subsidiaries and other associated entities, see “B. Related Party Transactions — Establishment of the Finance Company and Provision of Financial Services” under Item 7.

Capital Expenditures and Divestitures

See "Liquidity and Capital Resources — Capital Expenditures" under Item 5 for information concerning our principal capital expenditures for the previous three years and those planned for 2017. 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.

In 2016, our total revenue was RMB274.20 billion, of which our total service revenue increased by 2.4% from RMB235.28 billion in 2015 to RMB240.98 billion in 2016, and total sales of telecommunications products decreased by 20.5% from RMB41.77 billion in 2015 to RMB33.22 billion in 2016. Service revenue from mobile services continued to constitute a substantial portion of our total service revenue. The service revenue from our mobile services was RMB145.02 billion, representing 60.2% of our total service revenue. Our service revenue from mobile services in 2016 increased by 1.7% from RMB142.62 billion in 2015. The number of mobile billing subscribers also increased by 4.6% from 252.32 million in 2015 to 263.82 million in 2016. In addition, the total number of our 4G subscribers substantially increased from 44.16 million in 2015 to 104.55 million in December 2016. Besides, our service revenue from fixed-line services continued to grow in 2016. Service revenue from fixed-line services increased by 3.7% from RMB91.26 billion in 2015 to RMB94.66 billion in 2016, of which the revenue from fixed-line broadband access remained stable during these periods. In 2016, revenue from fixed-line broadband access accounted for 46.3% of total service revenue from the fixed-line services.

Mobile Services

Our mobile services consist of GSM, 3G and 4G services. In recent years, we have 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.

Total revenue from our mobile services was RMB178.08 billion in 2016, of which service revenue from our mobile services increased by 1.7% from RMB142.62 billion in 2015 to RMB145.02 billion in 2016. Such service revenue from mobile services accounted for 60.6% and 60.2% of our total service revenue in 2015 and 2016, 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,		
	2014	2015	2016
Number of mobile billing subscribers (in thousands)(1)	266,579	252,317	263,822
Estimated market share of mobile billing subscribers(1)(2)	20.7%	19.8%	19.9%
Mobile billing subscribers ARPU (in RMB)(1)(3)	47.8	46.3	46.4
Number of 4G subscribers (in thousands)(1)	N.A.(6)	44,156	104,551
4G subscribers ARPU (in RMB)(1)(4)	N.A.(6)	N.A.(6)	76.4
4G subscribers DOU (in megabytes)(1)(5)	N.A.(6)	N.A.(6)	1,521

(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. 4G subscribers are referred generally to subscribers who possess 4G handsets, use our 4G networks and have revenue contribution in the relevant month indicated. Since January 2016, we have been reviewing and analyzing our mobile billing subscribers data and 4G 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 and 4G 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 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.

(3) We calculate mobile billing subscribers ARPU by dividing the annual average revenue per mobile billing subscriber by 12. Annual average revenue per mobile billing subscriber is calculated by dividing the amount of revenue from mobile services for the relevant year by the average number of mobile billing subscribers for the year, which is the average of the 12 monthly average mobile billing subscribers during the year. For a particular month, monthly average mobile billing subscribers is the average of the number of mobile billing subscribers as of the end of the preceding month and the end of that month.

(4) We calculate 4G subscribers ARPU by dividing the annual average revenue per 4G subscriber by 12. Annual average revenue per 4G subscriber is calculated by dividing the amount of revenue from 4G services for the relevant year by the average number of 4G subscribers for the year, which is the average of the 12 monthly average 4G subscribers during the year. For a particular month, monthly average 4G subscribers is the average of the number of 4G subscribers as of the end of the preceding month and the end of that month.

(5) We calculate average data usage per 4G user per month, or 4G subscribers DOU, by dividing the annual average data usage per 4G subscriber by 12. Annual data usage per 4G subscriber is calculated by dividing the total data usage under our 4G services for the relevant year by the average number of 4G subscribers for the year, which is the average of the 12 monthly average 4G subscribers during the year. For a particular month, monthly average 4G subscribers is the average of the number of 4G subscribers as of the end of the preceding month and the end of that month.

(6) Since the development of our 4G services was in a relatively preliminary stage in 2014 and 2015, we considered it not cost-effective to generate accurate data relating to our 4G services.

Mobile Billing Subscribers

Our total number of mobile billing subscribers increased by 4.6% from 252.32 million as of December 31, 2015 to 263.82 million as of December 31, 2016. Mobile billing subscribers are referred generally to subscribers who have revenue contribution in the relevant month indicated. The increase in the total number of mobile billing subscribers was primarily due to the substantial increase in the number of our 4G subscribers and the number of our products which require usage of data.

ARPU of Mobile Billing Subscribers

The ARPU of our mobile billing subscribers slightly increased from RMB46.3 in 2015 to RMB46.4 in 2016, despite the implementation of the PRC Government's policy of increasing network speed and reducing tariffs. The slight increase in our ARPU was mainly due to the increase in the percentage of our 4G subscribers, who have relatively high ARPU, accounting for our mobile billing subscribers.

4G Subscribers

The total number of our 4G subscribers increased significantly from 44.16 million as of December 31, 2015 to 104.55 million as of December 31, 2016. 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 substantial increase in our total number of 4G subscribers was primarily due to (i) our expansion of 4G network and improvement of 4G network quality; (ii) promotion of certain popular handsets with dual SIM card slots and "All Network Access" which enable our 4G subscribers to access networks across different telecommunications operators; (iii) migration of older generation subscribers to 4G resulting from our marketing of data and content supply; and (iv) our offerings of services that integrate 4G, fixed-line broadband, video, application and other services.

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, including fixed-line broadband access services, internet value-added services and data communications services, (ii) fixed-line voice services, including local and long-distance fixed-line voice services and value-added services, and (iii) other services.

Our total revenue from fixed-line services was RMB94.81 billion in 2016, of which service revenue from our fixed-line services increased by 3.7% from RMB91.26 billion in 2015 to RMB94.66 billion in 2016, accounting for 38.8% and 39.3% of our total service revenue in 2015 and 2016, respectively. In 2016, we achieved stable increase in total revenue from our fixed-line services, mainly attributable to our upgraded fiber-optic broadband network, the improvement of our network speed, and the promotion of the development of integrated and innovative mobile and fixed-line services.

Fixed-Line Broadband Services and Data Communications Services

Our fixed-line broadband services and data communications services consist of fixed-line broadband access services, internet value-added services and data communications services.

Fixed-Line Broadband Access Services

Fixed-line broadband access 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 access 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 access 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 2016, 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, 2016, our fixed-line broadband subscribers increased by 4.0% to 75.24 million, of which subscribers with 20M-and-above bandwidth accounted for 78% of all fixed-line broadband subscribers, representing an increase of 59 percentage points from the end of 2015. Our fixed-line broadband access ARPU decreased by 4.5% from RMB51.7 in 2015 to RMB49.4 in 2016 primarily due to the intensifying market competition, in particular, competition as a result of our competitor's aggressive marketing strategies involving low tariff and bundle sales of products.

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

	As of December 31,		
	2014	**2015**	**2016**
Number of fixed-line broadband subscribers (in thousands)	68,790	72,330	75,236

Internet Value-added Services

Our internet value-added services primarily include Internet Data Center, or IDC, cloud computing, information communication technology and IPTV services. In 2016, we actively leveraged our advantages in network and informatization, and focused on industrial internet and platform-based services, which led to breakthrough and substantial growth in IDC and cloud computing. As of December 31, 2016, we had approximately 120,000 racks supporting our internet hosting services, 12 national cloud data centers and over 300 local data centers. In 2015 and 2016, revenue from IDC and cloud computing was RMB7.07 billion and RMB9.45 billion, respectively.

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 2016, 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 2016, 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 was 82.06 million, 73.86 million and 66.65 million as of December 31, 2014, 2015 and 2016, respectively. The decrease in the recent years was primarily due to a decrease in the number of our fixed-line telephone service 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 69,879 million times, 59,084 million times and 49,142 million times in 2014, 2015 and 2016, 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, 2014, 2015 and 2016 were 14,198, 12,707 and 12,452 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,		
	2014	2015	2016
International long-distance outbound call minutes (minutes in millions)(1)(2)			
Traditional	74	53	39
VoIP	100	62	57
Total	174	115	95

(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.

Fixed-Line Other Services

Our fixed-line other services primarily include installation of fixed-line equipment services, internet hosting services, telecommunications equipment and real property leasing services and other services. In 2016, our revenue from fixed-line other services increased by 8.9% from RMB965 million in 2015 to RMB1,051 million in 2016, primarily due to the increase in our revenue from internet hosting services.

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, 2017, we had roaming arrangements for (i) GSM international voice and SMS services with 610 operators in 249 countries and regions, (ii) GPRS international inbound data services with 539 operators in 213 countries and regions and for GPRS international outbound data services with 491 operators in 213 countries and regions, (iii) 3G services with 411 WCDMA operators in 153 countries and regions, and (iv) 4G international inbound data services with 155 operators in 103 countries and regions and for 4G international outbound data services with 142 operators in 97 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. We expect that starting from October 1, 2017, we will cease to charge mobile handset subscribers for domestic long-distance tariffs and roaming fee. 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, 1800 MHz and 2100MHz frequency bands for FDD network and 2300-2320 MHz and 2555-2575 MHz frequency bands for TDD network. In 2016, Unicom Group was granted the approval to refarm all frequency bands for FDD network to deploy LTE network. Unicom Group currently owns 2x61 MHz of spectrum in the frequency bands for FDD network, of which Unicom Group has deployed UMTS network and GSM network using 2x6 MHz of spectrum in the 900 MHz frequency band, LTE network and GSM network using 2x30 MHz of spectrum in 1800 MHz and LTE network and UMTS network using 2x25 MHz of spectrum in 2100 MHz frequency band. In addition, Unicom Group has achieved converged network of TD-LTE network and FDD-LTE network by deploying TDD-LTE network using 2300-2320 MHz of spectrum which is limited to indoor network and 2555-2575 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, 2016, our 4G network base stations reached 736,000 with an increase of 337,000 base stations compared to December 31, 2015, and our other mobile service base stations reached 1,314,000.

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 2016, the number of fixed-line broadband access ports increased by 24.20 million to 189.00 million, up by 14.7% from the end of 2015, of which the number of access ports with FTTX accounted for 98.0% of total broadband access ports. Our international Internet outbound bandwidth reached 1,711G, our submarine cable capacity reached 9,786G, and our international cross-continental cable capacity reached 3,324G.

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive service 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 the fourth quarter of 2016, we initiated a 2I2C marketing model on targeted marketing by collaborating with internet companies through sub-dividing market segments and strengthening data traffic operation.

Customer Services

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, WeChat 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 services are 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.

We are dedicated to improve customers' perception of our services. We have adopted an NPS (net promoter score) evaluation system to provide all-rounded monitoring of each of our operating segments and levels, so that we can further understand the need of our clients, adjust to cater to our clients' needs and improve our professionalism in all respects.

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 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 service 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. In addition, we participate in the national research project on 5G, closely follow the development of 5G technology and standards, proactively carry out 5G technology related researches and experiments. We have also initiated research and development program on the migration of advanced 4G services with higher network speed as compared to 4G services, or the 4.5G services, to the 5G services. And, we would begin the field test and monetization of 5G services when market conditions are favorable.

Competition

As a result of the telecommunications industry restructuring in 2008, the Chinese telecommunications market now has three key providers of basic telecommunications services — 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 services by the PRC Government in December 2013, and Unicom Group and China Telecom were granted the license to operate LTE-FDD mobile services 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

See "A. History and Development of the Company — Establishment of the Tower Company and the Disposal of Telecommunications Towers" under Item 4 for information regarding the Tower Company and arrangement regarding telecommunications towers and related assets.

Strategic Alliances with Telefónica

On January 30, 2009, we entered into a business cooperation framework agreement with Telefónica, S.A., or 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 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 agreed to 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. Our strategic cooperation is expected to 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.

Relevant departments of the PRC government, under the direction of the State Council, are 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 — Potential changes in laws, regulations and policies 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. In addition, in order to strengthen the administration on cybersecurity, the National People's Congress Standing Committee promulgated the Cybersecurity Law on November 7, 2016, which will become effective on June 1, 2017.

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, which were amended in accordance with the Decision of the State Council on Amending Certain Administrative Regulations on February 6, 2016.

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 Service 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 in accordance with the Decision of the State Council on Amending Certain Administrative Regulations on February 6, 2016. 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 RMB15 million per MHz is 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 tariff. 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. On March 6, 2017, we announced that we plan to substantially reduce Internet private line access tariff for small and medium enterprises customers and international long-distance call tariff. In addition, we expect that starting from October 1, 2017, we will cease to charge mobile handset subscribers domestic long-distance and roaming fee.

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.

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 consist of charges based on the duration, time of day and day of the week a call is placed. For our international, Hong Kong, Macau and Taiwan long distance wireline services, we charge usage fees based on call duration and call destination.

Data Services

Our data services consist of DDN services and frame relay services. We charge monthly fees for DDN services and frame relay services, which vary based on bandwidth and whether it is intra-district, inter-district or long-distance.

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.

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:

Operator from Whose Network Calls Are Originated	Operator at Whose Network Calls Are Terminated	Current Main Settlement Arrangement
Mobile operator	Local fixed-line operator	(1) Mobile operator collects the usage fees from its subscribers;
		(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.
Local fixed-line operator	Mobile operator	(1) Local fixed-line operator collects the usage charge from its subscribers;
		(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.
Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers;
		(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).

Operator from Whose Network Calls Are Originated	Operator at Whose Network Calls Are Terminated	Current Main Settlement Arrangement
Local fixed-line operator A	Local fixed-line operator B	(1) Operator A collects the usage fees from its subscribers; (2) In the case of intra-district calls, operator A pays operator B 50% of the intra-district usage fees; (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.

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

Operator at Whose Network Calls Are Originated	Operator at Whose Network Calls Are Terminated	Current Main Settlement Arrangement
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:

Operator at Whose Network Calls Are Originated	Operator at Whose Network Calls Are Terminated	Current Main Settlement Arrangement
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:

Operator from Whose Network Calls Are Originated	Operator at Whose Network Calls Are Terminated	Current Main Settlement Arrangement
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:

Network from Which SMS Originated	Network at Which SMS Terminated	Current Main Settlement Arrangement
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:

Network from Which MMS Originated	Network at Which MMS Terminated	Current Main Settlement Arrangement
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 nine international organizations for telecommunications standards, including International Telecommunications Union, 3rd Generation Partnership Project, Groupe Speciale Mobile Association and Global Certification Forum, and six open source platforms including Open Network Operating System and OpenDaylight, 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 Services

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 MOF 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.

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. In 2015, the PRC Government promulgated the Notice on Issuance of the Plan to Promote Convergence of Telecom, Broadcasting and Internet Networks by the General Office of the State Council, and started to fully implement such policy across-the-board. 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. We have been promoting the sustainable development of the resale business through cooperation to achieve win-win results. As of December 31, 2016, 29 companies purchased mobile services covering approximately 31.69 million end customers from us, accounting for approximately 73% of the total market share as of the same date in terms of the number of end customers.

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. Effective as of May 1, 2016, VAT became applicable to all the other industries in China.

Output VAT is excluded from operating revenue 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. As a result of application of VAT to all other industries in China, more of capital expenditures and operating expenses became entitled to input VAT credits, which offset our VAT output tax obligations. As the implementation of VAT to replace business tax was expanded to other industries nationwide in 2016, we were able to reduce operating costs by claiming input VAT credits. In addition, we have claimed 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 2016 that 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 2016, the estimated gross revenue Unicom Group generated from such inbound international roaming traffic with MCI and MTN was approximately RMB1,185,662 and RMB3,188, respectively, and the estimated total amount paid by Unicom Group to MCI and MTN for the outbound international roaming traffic was approximately RMB242,814 and approximately RMB67,523, 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 13, 2017, we were (i) 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, (ii) 33.75% owned by Unicom Group BVI, which in turn was 100% owned by Unicom Group, and (iii) 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:

Name of Subsidiary	Place of Incorporation	Ownership Interest
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%
China Unicom (Russia) Operations Limited Liability Company	Russia	100%
China Unicom (Brazil) Telecommunications Company Limited	Brazil	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

Not Applicable.

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.

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 2014, 2015 and 2016.

	For the Year Ended December 31,					
	2014		2015		2016	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue	284,681	100.0	277,049	100.0	274,197	100.0
Total service revenue	244,878	86.0	235,278	84.9	240,982	87.9
Include: Mobile services	155,095	54.5	142,620	51.5	145,018	52.9
Fixed-line services	88,481	31.1	91,261	32.9	94,659	34.5
Out of which:						
Broadband services	50,201	17.6	53,960	19.5	57,116	20.8
Total sales of telecommunications products	39,803	14.0	41,771	15.1	33,215	12.1

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 services 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 operators 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 2014, 2015 and 2016.

	For the Year Ended December 31,					
	2014		2015		2016	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue	284,681	100.0	277,049	100.0	274,197	100.0
Costs, expenses and others	268,750	94.4	263,014	94.9	273,413	99.7
Interconnection charges	14,599	5.1	13,093	4.7	12,739	4.6
Depreciation and amortization	73,868	25.9	76,738	27.7	76,805	28.0
Network, operation and support expenses	37,851	13.3	42,308	15.3	51,167	18.7
Employee benefit expenses	34,652	12.2	35,140	12.7	36,907	13.5
Selling and marketing	40,193	14.1	31,965	11.5	34,646	12.6
General, administrative and other expenses	21,218	7.5	22,995	8.3	22,711	8.3
Cost of telecommunications products sold	43,397	15.2	44,046	15.9	36,529	13.3
Finance costs, net of interest income	4,334	1.5	6,496	2.3	3,857	1.4
Other income-net	(1,362)	(0.5)	(9,767)	(3.5)	(1,948)	(0.7)

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 recognized 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 services are 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 the services are rendered;
- Value-added service 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 the services are 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 the 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, service 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 service 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.

No significant impairment loss on property, plant and equipment was recognized for the years ended December 31, 2015 and 2016.

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.

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 deductible tax losses, 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 net deferred tax assets amounting to approximately RMB5,986 million as of December 31, 2016. 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 current 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 current and deferred taxation may be necessary which would impact our results or financial position.

Determining the Type of Lease

We analyze the substance of the leases to determine whether the arrangements should be classified as operating leases or finance leases in accordance with the requirements of the prevailing accounting standards. We base our judgment on the lease agreements and related arrangements to assess whether substantially all the risks and rewards incidental to ownership of the leased assets has been transferred.

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, 2016 or are available for early adoption. See Note 2.2(c) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Up to the date of issue of our 2016 financial statements, the following amendments and new standards have been issued but not yet effective for the annual accounting period ended December 31, 2016 and has not been adopted by us:

	Effective for accounting periods beginning on or after
Amendments to IAS 12, Income taxes “Recognition of deferred tax assets for unrealized losses”	1 January 2017
Amendments to IAS 7, Statement of cash flows “Disclosure initiative”	1 January 2017
IFRS 15 “Revenue from contracts with customers”	1 January 2018
Amendments to IFRS 2, Share-based payment “Classification and measurement of share-based payment transactions”	1 January 2018
IFRS 16 “Leases”	1 January 2019
Amendments to IFRS 10, Consolidated financial statements and IAS 28, Investments in associates and joint ventures “Sale or contribution of assets between an investor and its associate or joint venture”	To be determined

Operating Results

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue

In 2016, we continued to actively develop full-service operation with a focus on 4G services and fixed-line broadband services. Total revenue in 2016 was RMB274.20 billion, representing a decrease of 1.0% from RMB277.05 billion in 2015, of which our total service revenue was RMB240.98 billion in 2016, representing an increase of 2.4% from RMB235.28 billion in 2015.

Mobile Service Revenue

Total revenue from our mobile services decreased by 3.4% from RMB184.29 billion in 2015 to RMB178.08 billion in 2016. Of the total revenue from our mobile services in 2015 and 2016, RMB142.62 billion and RMB145.02 billion, respectively, was from mobile service revenue. Service revenue from our mobile services as a percentage of our total service revenue was 60.6% and 60.2% in 2015 and 2016, respectively. The ARPU for our mobile billing subscribers slightly increased from RMB46.3 in 2015 to RMB46.4 in 2016. The decrease in total revenue from our mobile services was primarily driven by a decrease in our sales of mobile telecommunications products.

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, 2015 and 2016.

	2015		2016	
	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue from mobile services	184,285	100.0	178,079	100.0
Service revenue	142,620	77.4	145,018	81.4
Usage fees and monthly fees	45,901	24.9	37,727	21.2
Value-added service revenue	83,529	45.3	94,133	52.9
Interconnection fees	11,847	6.4	11,415	6.4
Other service revenue	1,343	0.7	1,743	1.0
Sales of mobile telecommunications products	41,665	22.6	33,061	18.6

Usage Fees and Monthly Fees. Primarily as a result of (i) the intensifying competition among the major PRC telecommunications operators and (ii) 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 RMB37.73 billion in 2016, representing a decrease of 17.8% from RMB45.90 billion in 2015. We expect the above factors to have a continuing effect on our usage fees and monthly fees in the foreseeable future.

Value-Added Service Revenue. Value-added service revenue consists primarily of revenue from our mobile value-added services. Due to our proactive promotion of 4G data services, revenue from our mobile value-added services was RMB94.13 billion in 2016, representing an increase of 12.7% from RMB83.53 billion in 2015. The increase was partially offset by 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 45.3% in 2015 to 52.9% in 2016. Of the total revenue from mobile value-added services, revenue from mobile Internet services increased by 22.5% from RMB58.39 billion in 2015 to RMB71.55 billion in 2016, revenue from our SMS services decreased by 14.1% from RMB6.07 billion in 2015 to RMB5.22 billion in 2016, and revenue from "Cool Ringtone" services decreased by 25.9% from RMB1.96 billion in 2015 to RMB1.45 billion in 2016.

Interconnection Fees. Our interconnection fees decreased by 3.6% from RMB11.85 billion in 2015 to RMB11.42 billion in 2016. The decrease in our interconnection fees was primarily as a result of 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.

Sales of Telecommunications Products. Revenue from our sales of mobile telecommunications products decreased by 20.7% from RMB41.67 billion in 2015 to RMB33.06 billion in 2016, mainly due to the decrease in the sales amount of our mobile handsets. We expect the above factors to have a continuing effect on our revenue from sales of telecommunications products in the foreseeable future.

Fixed-Line Service Revenue

In 2016, 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 3.8% from RMB91.37 billion in 2015 to RMB94.81 billion in 2016, of which fixed-line service revenue increased by 3.7% from RMB91.26 billion in 2015 to RMB94.66 billion in 2016. See "D. Risk Factors — Risks Relating to Our Business — The industry trends of mobile service substitution and mobile service migration from older generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and older 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, 2015 and 2016.

	For the Year Ended December 31,			
	2015		2016	
	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue from fixed-line services	91,367	100.0	94,813	100.0
Service revenue	91,261	99.9	94,659	99.8
Usage fee and monthly fee	11,130	12.2	9,773	10.3
Broadband, data and other Internet-related service revenue	56,629	62.0	60,031	63.3
Including:				
fixed-line broadband access	43,865	48.0	43,867	46.3
IDC and cloud computing	7,069	7.7	9,451	10.0
Interconnection fees	3,667	4.0	3,332	3.5
Value-added service revenue	5,132	5.6	4,523	4.8
Leased line income	9,404	10.3	10,011	10.5
Information communication technology service revenue	4,334	4.7	5,938	6.3
Other service revenue	965	1.1	1,051	1.1
Sales of fixed-line telecommunications products	106	0.1	154	0.2

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 2016, we experienced continuing decline in the number of fixed-line local access subscribers and revenue due to the continuing effect of mobile substitution. Our fixed-line local access subscribers decreased in 2016 by 9.8% from 73.86 million at the end of 2015 to 66.65 million at the end of 2016. ARPU of the fixed-line local access decreased in 2016 by 2.4% from RMB17.5 in 2015 to RMB17.1 in 2016. Total usage of local calls decreased in 2016 by 16.8% from 59.08 billion pulses in 2015 to 49.14 billion pulses in 2016 (excluding Internet dial-up usage) and total usage of long-distance calls decreased in 2016 by 2.0% from 12.71 billion minutes in 2015 to 12.45 billion minutes in 2016. Revenue from our usage fees and monthly fees in 2016 decreased by 12.2% from RMB11.13 billion in 2015 to RMB9.77 billion in 2016.

Broadband, Data and Other Internet-Related Service Revenue. Revenue from our broadband, data and other Internet-related services include revenue generated from DSL, LAN, and broadband-related value-added services, such as IDC and cloud computing, 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 6.0% from RMB56.63 billion in 2015 to RMB60.03 billion in 2016, primarily as a result of the increase in revenue from IDC, cloud computing and IPTV services.

IDC and cloud computing has become the main growth driver of our total revenue from fixed-line services. In 2016, our revenue from IDC and cloud computing increased by 33.7% from RMB7.07 billion in 2015 to RMB9.45 billion in 2016, and, as a percentage of the total revenue from fixed-line services, increased from 7.7% in 2015 to 10.0% in 2016, mainly as a result of our efforts in improving data storage capacity, optimizing service product, upgrading cloud-based platform and expanding the service range of cloud computing.

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 9.3% from RMB3.67 billion in 2015 to RMB3.33 billion in 2016. The decrease in our interconnection fees was primarily due to the decrease in the volume of the interconnection voice calls primarily as a result of the mobile substitution effect.

Value-Added Service 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 decreased by 11.9% from RMB5.13 billion in 2015 to RMB4.52 billion in 2016.

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 6.5% from RMB9.40 billion in 2015 to RMB10.01 billion in 2016, which was primarily due to the increased demand of leased line services from our local government and corporate customers.

Information Communication Technology Service Revenue. Information communication technology service revenue increased by 37.2% from RMB4.33 billion in 2015 to RMB5.94 billion in 2016, mainly as a result of our growing information communication technology services with new system integration projects in 2016 for government and large corporate customers.

Other Service Revenue. Other service revenue mainly consists of miscellaneous revenue items. Other service revenue increased by 8.9% from RMB965 million in 2015 to RMB1,051 million in 2016.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products increased by 45.3% from RMB106 million in 2015 to RMB154 million in 2016, 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 2016 were RMB273.41 billion, representing an increase of 4.0% from RMB263.01 billion in 2015. 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 are not subject to VAT and therefore do not qualify for input VAT credits.

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

	For the Year Ended December 31,			
	2015		2016	
	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue	277,049	100.0	274,197	100.0
Costs, expenses and others	263,014	94.9	273,413	99.7
Interconnection charges	13,093	4.7	12,739	4.6
Depreciation and amortization	76,738	27.7	76,805	28.0
Network, operation and support expenses	42,308	15.3	51,167	18.7
Employee benefit expenses	35,140	12.7	36,907	13.5
Selling and marketing	31,965	11.5	34,646	12.6
General, administrative and other expenses	22,995	8.3	22,711	8.3
Cost of telecommunications products sold	44,046	15.9	36,529	13.3
Finance costs, net of interest income	6,496	2.3	3,857	1.4
Other income-net	(9,767)	(3.5)	(1,948)	(0.7)

Interconnection Charges. Interconnection charges were RMB12.74 billion in 2016, down by 2.7% from RMB13.09 billion in 2015, primarily due to the decrease in volume of the interconnection voice calls. Interconnection charges as a percentage of total revenue decreased from 4.7% in 2015 to 4.6% in 2016.

Depreciation and Amortization. Our depreciation and amortization expenses were RMB76.81 billion in 2016, remaining stable compared with 2015. As a percentage of total revenue, our depreciation and amortization expenses slightly increased from 27.7% in 2015 to 28.0% in 2016. In 2016, our depreciation and amortization expenses decreased as a result of our transfer of telecommunications towers and related assets to the Tower Company, which was largely offset by the increase in depreciation and amortization expenses of other assets.

Network, Operation and Support Expenses. We incurred network, operation and support expenses of RMB51.17 billion in 2016, up by 20.9% from RMB42.31 billion in 2015, primarily due to the increase in the operating lease and other service charges of telecommunications towers and related assets payable to the Tower Company, which results from our transfer of telecommunications towers and related assets to the Tower Company, and the expansion of our network scale. 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 total revenue, increased from 15.3% in 2015 to 18.7% in 2016. With the expansion of our network, we had an increased demand of leased lines and the related telecommunications line leasing fees in 2016 was RMB7.43 billion, representing a substantial increase from RMB3.35 billion in 2015.

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 5.0% from RMB35.14 billion in 2015 to RMB36.91 billion in 2016, and as a percentage of total revenue, increased from 12.7% in 2015 to 13.5% in 2016.

Selling and Marketing Expenses. Primarily due to our strengthened selling and marketing efforts to accelerate business development, strive for revenue growth and enhance customer quality, our selling and marketing expenses were RMB34.65 billion in 2016, up by 8.4% from RMB31.97 billion in 2015, and as a percentage of total revenue, increased from 11.5% in 2015 to 12.6% in 2016.

General, Administrative and Other Expenses. Our general, administrative and other expenses were RMB22.71 billion in 2016 and accounted for 8.3% of total revenue, remaining stable compared with 2015.

Cost of Telecommunications Products Sold. In 2016, the cost of telecommunications products sold amounted to RMB36.53 billion, down by 17.1% from RMB44.05 billion in 2015, primarily due to the decrease in sales of telecommunications terminal products in 2016.

Finance Costs, Net of Interest Income. Our finance costs, net of interest income, decreased by 40.6% from RMB6.50 billion in 2015 to RMB3.86 billion in 2016, which was primarily because we had losses of foreign exchange settlement as a result of fluctuations in exchange rate of Renminbi against the other currencies in 2015 and we made full repayment of our outstanding U.S. dollar-denominated convertible bonds when due on October 18, 2015, which reduced our exposure to losses relating to foreign currency denominated liabilities.

Other Income-Net. In 2016, other income-net was RMB1.95 billion, representing a significant decrease from 2015, 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 telecommunications towers to the Tower Company in 2015.

Income Before Income Tax

In 2016, our income before income tax was RMB0.78 billion, down by 94.4% from RMB14.04 billion in 2015, primarily because (i) we had a one-off net gain in an amount of RMB9.25 billion (before tax) on disposal of telecommunications towers and related assets to the Tower Company in 2015, (ii) our network, operation and support expenses increased by RMB8.86 billion, or 20.9%, from 2015 to 2016, and (iii) our selling and marketing expenses increased by RMB2.68 billion, or 8.4%, from 2015 to 2016. The significant decrease was partially offset by the increase in our total service revenue by RMB5.70 billion, or 2.4%, from 2015 to 2016.

Income Tax

Our income tax was RMB0.15 billion in 2016, down by 95.7% from RMB3.47 billion in 2015, and our effective tax rate in 2016 was 19.6%, down by 5.1 percentage point from 24.7% in 2015. The decrease in our income tax was largely due to the decrease in our income before income tax.

Net Income for the Year

In 2016, our net income was RMB0.63 billion, down by 94.0% from RMB10.56 billion in 2015 primarily due to the significant decrease in our income before income tax. Our basic earnings per share was RMB0.03 in 2016, down by 93.2% from RMB0.44 in 2015.

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 total 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 Service 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 mobile 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 service 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	**% of Total**	**RMB in millions**	**% 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 service 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 Service Revenue. Value-added service 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 Service 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 older generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and older 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	% of Total	RMB in millions	% 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 service revenue	52,579	59.4	56,629	62.0
Interconnection fees	3,979	4.5	3,667	4.0
Value-added service revenue	4,324	4.9	5,132	5.6
Leased line income	8,879	10.0	9,404	10.3
Information communication technology service 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 Service 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 services 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 Service 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 Service Revenue. Information communication technology service 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 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 revenue	284,681	100.0	277,049	100.0
Costs, expenses and others	268,750	94.4	263,014	94.9
Interconnection charges	14,599	5.1	13,093	4.7
Depreciation and amortization	73,868	25.9	76,738	27.7
Network, operation and support expenses	37,851	13.3	42,308	15.3
Employee benefit expenses	34,652	12.2	35,140	12.7
Selling and marketing	40,193	14.1	31,965	11.5
General, administrative and other expenses	21,218	7.5	22,995	8.3
Cost of telecommunications products sold	43,397	15.2	44,046	15.9
Finance costs, net of interest income	4,334	1.5	6,496	2.3
Other income-net	(1,362)	(0.5)	(9,767)	(3.5)

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 total revenue decreased from 5.1% in 2014 to 4.7% 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 total revenue, our depreciation and amortization expenses increased from 25.9% in 2014 to 27.7% 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 total revenue, increased from 13.3% in 2014 to 15.3% 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 total revenue, increased from 12.2% in 2014 to 12.7% 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 total revenue, decreased from 14.1% in 2014 to 11.5% 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 total revenue, increased from 7.5% in 2014 to 8.3% in 2015, primarily due to the increases in expenses associated with disposals of our fiber-optic transmission assets and costs relating to information communications technology 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 telecommunications 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.

Liquidity and Capital Resources

Working Capital and Cash Flows

As of December 31, 2016, we had RMB23.63 billion of cash and cash equivalents, as compared with RMB21.76 billion as of December 31, 2015 and RMB25.31 billion as of December 31, 2014. As of December 31, 2016, we had RMB1.75 billion of short-term bank deposits and restricted deposits, as compared with RMB0.20 billion as of December 31, 2015 and RMB0.06 billion as of December 31, 2014. As of December 31, 2016, we had a working capital deficit (current liabilities less current assets) of RMB260.44 billion, representing a decrease by 6.8% from the working capital deficit of RMB279.40 billion as of December 31, 2015. The decrease in working capital deficit in 2016 primarily resulted from an increase of RMB19.9 billion in amounts due from related parties resulting from the reclassification of the amounts due from the Tower Company from non-current assets as of December 31, 2015 to current assets as of December 31, 2016 since we expect such amounts due would be repaid by the Tower Company by the end of 2017.

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, 2016, we had RMB310.9 billion revolving banking facilities and registered quota of corporate bonds, of which RMB208.3 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 2014, 2015 and 2016.

	For the Year Ended December 31,		
	2014	2015	2016
	(RMB in millions)		
Net cash inflow from operating activities	88,094	84,301	74,593
Net cash outflow from investing activities	(75,319)	(91,354)	(95,749)
Net cash inflow/(outflow) from financing activities	(8,973)	3,427	22,877
Net increase/(decrease) in cash and cash equivalents	**3,802**	**(3,626)**	**1,721**

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 inflow from operating activities decreased by 11.5% from RMB84.30 billion in 2015 to RMB74.59 billion in 2016, primarily due to our payment of operating lease and other service charges of telecommunications towers and related assets to the Tower Company.

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 outflow from investing activities increased by 4.8% from RMB91.35 billion in 2015 to RMB95.75 billion in 2016, mainly due to the increase in our investment in 4G services and project payment upon completion of construction in 2016.

We had net cash inflow from financing activities of RMB3.43 billion in 2015, as compared to net cash outflow from financing activities of RMB8.97 billion in 2014, primarily due to an increase in the amount of our interest-bearing debts in 2015. Our net cash inflow from financing activities increased significantly from RMB3.43 billion in 2015 to RMB22.88 billion in 2016, primarily due to an increase in the amount of proceeds from commercial papers and corporate bonds we issued in 2016.

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 2014, 2015 and 2016.

	As of December 31,		
	2014	**2015**	**2016**
	(RMB in millions, except percentages)		
Cash and cash equivalents and short-term bank deposits and restricted deposits	25,364	21,957	25,387
Total assets	545,072	610,346	614,154
Short-term debt	114,679	107,998	134,675
Short-term bank loans	91,503	83,852	76,994
Commercial papers	9,979	19,945	35,958
Current portion of long-term bank loans	45	84	161
Amounts due to related parties	473	—	—
Amounts due to ultimate holding company	1,344	1,344	—
Current portion of obligations under finance lease included in other obligations	168	274	586
Current portion of promissory notes	—	2,499	18,976
Current portion of corporate bonds	—	—	2,000
Convertible bonds	11,167	—	—
Long-term debt	23,998	40,944	40,579
Promissory notes	21,460	36,928	17,906
Corporate bonds	2,000	2,000	17,970
Non-current portion of long-term bank loans	420	1,748	4,495
Non-current portion of obligations under finance lease included in other obligations	118	268	208
Total Equity	227,541	231,216	227,682
Equity attributable to equity shareholders of the Company	227,541	231,216	227,407
Non-controlling interests	—	—	275
Debt-to-capitalization ratio(1)	37.9%	39.2%	43.6%
Debt-to-equity ratio(2)	60.9%	64.4%	77.1%

(1) Debt-to-capitalization ratio = (long-term interest-bearing debt + short-term interest-bearing debt + non-controlling interests)/(long-term interest-bearing debt + short-term interest-bearing debt + total equity).

(2) Debt-to-equity ratio = (long-term interest-bearing debt + short-term interest-bearing debt + non-controlling interests)/(total equity).

Our debt-to-capitalization ratio was 43.6% at the end of 2016, compared to 39.2% at the end of 2015 and 37.9% at the end of 2014. Our debt-to-equity ratio was 77.1% at the end of 2016, compared to 64.4% at the end of 2015 and 60.9% at the end of 2014. 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 and restricted deposits by RMB149.87 billion as of December 31, 2016, compared to RMB126.99 billion as of December 31, 2015 and RMB113.31 billion as of December 31, 2014. 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. The increases in our debt-to-capitalization ratio and debt-to-equity ratio from 2015 to 2016 were mainly due to the increase in the amount of our interest-bearing debts and the decrease in equity attributable to equity shareholders. 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 RMB81.65 billion at the end of 2016, compared to RMB85.68 billion at the end of 2015 and RMB91.97 billion at the end of 2014. The decrease from 2014 to 2016 was mainly due to our repayment of certain bank loans. As of December 31, 2016, 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 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 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. The notes were fully repaid in July 2016.

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. The second tranche of super and short-term commercial paper was fully repaid in August 2016.

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. The first tranche of short-term commercial paper was fully repaid in November 2016.

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.

On April 8, 2016, CUCL completed the issue of first tranche of super short-term commercial papers for the year of 2016 in an amount of RMB12 billion, with a maturity period of 90 days and at an interest rate of 2.47% per annum. The first tranche of super short-term commercial papers was fully repaid in July 2016.

On April 26, 2016, CUCL completed the issue of second tranche of super short-term commercial papers for the year of 2016 in an amount of RMB12 billion, with a maturity period of 90 days and at an interest rate of 2.70% per annum. The second tranche super short-term commercial papers was fully repaid in July 2016.

On June 3, 2016, CUCL completed the issue of third tranche of super short-term commercial papers for the year of 2016 in an amount of RMB6 billion, with a maturity period of 270 days and at an interest rate of 2.72% per annum.

On June 7, 2016, we issued RMB7 billion three-year corporate bonds and RMB1 billion five-year corporate bond, bearing interest at 3.07% and 3.43% per annum, respectively.

On July 12, 2016, CUCL completed the issue of fourth tranche of super short-term commercial papers for the year of 2016 in an amount of RMB10 billion, with a maturity period of 270 days and at an interest rate of 2.55% per annum.

On July 14, 2016, we issued RMB10 billion three-year corporate bonds, bearing interest at 2.95% per annum.

On November 17, 2016, CUCL completed the issue of fifth tranche super short-term commercial papers for the year of 2016 in an amount of RMB10 billion, with a maturity period of 270 days and at an interest rate of 3.00% per annum.

On November 24, 2016, CUCL completed the issue of sixth tranche super short-term commercial papers for the year of 2016 in an amount of RMB5 billion, with a maturity period of 180 days and at an interest rate of 3.00% per annum.

On November 24, 2016, CUCL completed the issue of seventh tranche super short-term commercial papers for the year of 2016 in an amount of RMB5 billion, with a maturity period of 180 days and at an interest rate of 3.00% per annum.

Contractual Obligations and Commercial Commitments

The following table sets forth the amounts of our outstanding contractual cash obligations as of December 31, 2016.

	Total	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
			(RMB in millions)		
Long-term bank loans (1)*	6,097	207	931	840	4,119
Corporate bonds (2)*	21,458	2,583	17,826	1,049	—
Promissory notes (3)*	38,518	20,078	18,440	—	—
Other obligations*	3,536	3,179	292	10	55
Capital commitments (4)	48,759	37,850	6,885	3,789	235
Operating leases and other commitments (4)	60,184	17,191	30,455	11,035	1,503
Total obligations	178,552	81,088	74,829	16,723	5,912

* Interest included

(1) See Note 30 “Long-Term Bank Loans” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) See Note 32 “Corporate Bonds” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(3) See Note 31 “Promissory Notes” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(4) See Note 40 “Contingencies and Commitments” 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, 2016, 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		2016	
	(RMB in billions)	As a Percentage	(RMB in billions)	As a Percentage	(RMB in billions)	As a Percentage
Mobile services	36.95	43.5%	61.02	45.6%	27.74	38.5%
Broadband and data services	19.00	22.4%	33.76	25.2%	16.84	23.4%
Infrastructure and transmission network	22.92	27.0%	31.16	23.3%	19.71	27.3%
Others (1)	6.01	7.1%	7.94	5.9%	7.82	10.8%
Total	84.88	100.0%	133.88	100.0%	72.11	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 RMB72.11 billion in 2016, which mainly consisted of investment in mobile services, broadband and data services, and infrastructure and transmission network. In 2016, capital expenditure attributable to mobile services was RMB27.74 billion; capital expenditure attributable to broadband and data services was RMB16.84 billion; capital expenditure attributable to infrastructure and transmission network was RMB19.71 billion.

We expect our capital expenditure in 2017 would continue to decrease. We expect our capital expenditure in 2017 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	58	Chairman of the Board of Directors and Chief Executive Officer
Lu Yimin	53	Executive Director and President
Li Fushen	54	Executive Director and Chief Financial Officer
Shao Guanglu	52	Executive Director and Senior Vice President
Cesareo Alierta Izuel	71	Non-Executive Director
Cheung Wing Lam Linus	68	Independent Non-Executive Director
Wong Wai Ming	59	Independent Non-Executive Director
Chung Shui Ming Timpson	65	Independent Non-Executive Director
Law Fan Chiu Fun Fanny	64	Independent Non-Executive Director
Jiang Zhengxin	59	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; Chairman and President of China Telecommunications Corporation; and Chairman and a Non-executive Director of China Communications Services Corporation Limited. Mr. Wang has served as a Director of Telefónica (listed on various stock exchanges including Madrid, New York and London) since September 2015. Mr. Wang also serves as the Chairman of Unicom Group, A Share Company and CUCL, respectively. 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 in June 2001. 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 the Board 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 Director, Vice President and Chief Accountant of Unicom Group, a Director of A Share Company, as well as Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Shao Guanglu was appointed as an Executive Director in March 2017 and Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined Unicom Group in February 1995. Mr. Shao was Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. Mr. Shao also serves as a Vice President of Unicom Group, a Director of A Share Company and a Director and Senior Vice President of CUCL. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

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 Executive Chairman of Fundación Telefónica, a director of DTS, Distribuidora de Televisión Digital, S.A.U. and a member of the Board of trustees of the Caixa d'Estalvis i Pensions de Barcelona "la Caixa" Banking Foundation. He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University), the Chairman of the Consejo Empresarial para la Competitividad (Business Competitiveness Council), and a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts' Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. Between July 2000 and April 2016, he served as an Executive Chairman of Telefónica. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. From April 2008 to December 2013 he was a member of the Board of Directors of Telecom Italia, S.p.A. Between September 2010 and June 2016, Mr. Alierta served as a member of the Board of Directors of International Consolidated Airlines Group (listed on the stock exchanges of Madrid and London). In September 2005, Mr. Alierta received "The Global Spanish Entrepreneur" award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master's degree in business administration at the University of Columbia (New York) in 1970.

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

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

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") and Nameson Holdings Limited (all listed on the Hong Kong Stock Exchange), as well as External Director of China Resources (Holdings) Co., Limited. Prior to her retirement from the civil service in 2007, Mrs. Law was the Commissioner of the Hong Kong Independent Commission Against Corruption. During her 30 years as an Administrative Officer, Mrs. Law has worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, civil service, transport and education. Mrs. Law graduated from the University of Hong Kong with an Honours degree in Science, and in 2009 was named an outstanding alumnus of the Science Faculty of the University of Hong Kong. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow of Harvard University. She also holds a Master degree in Education from the Chinese University of Hong Kong and is a Fellow of The Hong Kong Institute of Directors.

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, a Director and Senior Vice President of CUCL as well as the Chairman of Supervisory Committee of A Share Company. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.

B. Compensation

The aggregate compensation and other benefits paid by us to our directors as a group in 2016 was approximately RMB4.075 million, which included the retirement benefits in the amount of approximately RMB433,000. 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.

Name	Compensation for 2016 (RMB in thousands)
Directors	
Wang Xiaochu	573
Lu Yimin	774[(2)]
Li Fushen	706[(2)]
Zhang Junan[(1)]	356
Cesareo Alierta Izuel	257
Cheung Wing Lam Linus	351
Wong Wai Ming	360
Chung Shui Ming Timpson	366
Law Fan Chiu Fun Fanny	332
Total	4,075

(1) Mr. Zhang Junan resigned as executive director on November 1, 2016. The above compensation was received by Mr. Zhang from the beginning of 2016 till his resignation.

(2) In 2016, Mr. Lu Yimin and Mr. Li Fushen received deferred bonuses for year 2013 and year 2014 of RMB394,000 and RMB347,000, respectively. Such deferred bonuses were not included in the above compensation.

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 services 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 2016.

Name	Appointment Date	Re-appointment Date	Resignation or Retirement Date
Current Directors			
Wang Xiaochu	September 1, 2015	May 12, 2016	—
Lu Yimin	October 15, 2008	May 26, 2009, May 24, 2011, April 16, 2014, and May 12, 2016	—
Li Fushen	March 30, 2011	May 24, 2011, May 21, 2013 and May 12, 2016	—
Shao Guanglu	March 15, 2017	—	—
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 and May 12, 2016	—
Former Directors			
Zhang Junan(1)	August 8, 2014	May 8, 2015	November 1, 2016

(1) Mr. Zhang Junan resigned as executive director on November 1, 2016.

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 13, 2017, 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 13, 2017, 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 13, 2017, 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, 2014, 2015 and 2016, we had a total number of 281,403, 268,887 and 270,484 employees, respectively. The employees as of December 31, 2016 are classified by function as follows:

By Function	Number of Employees
Employees	253,724
Management	24,068
Marketing	112,117
Technology	82,454
Support	31,179
Others	3,906
Temporary employees	16,760
Total	270,484

E. Share Ownership

As of April 13, 2017, our directors who own shares in our company are listed as follows:

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

Apart from those disclosed herein, as of April 13, 2017, 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 13, 2017, 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 13, 2017, 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 controlled 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 controlled by Unicom Group do not carry voting rights different from our other issued shares.

As of April 13, 2017, most of our shareholders of record were located outside of the United States. In addition, as of April 13, 2017, there were approximately 31,279,308 ADSs outstanding, each representing 10 shares and together representing 1.31% of our total outstanding shares or 5.09% of our total outstanding shares not controlled by our controlling shareholder.

In April 2017, we were notified by Unicom Group that its management was contemplating, developing and processing significant matters relating to the mixed ownership reform, which may potentially involve change in the shareholding structure of the A Share Company. See "D. Risk Factors — Risks Relating to Our Business — Our controlling shareholder, Unicom Group, is contemplating, developing and processing the plan relating to the mixed ownership reform. The finalization and future implementation of such plan are still subject to substantial uncertainty." under Item 3.

B. Related Party Transactions

Establishment of the Finance Company and Provision of Financial Services

On December 6, 2013, CUCL and Unicom Group entered into a capital contribution agreement regarding the establishment of the Finance Company, with a registered capital of RMB3,000 million. Pursuant to the capital contribution agreement, CUCL and Unicom Group invested RMB2,730 million and RMB270 million in the Finance Company, representing 91% and 9% of the total registered capital of the Finance Company, respectively.

The Finance Company was established for the purposes of providing various financial services to Unicom Group, its subsidiaries and other associated entities, and 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, 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.

As of December 31, 2016, amount due to Unicom Group and its subsidiaries from the Finance Company included a balance of the deposits received from Unicom Group and its subsidiaries of RMB2,397 million with an interest rate at 1.50% per annum. The Finance Company paid RMB11 million interest expense on such deposits to Unicom Group and its subsidiaries in 2016.

Continuing Related Party Transactions under the 2013 Comprehensive Services Agreement and the 2017-2019 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.

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.

On November 25, 2016, CUCL and Unicom Group entered into the 2017-2019 comprehensive services agreement, to renew the relevant continuing related party transactions under the 2013 comprehensive services agreement for a term of three years commencing on January 1, 2017 and expiring on December 31, 2019, and CUCL and its subsidiaries have also agreed to provide certain services to Unicom Group.

2013 Comprehensive Services Agreement

Details of the continuing related party transactions under 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 services 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 2016, the total charges paid by CUCL to Unicom Group amounted to approximately RMB281 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 2016, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB1,050 million and the rental charges paid by Unicom Group to CUCL was negligible.

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 2016, the total revenue allocated to Unicom Group in relation to value-added services amounted to approximately RMB42 million.

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 2016, the total charges paid by CUCL to Unicom Group amounted to approximately RMB88 million.

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 2016, the total charges paid by CUCL to Unicom Group amounted to approximately RMB4,487 million.

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 2016, the total charges paid by CUCL to Unicom Group amounted to approximately RMB2,541 million.

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 2016, the total service charges paid by CUCL to Unicom Group amounted to approximately RMB1,690 million and the total service charges paid by Unicom Group to CUCL was RMB51 million.

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 2016, the total service charges paid by CUCL to Unicom Group amounted to approximately RMB104 million and the total service charges paid by Unicom Group to CUCL was negligible.

2017-2019 Comprehensive Services Agreement

Details of the continuing related party transactions under the 2017-2019 comprehensive services agreement are summarized below.

Telecommunications Resources Leasing

Unicom Group agrees to lease to CUCL:

(i) 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

(ii) 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 such international telecommunications resources. CUCL and Unicom Group will determine and agree which party is to provide maintenance service for the telecommunications facilities referred to in paragraph (ii) above. Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group is responsible for maintaining any telecommunications facilities referred to in paragraph (ii) above, 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 above telecommunications resources leasing will be settled between CUCL and Unicom Group on a quarterly basis.

Property Leasing

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

The rental charges for the leasing of each other's properties and ancillary facilities are based on market rates. Where there is no market rate or it is not possible to determine the market rate, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs plus the amount of the relevant taxes and reasonable profit margin. The rental charges are payable quarterly in arrears.

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.

Materials Procurement Services

Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services.

In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement.

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

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

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

The charges for the provision of materials operated by Unicom Group, and the pricing and/or charging standard of various materials procurement services, and storage and logistics services commission relevant to the direct material procurement are based on the market rates. Where there is no market rate or it is not possible to determine the market rate, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of assets or services is provided by independent third party in the ordinary course of business and under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. The service charges due to Unicom Group will be settled on a monthly basis.

Engineering Design and Construction Services

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

The charges for the provision of engineering design and construction services are based on market rates. Market rates refer to the rates at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. In the event the recipient will determine the specific provider of engineering design and construction services through tender, the provider will be no less qualified and equipped than the independent third parties, and will participate in the tender procedure in a similar manner as the independent third parties. Under such circumstances, the pricing will be determined by the final rate according to the tender procedure.

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

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 client telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers' services.

The charges payable for the provision of ancillary telecommunications services are determined by the market rates between the two parties. Where there is no market rate or it is not possible to determine the market rates, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of assets or services are provided by independent third parties under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs plus the amount of the relevant taxes and reasonable profit margin. The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.

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 the market rates between the two parties. Where there is no market rate or it is not possible to determine the market rate, the rate will be negotiated and agreed between the two parties. Market rates refer to the rates at which the same or similar type of assets or services are provided by independent third parties under normal commercial terms. Negotiated rates refer to the rates based on the reasonable costs plus the amount of the relevant taxes and reasonable profit margin. The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.

Shared Services

Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following:

(a) CUCL will provide headquarter human resources services to Unicom Group;

(b) Unicom Group and CUCL will provide business support center services to each other;

(c) CUCL will provide hosting 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 business support center services referred to in paragraph (b) above, 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.

Financial Services

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

The key pricing policies are as follows:

(a) Deposit services

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

(b) Lending and other credit services

The lending interest rate will follow the interest rate standard promulgated by the People's Bank of China, and will be no less than the minimum interest rate offered by CUCL and its subsidiaries to other clients for the same type of loan, and the applicable interest rate offered to Unicom Group by the general commercial banks in PRC for the same type of loan.

(c) Other financial services

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

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

Transfer of Telecommunications Towers and Related Assets to the Tower Company

In October 2015, we, through our wholly owned subsidiaries, CUCL and Unicom New Horizon, entered into a transfer agreement with (i) China Mobile Communication Company Limited, a subsidiary of China Mobile, and its 31 subsidiaries, (ii) China Telecom Corporation Limited, a subsidiary of 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 paid by the Tower Company.

Arrangement Relating to Telecommunications Towers, Related Assets and Other Services

At the time the transfer of telecommunications towers and related assets was completed, or the Completion Date, CUCL and the Tower Company were in the process of finalizing the terms of lease arrangements. However, to ensure that there would be no interruptions in our operations, we are entitled to continue the use of the telecommunications towers and related assets transferred by us to the Tower Company during the period from the day following the Completion Date until the lease arrangements are finalized. After the lease arrangements are finalized and agreed by us and the Tower Company, we shall pay the leasing fees and relevant service charges incurred during the such period to the Tower Company. In addition, we also subsequently leased certain other telecommunications towers and related assets from the Tower Company that were previously owned by China Mobile or China Telecom, or those newly constructed by the Tower Company.

On July 8, 2016, we, through CUCL, and the Tower Company entered into the Pricing Agreement to finalize the lease arrangements relating to the telecommunications towers and related assets. The Pricing Agreement stipulated specific terms on, among other things, the categories of assets for leasing, pricing basis for the lease fees and service charges, and relevant service period. Based on the actual demand of our operations, we, through the subsidiaries of CUCL, subsequently entered into provincial service agreements and detailed lease confirmation forms and/or orders for specified telecommunications towers with the Tower Company or their subsidiaries. According to these agreements, we recognized operating lease and other service charges in an amount of RMB14,887 million for the year ended 31 December 2016. In 2016, we also provided certain engineering design and construction services to the Tower Company under the Pricing Agreement and the total service fees were RMB151 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 2017-2019 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 2016 and taking into account the development needs of the mobile and fixed-line services, our board of directors has resolved not to pay a final dividend for the year ended December 31, 2016.

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:				
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
2016	10.24	7.77	13.16	9.98
Quarterly:				
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
Second Quarter, 2016	10.06	7.77	13.06	9.98
Third Quarter, 2016	9.55	7.86	12.36	10.01
Fourth Quarter, 2016	9.94	8.50	12.78	10.92
First Quarter, 2017	10.52	8.76	13.52	11.30

	Price per Ordinary Share (HK$)		Price per ADS (US$)	
	High	Low	High	Low
Monthly:				
October 2016	9.94	9.09	12.78	11.72
November 2016	9.42	8.50	12.03	10.92
December 2016	9.83	8.91	12.57	11.39
January 2017	9.27	8.76	11.99	11.30
February 2017	9.60	9.20	12.32	11.90
March 2017	10.52	9.32	13.52	12.05
April 2017 (through April 13, 2017)	11.20	10.40	14.48	13.28

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 and "A. History and Development of the Company" under Item 4, 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 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;

- the Share Subscription Agreement, dated January 29, 2016, between CUCL and the Tower Company to subscribe shares of the Tower Company; and
- the Pricing Agreement, dated July 8, 2016, between CUCL and the Tower Company in relation to the leasing of the telecommunications towers and related assets.

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 Depository 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, 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, as well as the expected maturity profile of such instruments as of December 31, 2016.

	Expected Maturity							As of December 31, 2016
	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
	(RMB equivalent in millions, except interest rates)							
Liabilities:								
RMB-denominated loans								
Fixed rate	77,107	340	277	318	335	2,863	81,240	81,191
Average rate[1]	3.68%	1.13%	1.13%	1.13%	1.13%	1.13%	1.56%	—
U.S. dollar-denominated loans								
Fixed rate	26	28	37	30	22	178	321	258
Average rate	0.21%	0.20%	0.18%	0.16%	0.12%	0.02%	0.15%	—
Euro-denominated loans								
Fixed rate	22	17	17	7	4	22	89	91
Average rate	2.09%	2.03%	1.93%	1.71%	1.62%	1.40%	1.80%	—
RMB-denominated commercial papers								
Fixed rate	35,958	—	—	—	—	—	35,958	35,958
Average rate	2.83%	—	—	—	—	—	2.83%	—
RMB-denominated corporate bonds								
Fixed rate	2,000	—	16,972	—	998	—	19,970	19,989
Average rate	4.50%	—	3.00%	—	3.43%	—	3.17%	—
RMB-denominated promissory notes								
Variable rate	18,976	17,906	—	—	—	—	36,882	37,542
Average rate	4.63%	3.54%	—	—	—	—	4.10%	—

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2016.

For the year ended December 31, 2016, 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 RMB424 million (2015: approximately RMB395 million; 2014: approximately RMB388 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 and restricted deposits, short-term and long-term debt obligations and capital commitments as of December 31, 2016 and the expected maturity profile of these debt obligations and capital commitments.

	Expected Maturity							As of December 31, 2016
	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
	(RMB equivalent in millions)							
Assets:								
Cash and cash equivalents:								
U.S. dollars	1,879	—	—	—	—	—	1,879	1,879
HK dollars	367	—	—	—	—	—	367	367
Japanese yen	13	—	—	—	—	—	13	13
Euro dollars	96	—	—	—	—	—	96	96
GBP	6	—	—	—	—	—	6	6
SGD	7	—	—	—	—	—	7	7
Short-term bank deposits and restricted deposits								
U.S. dollars	—	—	—	—	—	—	—	—
HK dollars	—	—	—	—	—	—	—	—
Liabilities:								
U.S. dollar-denominated loans	26	28	37	30	22	178	321	258
Euro-denominated loans	22	17	17	7	4	22	89	91
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, 2016, 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 RMB216 million (2015: approximately RMB120 million; 2014: approximately RMB4,473 million) for cash and cash equivalents, borrowings 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, 2016, while the other variable is held constant, we would have recorded additional change in fair value of approximately RMB414 million in our investment revaluation reserve. As of April 13, 2017, 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 an appreciation of the fair value of our relevant investment by approximately 16.61% from December 31, 2016. 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 depositary 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 depositary 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 depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

ADR holders must pay:	For:
• US$5.00 (or less) per 100 ADRs (or portion thereof)	• 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
• US$0.02 (or less) per ADR	• Any cash distribution (not including cash dividend distribution)
• Registration or transfer fees	• 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 depositary or its agent when the ADR holder deposits or withdraws shares
• Expenses of the depositary	• Conversion of Hong Kong dollars to U.S. dollars • Cable, telex and facsimile transmission expenses
• Taxes and other governmental charges the depositary or the custodian has to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes	• As necessary

From January 1, 2016 to December 31, 2016, we received from The Bank of New York Mellon a total of US$66,130.16, 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$130,586.02 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 depositary 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-15(e) of the Exchange Act of 1934, as amended) as of December 31, 2016, 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, 2016, 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, 2016 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited by our independent registered public accounting firm, as stated in its report.

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, an independent registered public accounting firm, served as our principal accountant for the fiscal year ended December 31, 2014 and 2015. KPMG Huazhen LLP, an independent registered public accounting firm, served as our principal accountant for the fiscal year ended December 31, 2016. 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 2015 and 2016:

	For the Year Ended December 31,	
	2015	2016
	(in RMB thousands)	
Audit services	63,821	68,943
Audit-related services	1,132	10,296
Tax services	49	88
Other	1,092	—
Total	66,094	79,327

Audit services include the 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 2015 and 2016 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 reviews of interim financial statements.

Audit-related services include other assurance and related services that can be reasonably provided by our principal accountant. In 2016, the provisions of audit-related services mainly include professional services relating to issuance of bonds, audit services relating to re-organization of certain subsidiaries of the Company and audit services provided to overseas subsidiaries.

Tax services in 2015 and 2016 included tax compliance services.

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, 2015 and 2016.

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

(a) Dismissal of Our Former Auditor

KPMG, or the Former Auditor, was previously the principal accountants of China Unicom (Hong Kong) Limited. On May 12, 2016, that firm was dismissed. The decision to change accountants was recommended by the board of directors.

During the years ended December 31, 2014 and 2015, and the subsequent interim period through May 12, 2016, there were no (i) disagreements with the Former Auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (ii) reportable events.

The audit reports of the Former Auditor on the China Unicom (Hong Kong) Limited's consolidated financial statements as of and for the years ended December 31, 2014 and 2015 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

A letter from the Former Auditor is filed as Exhibit 16.1 to this Form 20-F.

(b) Appointment of KPMG Huazhen LLP

On May 12, 2016, KPMG Huazhen LLP was appointed as our independent registered public accounting firm for the fiscal year ending December 31, 2016. During the fiscal years ended December 31, 2014 and 2015 and the subsequent interim period through May 12, 2016, neither our company, nor anyone on our behalf, had consulted KPMG Huazhen LLP regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report nor oral advice was provided to us that KPMG Huazhen LLP concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

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.

Section 303A.12(a) of the New York Stock Exchange Listed Company Manual provides that each listed company's chief executive officer must certify to the New York Stock Exchange each year that he or she is not aware of any violation by the company of New York Stock Exchange corporate governance listing standards. Our Chief Executive Officer is not required, under the applicable Hong Kong law, to make similar certifications.

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

Exhibit Number	Description of Exhibit
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).[18]
2.1	Deposit Agreement, among Unicom, The Bank of New York, as Depositary, 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]

Exhibit Number	Description of Exhibit
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]
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]

Exhibit Number	Description of Exhibit
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]
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]

Exhibit Number	Description of Exhibit
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)
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)(18)
4.65	The Share Subscription Agreement between CUCL and the Tower Company, dated January 29, 2016. (English translation)(18)
4.66	The Capital Contribution Agreement between Unicom Group and CUCL, dated 6 December, 2013. (English translation)(18)
4.67	The amendment agreement to the 2013 comprehensive services agreement between Unicom Group and CUCL, dated August 21, 2015. (English translation)(18)
4.68	The Commercial Pricing Agreement between CUCL and the Tower Company, dated July 8, 2016. (English translation)*
4.69	2017-2019 Comprehensive Services Agreement between Unicom Group and CUCL, dated November 25, 2016. (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).*
16.1	Letter from KPMG, dated April 21, 2017, to the Securities and Exchange Commission.*

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.

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(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.
(18) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2015.
* 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, 2017

CHINA UNICOM (HONG KONG) LIMITED

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

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 as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended. We also have audited China Unicom (Hong Kong) Limited's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). China Unicom (Hong Kong) Limited'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 Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 China Unicom (Hong Kong) Limited and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, China Unicom (Hong Kong) Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG Huazhen LLP

Beijing, China
March 15, 2017

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 as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Unicom (Hong Kong) Limited and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2015 and 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG

Hong Kong, China
March 16, 2016

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

	Note	2014	2015	2016	2016
		Year ended 31 December			
		RMB	**RMB**	**RMB**	**US$**
Revenue	6	284,681	277,049	274,197	39,493
Interconnection charges		(14,599)	(13,093)	(12,739)	(1,835)
Depreciation and amortization		(73,868)	(76,738)	(76,805)	(11,062)
Network, operation and support expenses	7	(37,851)	(42,308)	(51,167)	(7,370)
Employee benefit expenses	8	(34,652)	(35,140)	(36,907)	(5,316)
Costs of telecommunications products sold	9	(43,397)	(44,046)	(36,529)	(5,261)
Other operating expenses	10	(61,411)	(54,960)	(57,357)	(8,261)
Finance costs	11	(4,617)	(6,934)	(5,017)	(723)
Interest income		283	438	1,160	167
Share of net (loss)/profit of associates		—	(759)	204	29
Share of net (loss)/profit of joint ventures		—	(42)	153	22
Other income – net	12	1,362	10,568	1,591	230
Income before income tax		15,931	14,035	784	113
Income tax expenses	13	(3,876)	(3,473)	(154)	(22)
Net income for the year		12,055	10,562	630	91
Attributable to:					
Equity shareholders of the Company		12,055	10,562	625	90
Non-controlling interests		—	—	5	1
Earnings per share for income attributable to equity shareholders of the Company during the year:					
Basic earnings per share	14	0.51	0.44	0.03	0.004
Diluted earnings per share	14	0.49	0.44	0.03	0.004

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

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

	Year ended 31 December			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
Net income for the year	12,055	10,562	630	91
Other comprehensive income				
Items that will not be reclassified to statement of income:				
Changes in fair value of financial assets through other comprehensive income	(619)	(1,050)	(544)	(78)
Tax effect on changes in fair value of financial assets through other comprehensive income	155	(1,129)	14	2
Changes in fair value of financial assets through other comprehensive income, net of tax	(464)	(2,179)	(530)	(76)
Remeasurement of net defined benefit liability, net of tax	(2)	20	14	2
	(466)	(2,159)	(516)	(74)
Item that may be reclassified subsequently to statement of income:				
Currency translation differences	(12)	60	153	22
Other comprehensive income for the year, net of tax	(478)	(2,099)	(363)	(52)
Total comprehensive income for the year	11,577	8,463	267	39
Total comprehensive income attributable to:				
Equity shareholders of the Company	11,577	8,463	262	38
Non-controlling interests	—	—	5	1

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

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

	Note	As of 31 December 2015 RMB	2016 RMB	2016 US$
ASSETS				
Non-current assets				
Property, plant and equipment	15	454,631	451,115	64,974
Lease prepayments	16	9,148	9,436	1,359
Goodwill	17	2,771	2,771	399
Interest in associates	19	31,997	32,248	4,645
Interest in joint ventures		978	1,175	169
Amounts due from related parties	39	18,322	—	—
Deferred income tax assets	13	5,642	5,986	862
Financial assets at fair value through other comprehensive income	20	4,852	4,326	623
Other assets	21	25,335	24,879	3,583
		553,676	531,936	76,614
Current assets				
Inventories and consumables	22	3,946	2,431	350
Accounts receivable	23	14,957	13,622	1,962
Prepayments and other current assets	24	10,864	14,023	2,020
Amounts due from related parties	39	2,846	22,724	3,273
Amounts due from domestic carriers		1,994	3,908	563
Financial assets at fair value through profit and loss		106	123	18
Short-term bank deposits and restricted deposits	25	202	1,754	253
Cash and cash equivalents	26	21,755	23,633	3,404
		56,670	82,218	11,843
Total assets		610,346	614,154	88,457
EQUITY				
Equity attributable to equity shareholders of the Company				
Share capital	27	179,102	179,102	25,796
Reserves	28	(20,734)	(21,017)	(3,027)
Retained profits				
- Proposed final dividend	29	4,071	—	—
- Others		68,777	69,322	9,984
		231,216	227,407	32,753
Non-controlling interests		—	275	40
Total equity		231,216	227,682	32,793

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

	Note	As of 31 December 2015 RMB	2016 RMB	2016 US$
LIABILITIES				
Non-current liabilities				
Long-term bank loans	30	1,748	4,495	647
Promissory notes	31	36,928	17,906	2,579
Corporate bonds	32	2,000	17,970	2,588
Deferred income tax liabilities	13	18	113	16
Deferred revenue		2,005	2,998	432
Other obligations	33	357	335	49
		43,056	43,817	6,311
Current liabilities				
Short-term bank loans	34	83,852	76,994	11,089
Commercial papers	35	19,945	35,958	5,179
Current portion of long-term bank loans	30	84	161	23
Current portion of promissory notes	31	2,499	18,976	2,733
Accounts payable and accrued liabilities	36	167,396	143,224	20,631
Taxes payable		3,163	732	105
Amounts due to ultimate holding company	39	1,437	2,463	355
Amounts due to related parties	39	3,930	8,700	1,253
Amounts due to domestic carriers		1,300	1,989	286
Dividend payable		920	920	133
Current portion of corporate bonds	32	—	2,000	288
Current portion of deferred revenue		394	369	53
Current portion of other obligations	33	2,797	3,141	452
Advances from customers		48,357	47,028	6,773
		336,074	342,655	49,353
Total liabilities		379,130	386,472	55,664
Total equity and liabilities		610,346	614,154	88,457
Net current liabilities		(279,404)	(260,437)	(37,510)
Total assets less current liabilities		274,272	271,499	39,104

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

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS 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	General risk reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total	Non-controlling interests	Total equity
Balance at January 1, 2014	2,328	175,204	79	338	—	(3,763)	26,740	572	(43,416)	60,817	218,899	—	218,899
Total comprehensive income for the year	—	—	—	—	—	(464)	—	—	(14)	12,055	11,577	—	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	—	12
Transition to no-par value regime on March 3, 2014 (Note 27)	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	—	859
-Transfer between reserves upon lapsing of options	—	—	—	(22)	—	—	—	—	—	22	—	—	—
Dividends relating to 2013 (Note 29)	—	—	—	—	—	—	—	—	—	(3,806)	(3,806)	—	(3,806)
Balance at December 31, 2014	179,101	—	—	29	—	(4,227)	27,906	572	(43,762)	67,922	227,541	—	227,541

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

	Attributable to equity shareholders of the Company												
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	General risk reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total	Non-controlling interests	Total equity
Balance at January 1, 2015	179,101	—	—	29	—	(4,227)	27,906	572	(43,762)	67,922	227,541	—	227,541
Total comprehensive income for the year	—	—	—	—	—	(2,179)	—	—	80	10,562	8,463	—	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	—	1
-Transfer between reserves upon lapsing of options	—	—	—	(29)	—	—	—	—	—	29	—	—	—
Redemption of convertible bonds	—	—	—	—	—	—	—	(572)	572	—	—	—	—
Dividends relating to 2014 (Note 29)	—	—	—	—	—	—	—	—	—	(4,789)	(4,789)	—	(4,789)
Balance at December 31, 2015	179,102	—	—	—	—	(6,406)	28,780	—	(43,108)	72,848	231,216	—	231,216
Balance at January 1, 2016	179,102	—	—	—	—	(6,406)	28,780	—	(43,108)	72,848	231,216	—	231,216
Total comprehensive income for the year	—			—	—	(530)	—	—	167	625	262	5	267
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	270	270
Appropriation to statutory reserves	—	—	—	—	—	—	47	—	—	(47)	—	—	—
Appropriation to other reserves	—	—	—	—	33	—	—	—	—	(33)	—	—	—
Dividends relating to 2015 (Note 29)	—	—	—	—	—	—	—	—	—	(4,071)	(4,071)	—	(4,071)
Balance at December 31, 2016	179,102	—	—	—	33	(6,936)	28,827	—	(42,941)	69,322	227,407	275	227,682
Balance at December 31, 2016 (in USD)	25,796	—	—	—	5	(999)	4,152	—	(6,185)	9,984	32,753	40	32,793

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

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

	Note	Year ended 31 December 2014 RMB	2015 RMB	2016 RMB	2016 US$
Cash flows from operating activities					
Cash generated from operations	(a)	97,062	91,169	81,168	11,691
Interest received		283	319	335	48
Interest paid		(4,631)	(4,943)	(4,938)	(711)
Income tax paid		(4,620)	(2,244)	(1,972)	(284)
Net cash inflow from operating activities		88,094	84,301	74,593	10,744
Cash flows from investing activities					
Purchase of property, plant and equipment		(69,586)	(88,465)	(98,293)	(14,157)
Proceeds from disposal of property, plant and equipment and other assets		797	2,336	6,390	920
Dividends received from financial assets at fair value through other comprehensive income		353	365	357	51
Proceeds from disposal of financial assets at fair value through profit and loss		—	19	68	10
Dividends received from associates		—	10	—	—
(Increase)/Decrease in short-term bank deposits and restricted deposits		(1)	(3)	2	—
Purchase of other assets		(3,807)	(4,542)	(4,092)	(589)
Acquisition of financial assets at fair value through profit and loss		—	(66)	(51)	(7)
Acquisition of financial assets at fair value through other comprehensive income		—	—	(18)	(3)
Acquisition of interest in associates		(3,075)	(8)	(48)	(7)
Acquisition of interest in joint ventures		—	(1,000)	(64)	(9)
Net cash outflow from investing activities		(75,319)	(91,354)	(95,749)	(13,791)

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

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

	Note	Year ended 31 December 2014 RMB	2015 RMB	2016 RMB	2016 US$
Cash flows from financing activities					
Proceeds from exercise of share options		871	1	—	—
Capital contributions from non-controlling interests		—	—	270	39
Proceeds from commercial papers		19,885	30,000	59,880	8,625
Proceeds from short-term bank loans		158,259	139,663	142,567	20,534
Proceeds from long-term bank loans		—	1,920	3,307	476
Proceeds from ultimate holding company loan		—	1,344	—	—
Proceeds from related party loan		473	—	—	—
Proceeds from promissory notes		21,430	17,957	—	—
Proceeds from corporate bonds		—	—	17,965	2,587
Repayment of commercial papers		(45,000)	(20,000)	(44,000)	(6,337)
Repayment of short-term bank loans		(161,007)	(149,072)	(149,425)	(21,522)
Repayment of long-term bank loans		(46)	(45)	(84)	(12)
Repayment of related party loan		—	(473)	—	—
Repayment of ultimate holding company loan		—	(1,344)	(1,344)	(194)
Repayment of convertible bond		—	(11,664)	—	—
Repayment of finance lease		(161)	(217)	(406)	(58)
Repayment of promissory notes		—	—	(2,500)	(360)
Payment of issuing expense for promissory notes		—	—	(102)	(15)
Dividends paid to equity shareholders of the Company	29	(3,677)	(4,643)	(4,071)	(586)
Net deposits received by Finance Company		—	—	2,397	345
Statutory reserve deposits placed by Finance Company	25(i)	—	—	(1,577)	(227)
Net cash (outflow)/inflow from financing activities		(8,973)	3,427	22,877	3,295
Net increase/(decrease) in cash and cash equivalents		3,802	(3,626)	1,721	248
Cash and cash equivalents, beginning of year		21,506	25,308	21,755	3,133
Effect of changes in foreign exchange rate		—	73	157	23
Cash and cash equivalents, end of year	26	25,308	21,755	23,633	3,404
Analysis of the balances of cash and cash equivalents:					
Cash balances		3	1	1	—
Bank balances		25,305	21,754	23,632	3,404
		25,308	21,755	23,633	3,404

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

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS 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			
	2014	**2015**	**2016**	**2016**
	RMB	**RMB**	**RMB**	**US$**
Income before income tax	15,931	14,035	784	113
Adjustments for:				
Depreciation and amortization	73,868	76,738	76,805	11,062
Interest income	(283)	(120)	(1,160)	(167)
Finance costs	4,113	6,641	4,832	696
Loss/(Gain) on disposal of property, plant and equipment and other assets	1,064	(7,280)	355	51
Impairment losses for doubtful debts and write-down of inventories	3,958	4,054	4,173	601
Impairment losses for property, plant and equipment	65	29	—	—
Dividends from financial assets at fair value through other comprehensive income	(353)	(397)	(357)	(51)
Share of net loss/(profit) of associates	—	759	(204)	(29)
Share of net loss/(profit) of joint ventures	—	42	(153)	(22)
Other investment loss/(gain)	28	8	(9)	(1)
Changes in working capital:				
Increase in accounts receivable	(2,927)	(3,666)	(2,664)	(384)
Decrease/(Increase) in inventories and consumables	675	(73)	1,354	195
(Increase)/Decrease in short-term bank deposits and restricted deposits	—	(146)	23	3
Increase in other assets	(1,897)	(6,142)	(4,763)	(686)
(Increase)/Decrease in prepayments and other current assets	(211)	(1,630)	4,171	601
(Increase)/Decrease in amounts due from related parties	(1)	2,905	(3,302)	(476)
(Increase)/Decrease in amounts due from domestic carriers	(1,523)	126	(1,914)	(276)
Increase/(Decrease) in accounts payable and accrued liabilities	5,451	(1,781)	(835)	(120)
Increase/(Decrease) in taxes payable	2,068	5,126	(1,176)	(169)
(Decrease)/ Increase in advances from customers	(2,949)	1,465	(1,329)	(191)
Increase/(Decrease) in deferred revenue	238	(81)	395	57
Increase/(Decrease) in other obligations	22	(17)	69	10
(Decrease)/ Increase in amounts due to ultimate holding company	(12)	(185)	73	11
(Decrease)/Increase in amounts due to related parties	(161)	861	5,311	764
(Decrease)/Increase in amounts due to domestic carriers	(102)	(102)	689	99
Cash generated from operations	97,062	91,169	81,168	11,691

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

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 and Leaseback

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 Communication 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.

At the time the Tower Assets Disposal was completed, CUCL and the Tower Company were in the process of finalizing the terms of lease and service. However, to ensure there were no interruptions in the operations of the Group, the Tower Company had undertaken to allow the Group to use the Tower Assets during a transition period, notwithstanding that the terms of the lease and service have not been finalized, and CUCL paid service charges for the use of the Tower Assets from the Completion Date to the date that formal agreement was finalized. In addition, CUCL also leased other telecommunications towers and related assets from the Tower Company which were previously owned by China Mobile and China Telecom, or constructed by the Tower Company.

On July 8, 2016, CUCL and Tower Company entered into a framework agreement in relation to the usage of certain telecommunications towers and related assets (the "Agreement"). The Agreement stipulated specific terms including assets categories, pricing basis for usage charges, and relevant service period etc. Provincial service agreements and detailed lease confirmation for specified towers have been signed subsequently. According to these agreements, the Group recognized operating lease and other service charges for the year ended December 31, 2016 totalled RMB14,887 million (2015: approximately RMB2,926 million) (see Note 7 and Note 39.2) in connection with its use of telecommunication towers and related assets, inclusive of charges for the service elements and the service charges during the transition period.

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 15, 2017.

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, except that the following assets are stated at their fair value set out below:

- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit and loss

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(a) Going Concern Assumption

As of December 31, 2016, current liabilities of the Group exceeded current assets by approximately RMB260.4 billion (2015: approximately RMB279.4 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 RMB310.9 billion of revolving banking facilities and registered quota of corporate bonds, of which approximately RMB208.3 billion was unutilized as of December 31, 2016; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

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

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended December 31, 2016 have been prepared on a going concern basis.

(b) 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)

(c) New Accounting Standards and Amendments

(i) The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(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, 2016 and which have not been adopted in these financial statements except for 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.

	Effective for accounting periods beginning on or after
Amendments to IAS 12, Income taxes "Recognition of deferred tax assets for unrealized losses"	January 1, 2017
Amendments to IAS 7, Statement of cash flows "Disclosure initiative"	January 1, 2017
IFRS 15 "Revenue from contracts with customers"	January 1, 2018
Amendments to IFRS 2, Share-based payment "Classification and measurement of share-based payment transactions"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendments to IFRS 10, Consolidated financial statements and IAS 28, Investments in associates and joint ventures "Sale or contribution of assets between an investor and its associate or joint venture"	To be determined

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards and Amendments (Continued)

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18, Revenue, IAS 11, Construction contracts and IFRIC 13, Customer Loyalty Programs. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognized for all leases, subject to limited exceptions. It replaces IAS 17 Leases and the related interpretations including IFRIC 4 Determining whether an arrangement contains a lease.

The Group does not plan to early adopt the above new standards or amendments. With respect to IFRS 15 and IFRS 16, given the Group has not completed its assessment of their full impact on the Group's financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries and Non-Controlling Interests

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

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

The Group adopted the purchase method of accounting to account for business combination of entities and businesses under common control before 2005. Under the purchase method of accounting in force at the date of the acquisition, the cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, 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 first 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries and Non-Controlling Interests (Continued)

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2.19 depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2.11) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2.4).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2.12), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

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.

For the convenience of the reader, the translation of RMB into United States dollars ("US$") has been made at the rate of RMB6.9430 to US$1.00, representing the rate as certified by the H.10 weekly statistical release of Federal Reserve Board on December 30, 2016, as December 31, 2016 was a Saturday. No representation is made that RMB amounts could have been, or could be, converted into US$ at that rate or at any other certain rate on December 31, 2016 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign Currency Translation (Continued)

(c) Group companies

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

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

2.7 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:

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

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

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

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

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

Gains or losses on disposal of property, plant or equipment are determined by comparing the net sales proceeds with the carrying amounts, and are 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 expensed 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 excesses of the direct incremental costs over the installation fees are 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 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)

2.19 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.

2.20 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.

2.21 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)

2.21 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, 2016, the amount of the liability was RMB75 million (2015: RMB91 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).

2.22 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)

2.23 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.

2.24 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)

2.24 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.

2.25 Interest income

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

2.26 Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 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.

(c) Sale and leaseback

Under certain circumstances, the Group may enter into sale and leaseback arrangements whereby it sells certain assets and leases back a portion of those assets. The Group reviews the substance of each of these transactions to determine whether the leaseback is a finance lease or an operating lease. Where it is determined that the leaseback is an operating lease and (i) the Group does not maintain or maintains only minor continuing involvement in these assets, other than the required lease payments and (ii) these transactions are established at fair value, the gain or loss on sale is recognized in the statement of income immediately subject to any elimination of such gain or loss in accordance with Note 2.4 above. Any gain or loss on a sale and finance leaseback transaction is deferred and amortized over the term of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 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)

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 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.

2.31 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.

2.32 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)

2.33 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 fund management center at its headquarter, following the overall direction determined by the Executive Directors of the Company. The Group's fund management center 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 fund management center 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 2014, 2015 and 2016, 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, 2015 and 2016.

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)

	2015			2016		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
- denominated in HK dollars	278	0.84	233	410	0.89	367
- denominated in US dollars	146	6.49	948	271	6.94	1,879
- denominated in Euro	8	7.10	60	13	7.31	96
- denominated in Japanese Yen	119	0.05	6	218	0.06	13
- denominated in SGD	—	4.59	—	1	4.80	7
- denominated in GBP	0.6	9.62	6	1	8.51	6
Sub-total			1,253			2,368
Accounts receivable:						
- denominated in HK dollars	1.2	0.84	1	—	0.89	—
- denominated in US dollars	182	6.49	1,182	195	6.94	1,355
- denominated in Euro	3	7.10	18	1	7.31	6
Sub-total			1,201			1,361
Financial assets at fair value through other comprehensive income:						
- denominated in Euro	657	7.10	4,665	566	7.31	4,138
Total			7,119			7,867
Borrowings:						
- denominated in US dollars	50	6.49	325	46	6.94	321
- denominated in Euro	15	7.10	108	12	7.31	89
Sub-total			433			410
Accounts payable:						
- denominated in US dollars	49	6.49	315	60	6.94	416
- denominated in Euro	2	7.10	12	3	7.31	20
Sub-total			327			436
Obligations under finance lease:						
- denominated in US dollars	14	6.49	90	—	6.94	—
Total			850			846

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

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The Group did not have and does not believe it will have any difficulties in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China.

As of December 31, 2016, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen, SGD and GBP, while all other variables are held constant, the effect on income after tax would be approximately RMB216 million (2014: approximately RMB4,473 million; 2015: approximately RMB120 million) for cash and cash equivalents, borrowings and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income would be approximately RMB414 million (2014: approximately RMB428 million; 2015: approximately RMB467 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, 2016, if the share price of Telefónica had increased/decreased by 10%, while the exchange rate of RMB against Euro is held constant, the effect on other comprehensive income would be approximately RMB 414 million (2014: approximately RMB428 million; 2015: approximately RMB467 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, corporate bonds and related parties loans. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2015 and 2016, the Group’s borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group’s outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group’s financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2015 and 2016.

As of December 31, 2016, the Group had approximately RMB112,997 million (2015: approximately RMB105,343 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB62,257 million (2015: approximately RMB43,599 million) of long-term fixed rate borrowings.

For the year ended December 31, 2016, 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 RMB424 million (2014: approximately RMB388 million; 2015: approximately RMB395 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 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.

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

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funds including the raising of bank loans and issuance of commercial papers, promissory notes and corporate bonds. Due to the dynamic nature of the underlying business, the Group's fund management center 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:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Carrying amounts
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
	286,759	22,520	18,847	2,030	324,273
At December 31, 2016					
Long-term bank loans	207	472	1,299	4,119	4,656
Corporate bonds	2,583	544	18,331	—	19,970
Promissory notes	20,078	18,440	—	—	36,882
Other obligations	3,179	258	44	55	3,476
Accounts payable and accrued liabilities	143,224	—	—	—	143,224
Amounts due to related parties	8,700	—	—	—	8,700
Amounts due to ultimate holding company	2,463	—	—	—	2,463
Amounts due to domestic carriers	1,989	—	—	—	1,989
Commercial papers	36,395	—	—	—	35,958
Short-term bank loans	78,210	—	—	—	76,994
	297,028	19,714	19,674	4,174	334,312

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

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 plus non-controlling interest over interest-bearing debts plus total equity. Interest-bearing debts represent commercial papers, short-term bank loans, long-term bank loans, promissory notes, corporate bonds, obligations under finance lease, and certain amounts due to ultimate holding company and related parties, as shown in the consolidated statement of financial position. The interest-bearing debts do not include net deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,397 million.

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

	2015	2016
Interest-bearing debts:		
- Commercial papers	19,945	35,958
- Short-term bank loans	83,852	76,994
- Long-term bank loans	1,748	4,495
- Promissory notes	36,928	17,906
- Corporate bonds	2,000	17,970
- Obligations under finance lease included in other obligations	268	208
- Amounts due to ultimate holding company	1,344	—
- Current portion of long-term bank loans	84	161
- Current portion of promissory notes	2,499	18,976
- Current portion of corporate bonds	—	2,000
- Current portion of obligations under finance lease	274	586
	148,942	175,254
Non-controlling interests	—	275
Interest-bearing debts plus non-controlling interests	148,942	175,529
Total equity:		
- Equity attributable to equity shareholders of the Company	231,216	227,407
- Non-controlling interests	—	275
Sub-total	231,216	227,682
Interest-bearing debts plus total equity	380,158	402,936
Debt-to-capitalization ratio	39.2%	43.6%

The increase in debt-to-capitalization ratio during 2016 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 and restricted 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, 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, 2015:

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

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, 2016:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
- Equity securities				
-Listed	4,285	—	—	4,285
-Unlisted	—	—	41	41
	4,285	—	41	4,326
Financial assets at fair value through profit and loss				
- Equity securities				
-Unlisted	—	—	123	123
Total	4,285	—	164	4,449

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, 2015 and 2016, 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, 2015 and 2016. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amount as of December 31, 2015	Fair value as of December 31, 2015	Carrying amount as of December 31, 2016	Fair value as of December 31, 2016	Fair value measurement as of December 31, 2016 categorized into		
					Level 1	Level 2	Level 3
Non-current portion of long-term bank loans	1,748	1,752	4,495	4,339	—	4,339	—
Non-current portion of promissory notes	36,928	38,141	17,906	18,031	18,031	—	—
Non-current portion of corporate bonds	2,000	2,111	17,970	17,989	17,989	—	—

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 1.28 % to 4.48 % (2015: 1.81% to 4.08%) 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, 2015 and 2016 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.

No significant impairment loss on property, plant and equipment was recognized for the years ended December 31, 2014, 2015 and 2016.

4.3 Allowance for doubtful debts

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.4 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 deductible tax losses, 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 net deferred tax assets amounting to approximately RMB5,986 million as of December 31, 2016 (2015: approximately RMB5,642 million) (see Note 13). 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.

4.5 Determining the type of lease

The Group analyzed the substance of the leases to determine whether the arrangements should be classified as operating leases or finance leases in accordance with the requirements of the prevailing accounting standards. The Group bases its judgement on the lease agreements and related arrangements to assess whether substantially all the risks and rewards incidental to ownership of the leased assets has been transferred.

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. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") and VAT 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:

	2014	2015	2016
Mobile service			
- Usage and monthly fees	62,152	45,901	37,727
- Value-added services revenue	79,814	83,529	94,133
- Interconnection fees	12,398	11,847	11,415
- Other mobile service revenue	731	1,343	1,743
Total service revenue from mobile service	155,095	142,620	145,018
Fixed-line service			
- Usage and monthly fees	14,357	11,130	9,773
- Broadband, data and other Internet-related services revenue	52,579	56,629	60,031
- Interconnection fees	3,979	3,667	3,332
- Value-added services revenue	4,324	5,132	4,523
- Leased line income	8,879	9,404	10,011
- Information communications technology services revenue	3,469	4,334	5,938
- Other fixed-line service revenue	894	965	1,051
Total service revenue from fixed-line service	88,481	91,261	94,659
Other service revenue	1,302	1,397	1,305
Total service revenue	244,878	235,278	240,982
Sales of telecommunications products	39,803	41,771	33,215
	284,681	277,049	274,197

7. NETWORK, OPERATION AND SUPPORT EXPENSES

	Note	2014	2015	2016
Repairs and maintenance		13,619	13,178	11,150
Power and water charges	(i)	12,642	13,103	13,898
Operating lease charges for network, premises, equipment and facilities		10,274	11,642	9,779
Operating lease and other service charges to Tower Company	39.2	—	2,926	14,887
Others		1,316	1,459	1,453
		37,851	42,308	51,167

(i) The amounts included power charges incurred in relation to tower assets for the year ended December 31, 2016 of approximately RMB4,624 million (2015: approximately RMB225 million subsequent to the Tower Assets Disposal).

8. EMPLOYEE BENEFIT EXPENSES

	2014	2015	2016
Salaries and welfare	26,249	26,057	27,178
Contributions to defined contribution pension schemes	4,721	5,057	5,236
Contributions to medical insurance	1,526	1,678	1,889
Contributions to housing fund	2,125	2,307	2,569
Other housing benefits	31	41	35
	34,652	35,140	36,907

9. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	2014	2015	2016
Handsets and other customer end products	42,707	43,554	36,116
Telephone cards	562	364	321
Others	128	128	92
	43,397	44,046	36,529

10. OTHER OPERATING EXPENSES

	2014	2015	2016
Impairment losses for doubtful debts and write-down of inventories	3,958	4,054	4,173
Cost in relation to information communications technology services	3,119	3,920	4,924
Commission expenses	26,357	21,327	23,826
Customer acquisition cost and advertising and promotion expenses	5,228	3,524	3,465
Customer installation cost	4,799	3,792	3,857
Customer retention cost	3,809	3,321	3,498
Auditors' remuneration	63	64	69
Property management fee	2,282	2,238	2,150
Office and administrative expenses	2,290	2,102	1,972
Transportation expense	1,979	1,790	1,676
Miscellaneous taxes and fees	1,727	1,715	1,375
Technical support expenses	1,432	1,741	2,489
Repairs and maintenance expenses	891	852	852
Loss on disposal of property, plant and equipment	1,064	1,966	355
Others	2,413	2,554	2,676
	61,411	54,960	57,357

11. FINANCE COSTS

	Note	2014	2015	2016
Finance costs:				
- Interest on bank loans repayable within 5 years		3,299	3,301	2,730
- Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		1,583	1,928	2,885
- Interest on convertible bonds repayable within 5 years		211	172	—
- Interest on related parties loans repayable within 5 years		71	60	—
- Interest on bank loans repayable over 5 years		2	8	62
- Less: Amounts capitalized in CIP	15	(825)	(936)	(769)
Total interest expense		4,341	4,533	4,908
- Net exchange (gain)/loss		(6)	2,104	(260)
- Others		282	297	369
		4,617	6,934	5,017

12. OTHER INCOME – NET

	Note	2014	2015	2016
Dividend income from financial assets at fair value through other comprehensive income		392	397	357
Gain on Tower Assets Disposal	(i)	—	9,246	—
Others		970	925	1,234
		1,362	10,568	1,591

(i) 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	3,017
The Group's Tower Assets disposed of	41,478
Consideration	54,658
Relevant expenses and taxes	(320)
Gain on the Group's Tower Assets Disposal	12,860
Deferred gain from the Group's Tower Assets Disposal	(3,614)
Disposal gain recognized	9,246

13. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%; 2015: 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% (2014: 25%; 2015: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2014: 15%; 2015: 15%).

	2014	2015	2016
Provision for income tax on the estimated taxable income for the year			
- Hong Kong	29	23	13
- Mainland China and other countries	3,201	3,990	1,722
(Over)/Under-provision in respect of prior years	(19)	16	(41)
	3,211	4,029	1,694
Deferred taxation	665	(556)	(1,540)
Income tax expenses	3,876	3,473	154

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

	Note	2014	2015	2016
Income before taxation		15,931	14,035	784
Expected income tax expense at PRC statutory tax rate of 25%		3,983	3,509	196
Impact of different tax rates outside mainland China		(15)	(31)	(14)
Tax effect of preferential tax rate	(i)	(76)	(75)	(68)
Tax effect of non-deductible expenses		40	168	191
Investment in joint ventures		—	11	(38)
Investment in associates	(ii)	—	217	39
(Over)/Under-provision in respect of prior years		(19)	16	(41)
Tax effect of unused tax losses not recognized, net of utilization	(iii)	—	(291)	(45)
Others		(37)	(51)	(66)
Actual tax expense		3,876	3,473	154

13. TAXATION (CONTINUED)

(i) According to the PRC enterprise income tax law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Certain subsidiaries of the Group obtained the approval of High and New Technology Enterprise and were entitled to a preferential income tax rate of 15%.

(ii) Adjustment to investment in associates represents the tax effect on share of profit/(loss) of associates, net of reversal of deferred tax assets on unrealized profit from transactions with Tower Company.

(iii) As of December 31, 2016, the Group did not recognize deferred tax assets in respect of tax losses of approximately RMB2,622 million (2015: approximately RMB2,802 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 deferred tax assets of RMB1,832 million (2015: RMB1,700 million) in respect of changes in fair value on financial assets through other comprehensive income, since it is not probable that the related tax benefit will be realized.

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

	2015	2016
Deferred tax assets:		
- Deferred tax asset to be recovered after 12 months	3,682	8,168
- Deferred tax asset to be recovered within 12 months	2,985	1,198
	6,667	9,366
Deferred tax liabilities:		
- Deferred tax liabilities to be settled after 12 months	(851)	(2,897)
- Deferred tax liabilities to be settled within 12 months	(174)	(483)
	(1,025)	(3,380)
Net deferred tax assets after offsetting	5,642	5,986
Deferred tax liabilities:		
- Deferred tax liabilities to be settled after 12 months	(18)	(113)
- Deferred tax liabilities to be settled within 12 months	—	—
	(18)	(113)
Net deferred tax liabilities after offsetting	(18)	(113)

13. TAXATION (CONTINUED)

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

	Note	2014	2015	2016
Net deferred tax assets after offsetting:				
- Beginning of year		6,734	6,215	5,642
- Deferred tax (charged)/credited to the statement of income		(674)	557	1,635
- Deferred tax credited /(charged) to other comprehensive income		155	(1,130)	13
- Reclassified from current taxes payable	(i)	—	—	(1,304)
- End of year		6,215	5,642	5,986
Net deferred tax liabilities after offsetting:				
- Beginning of year		(26)	(17)	(18)
- Deferred tax credited /(charged) to the statement of income		9	(1)	(95)
- End of year		(17)	(18)	(113)

(i) On October 14, 2015, Tower Assets Disposal to Tower Company in exchange for cash and shares issued by Tower Company (see Note 1). According to the applicable tax laws issued by the MOF and the State Administration of Taxation (“SAT”) of the PRC, the gain from Tower Assets Disposal in exchange for investment in Tower Company (“Qualified Income”) is, upon fulfilling the filing requirement with in-charge tax bureau, eligible to be deferred and treated as taxable income on a straight-line basis over a period not exceeding five years. Before completing the filing, the Group accrued current taxes payable based on the total gain from Tower Asset Disposal. During the year ended December 31, 2016, the Group successfully completed the filing requirement with in-charge tax bureau with respect to the Qualified Income and since then has become eligible for deferring part of tax liability with respect to the Qualified Income, which will be reversed in the four years from 2016 to 2019. Accordingly, a balance of RMB1,304 million was reclassified from current taxes payable to net deferred tax assets, and RMB186 million was subsequently reversed during the year ended December 31, 2016.

13. TAXATION (CONTINUED)

The components of the deferred tax assets/(liabilities) recognized in the consolidated statement of financial position and the movements during the year are 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))	Deductible tax losses	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	Accelerated depreciation of property, plant and equipment (Note (ii))	Gain from Tower Assets Disposal	Others	Total
Deferred tax arising from:											
At January 1, 2014	1,167	432	1,619	—	1,087	1,255	—	—	—	1,148	6,708
Credited/(charged) to the statement of income	128	448	(63)	—	(254)	—	—	(696)	—	(228)	(665)
Credited to other comprehensive income	—	—	—	—	—	155	—	—	—	—	155
At December 31, 2014	1,295	880	1,556	—	833	1,410	—	(696)	—	920	6,198
Credited/(charged) to the statement of income	136	(678)	(52)	—	388	—	877	(296)	—	181	556
(Charged)/credited to other comprehensive income	—	—	—	—	—	(1,439)	—	—	—	309	(1,130)
At December 31, 2015	1,431	202	1,504	—	1,221	(29)	877	(992)	—	1,410	5,624
Credited/(charged) to the statement of income	122	(174)	(53)	2,433	472	—	(90)	(1,251)	186	(105)	1,540
Credited to other comprehensive income	—	—	—	—	—	13	—	—	—	—	13
Reclassification of current tax payable	—	—	—	—	—	—	—	—	(1,304)	—	(1,304)
At December 31, 2016	1,553	28	1,451	2,433	1,693	(16)	787	(2,243)	(1,118)	1,305	5,873

13. 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:

	Note	2015	2016
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Allowance for doubtful debts		1,431	1,553
Impairment loss on property, plant and equipment		17	17
Write-down of inventories		41	23
Unrecognized revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(i)	1,504	1,451
Accruals of expenses not yet deductible for tax purpose		1,221	1,693
Deferred revenue on subscriber points reward program		146	156
Unrealized income for the inter-company transactions		260	189
Payroll and contributions to defined contribution pension schemes accrued but not paid		202	28
Unrealized income from the transactions with Tower Company		877	787
Government grants related to assets		138	271
Intangible assets amortization difference		321	345
Deductible tax losses		—	2,433
Others		509	420
		6,667	9,366
Deferred tax liabilities:			
Gain from Tower Assets Disposal		—	(1,118)
Changes in fair value on financial assets through other comprehensive income		(29)	(16)
Accelerated depreciation of property, plant and equipment	(ii)	(992)	(2,243)
Others		(4)	(3)
		(1,025)	(3,380)
		5,642	5,986
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(18)	(113)
		(18)	(113)

13. 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 of 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 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.

14. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2014, 2015 and 2016 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, 2014, 2015 and 2016 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. Dilutive potential ordinary shares for the year ended December 31, 2014 include share options granted under the amended Share Option Scheme and convertible bonds. No dilutive potential ordinary shares for the years ended December 31, 2015 and 2016.

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

	2014	2015	2016
Numerator (in RMB millions):			
Income attributable to equity shareholders of the Company used in computing basic earnings per share	12,055	10,562	625
Imputed finance cost on the liability component of convertible bonds	211	—	—
Income attributable to equity shareholders of the Company used in computing diluted earnings per share	12,266	10,562	625
Denominator (in millions):			
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,852	23,947	23,947
Dilutive equivalent shares arising from share options	2	—	—
Dilutive equivalent shares arising from convertible bonds	941	—	—
Shares used in computing diluted earnings per share	24,795	23,947	23,947
Basic earnings per share (in RMB)	0.51	0.44	0.03
Diluted earnings per share (in RMB)	0.49	0.44	0.03

15. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended December 31, 2015 and 2016 are as follows:

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

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2016					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	62,969	838,995	19,464	3,878	97,601	1,022,907
Additions	57	748	427	186	70,418	71,836
Transfer from CIP	4,211	79,808	748	301	(85,068)	—
Transfer to other assets	—	—	—	—	(4,046)	(4,046)
Disposals	(97)	(43,099)	(632)	(330)	—	(44,158)
End of year	67,140	876,452	20,007	4,035	78,905	1,046,539
Accumulated depreciation and impairment:						
Beginning of year	(26,612)	(525,244)	(14,059)	(2,256)	(105)	(568,276)
Charge for the year	(2,621)	(62,932)	(1,516)	(681)	—	(67,750)
Disposals	59	39,704	589	250	—	40,602
End of year	(29,174)	(548,472)	(14,986)	(2,687)	(105)	(595,424)
Net book value:						
End of year	37,966	327,980	5,021	1,348	78,800	451,115
Beginning of year	36,357	313,751	5,405	1,622	97,496	454,631

As of December 31, 2016, the net book value of assets held under finance leases was approximately RMB582 million (2015: approximately RMB532 million).

For the year ended December 31, 2016, interest expense of approximately RMB769 million (2014: approximately RMB825 million; 2015: approximately RMB936 million) was capitalized to CIP. The capitalized borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.33% to 3.79% for the year ended December 31, 2016 (2014: 3.72% to 4.30%; 2015: 3.40% to 4.33%).

For the year ended December 31, 2016, the Group recognized a net loss on disposal of property, plant and equipment of approximately RMB355 million (2014: a net loss of approximately RMB1,064 million; 2015: a net gain of approximately RMB7,280 million, including the gain on the Group's Tower Assets Disposal of approximately RMB9,246 million).

16. 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, 2015 and 2016 are as follow:

	2015	2016
Beginning of the year	9,211	9,148
Addition	296	603
Amortization	(359)	(315)
End of the year	9,148	9,436

17. GOODWILL

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Group in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group's 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% (2015:1.5%) and the applicable discount rate of 10% (2015:10%). 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, 2015 and 2016, any adverse change in the assumptions used in the calculation of recoverable amount would result in impairment losses.

18. INVESTMENTS IN SUBSIDIARIES

As of December 31, 2016, 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%	—	30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
Billion Express Investments Limited	British Virgin Islands, August 15, 2007, limited company	100%	—	2 shares, USD1 each	Dormant
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

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place and date of incorporation /establishment and nature of legal entity	Percentage of equity interests held		Particulars 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
China Unicom (Russia) Operations Limited Liability Company	Russia, December 28, 2016, limited liability company	—	100%	—	Telecommunications service in Russia
China Unicom (Brazil) Telecommunications Limited	Brazil, June 23, 2016, limited liability company	—	100%	—	Telecommunications service in Brazil
Unicom Vsens Telecommunications Company Limited	The PRC, August 19, 2008, limited liability company	—	100%	RMB 500,000,000	Sales of handsets, telecommunication 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

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place and date of incorporation /establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom 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
Unicompay 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

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place and date of incorporation /establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
Unicom Cloud Data Company Limited	The PRC, June 4, 2013, limited liability company	—	100%	RMB 2,854,851,100	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 240,000,000	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
China Unicom Finance Company Limited (“Finance Company”)	The PRC, June 17, 2016, limited liability company	—	91%	RMB 3,000,000,000	Provision of financial services in the PRC
China Unicom Innovation Investment Company (Shenzhen) Limited	The PRC, January 28, 2016, limited liability company	—	100%	—	Venture capital investment business in the PRC
China Unicom Innovation Investment Company (Guizhou) Limited	The PRC, October 8, 2016, limited liability company	—	60%	RMB 1,000,000	Venture capital investment business in the PRC
China Unicom Innovation Investment(Shenzhen) Investment Centre	The PRC, February 1, 2016, limited partnership	—	100%	RMB 28,500,000	Venture capital investment business in the PRC

19. INTEREST IN ASSOCIATES

	2015	2016
Share of net assets	31,997	32,248

The following list contains the particulars of material associate, which is unlisted corporate entity whose quoted market price is not available:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
Tower Company	Incorporated	The PRC	28.1%	RMB 129,344,615,024	Construction, maintenance and operation of communications towers in the PRC (Note 39.2)

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

19. 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	
	2015	**2016**
Current assets	38,586	39,565
Non-current assets	231,793	272,103
Current liabilities	(47,717)	(171,568)
Non-current liabilities	(96,535)	(14,548)
Equity	(126,127)	(125,552)
Revenue	10,325	54,474
Loss for the year	(2,944)	(575)
Total comprehensive income for the year	(2,944)	(575)
Reconciled to the Group's interests in the associate:		
Net assets of the associate	126,127	125,552
Group's effective interest	28.1%	28.1%
	35,442	35,280
Adjustment for the remaining balance of the deferred gain from the Group's Tower Assets Disposal	(3,506)	(3,145)
Carrying amount in the consolidated financial statements	31,936	32,135

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2015	**2016**
Listed in the PRC	164	147
Listed outside the PRC	4,665	4,138
Unlisted	23	41
	4,852	4,326

For the year ended December 31, 2016, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB544 million (2014: decrease of approximately RMB619 million; 2015: decrease of approximately RMB1,050 million). The decrease, net of tax impact, of approximately RMB530 million (2014: decrease, net of tax impact, of approximately RMB464 million; 2015: decrease, together with tax impact, of approximately RMB2,179 million) has been recorded in the consolidated statement of comprehensive income.

21. OTHER ASSETS

	Note	2015	2016
Intangible assets	(i)	11,823	11,120
Prepaid rental for premises, leased lines and electricity cables		3,390	2,854
Installation costs		478	388
Direct incremental costs for activating broadband subscribers	(ii)	7,340	7,690
Receivables for sales of mobile handsets, net of allowance	(iii)	1,273	1,432
VAT recoverable	(iv)	—	307
Others		1,031	1,088
		25,335	24,879

(i) Intangible assets

	Computer software	Others	Total
Cost:			
At January 1, 2015	19,013	1,792	20,805
Additions	103	7	110
Transfer from CIP	4,703	126	4,829
Disposals	(370)	(42)	(412)
At December 31, 2015	23,449	1,883	25,332
Additions	159	18	177
Transfer from CIP	2,761	242	3,003
Disposals	(1,148)	(67)	(1,215)
At December 31, 2016	25,221	2,076	27,297
Accumulated amortization and impairment:			
At January 1, 2015	(9,913)	(593)	(10,506)
Amortization charge for the year	(3,193)	(199)	(3,392)
Disposals	370	19	389
At December 31, 2015	(12,736)	(773)	(13,509)
Amortization charge for the year	(3,618)	(228)	(3,846)
Disposals	1,129	49	1,178
At December 31, 2016	(15,225)	(952)	(16,177)
Net book value:			
At December 31, 2016	9,996	1,124	11,120
At December 31, 2015	10,713	1,110	11,823

(ii) 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.

(iii) The amount includes the receivables from the sales of mobile handsets 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 24(i)).

(iv) VAT recoverable includes input VAT and prepaid VAT which will likely be deducted beyond one year. VAT recoverable which will be deducted within one year are included in prepayments and other current assets (see Note 24(ii)).

22. INVENTORIES AND CONSUMABLES

	2015	2016
Handsets and other customer end products	3,453	2,048
Telephone cards	185	91
Consumables	188	174
Others	120	118
	3,946	2,431

23. ACCOUNTS RECEIVABLE

	2015	2016
Accounts receivable	19,867	19,088
Less: Allowance for doubtful debts	(4,910)	(5,466)
	14,957	13,622

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

	2015	2016
Within one month	9,155	6,557
More than one month to three months	2,291	3,181
More than three months to one year	2,501	2,869
More than one year	1,010	1,015
	14,957	13,622

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.

23. ACCOUNTS RECEIVABLE (CONTINUED)

As of December 31, 2016, accounts receivable of approximately RMB5,466 million (2015: approximately RMB4,910 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 movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2014	2015	2016
Balance, beginning of year	4,291	4,464	4,910
Allowance for the year	3,098	3,365	3,999
Written-off during the year	(2,925)	(2,919)	(3,443)
Balance, end of year	4,464	4,910	5,466

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.

As of December 31, 2016, accounts receivable of approximately RMB9,626 million (2015: approximately RMB12,014 million) were neither past due nor impaired. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Accounts receivable of approximately RMB1,890 million (2015: approximately RMB1,619 million) were past due but not impaired. Such overdue amounts can be recovered based on past experience. The aging analysis of these receivables is as follows:

	2015	2016
More than one month to three months	1,291	1,369
More than three months to one year	135	213
More than one year	193	308
	1,619	1,890

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	Note	2015	2016
Receivable for the sales of mobile handsets, net of allowance	(i)	2,328	3,266
Prepaid rental		2,098	2,334
Deposits and prepayments		1,824	1,876
Advances to employees		50	15
VAT recoverable	(ii)	3,125	4,952
Prepaid enterprise income tax		33	208
Others		1,406	1,372
		10,864	14,023

(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 which the prepaid amounts from customers less than the fair value of the mobile handsets, 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 beyond one year amounted to RMB1,432 million (2015: RMB1,273 million), and are included in long-term other assets (see Note 21(iii)).

(ii) VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

Prepayments and other current assets are expected to be recovered or recognized as expenses within one year.

As of December 31, 2016, there was no significant impairment for the prepayments and other current assets.

25. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	Note	2015	2016
Bank deposits with maturity exceeding three months		32	33
Statutory reserve deposits	(i)	—	1,577
Restricted deposits		170	144
		202	1,754

(i) In order to carry on its business, Finance Company placed statutory reserve deposits with the People's Bank of China according to "Notice of the People's Bank of China on Implementing the Average Method to Assess Deposit Reserves" (Yinfa [2015] No.289). These statutory reserve deposits are not available for use by the Group in daily operations.

26. CASH AND CASH EQUIVALENTS

	2015	2016
Cash at bank and in hand	21,460	23,373
Bank deposits with original maturities of three months or less	295	260
	21,755	23,633

27. SHARE CAPITAL

	Number of shares millions	Share capital	Share premium	Capital redemption reserve	Total
Issued and fully paid:					
At January 1, 2014	23,782	2,328	175,204	79	177,611
Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance (Note 38)	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 38)	163	1,471	—	—	1,471
At December 31, 2014	23,947	179,101	—	—	179,101
Issuance of shares upon exercise of options	—	1	—	—	1
At December 31, 2015 and 2016	23,947	179,102	—	—	179,102

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance occurred automatically on 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.

28. 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 RMB47 million (2015: approximately RMB874 million) to the general reserve fund for the year ended December 31, 2016.

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, 2014, 2015 and 2016, 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.

28. RESERVES (CONTIUNED)

(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 2.21 (e).

(iii) General risk reserve

CUCL and Unicom Group established the Finance Company to provide certain financial services. Pursuant to “Requirements on Impairment Allowance for Financial Institutions” (Caijin [2012] No. 20) issued by the MOF which effective on July 1, 2012 (the “Document”), the Finance Company establishes a general risk reserve within the shareholders’ equity, through appropriation of retained profits, to address unidentified potential losses relating to risk assets. The general risk reserve balance should not be less than 1.5% of the ending balance of risk assets, as defined in the Document.

(iv) 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.

(v) 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.

(vi) 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.

29. DIVIDENDS

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 the annual general meeting held on May12, 2016, the shareholders of the Company approved the payment of a final dividend of RMB0.17 per ordinary share for the year ended December 31, 2015, totaling approximately RMB4,071 million which has been reflected as a reduction of retained profits for the year ended December 31, 2015. Among the dividend payable of approximately RMB920 million was due to Unicom BVI as of December 31, 2016.

The Board has resolved not to pay a final dividend for the year ended December 31, 2016

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 the SAT of the PRC, pursuant to which the Company qualifies as a PRC TRE from January 1, 2008. Therefore, as of December 31, 2015 and 2016, 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 HKSCC Nominees 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.

30. LONG-TERM BANK LOANS

	Interest rates and final maturity	2015	2016
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (2015: 1.08%) per annum with maturity through 2036 (2015: maturity through 2030)	1,399	4,246
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (2015: Nil to 1.55%) per annum with maturity through 2039 (2015: maturity through 2039)	325	321
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2015: 1.10% to 2.50%) per annum with maturity through 2034 (2015: maturity through 2034)	108	89
Sub-total		1,832	4,656
Less: Current portion		(84)	(161)
		1,748	4,495

As of December 31, 2016, long-term bank loans of approximately RMB70 million (December 31, 2015: approximately RMB88 million) were guaranteed by third parties.

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

	2015	2016
Balances due:		
- not later than one year	84	161
- later than one year and not later than two years	88	385
- later than two years and not later than five years	302	1,047
- later than five years	1,358	3,063
	1,832	4,656
Less: Portion classified as current liabilities	(84)	(161)
	1,748	4,495

31. 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 (the "Notes") 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, and was fully repaid in July 2016.

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.

32. CORPORATE BONDS

On June 8, 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.50% per annum. The corporate bonds were secured by a corporate guarantee granted by Bank of China Limited.

On June 7, 2016, the Group issued RMB7 billion 3-year corporate bonds and RMB1 billion 5-year corporate bond, bearing interest at 3.07% and 3.43% per annum respectively.

On July 14, 2016, the Group issued RMB10 billion 3-year corporate bonds, bearing interest at 2.95% per annum.

33. OTHER OBLIGATIONS

	Note	2015	2016
One-off cash housing subsidies	(a)	2,496	2,496
Obligations under finance lease	(b)	542	794
Others		116	186
Sub-total		3,154	3,476
Less: Current portion		(2,797)	(3,141)
		357	335

(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, 2016, the Group's unpaid one-off cash housing subsides amounted to approximately RMB2,496 million. If the actual payments required for these one-off housing subsidies differ from the amount provided, Unicom Group will bear any additional payments required. If the actual payments are lower than the amount provided, the difference will be paid to Unicom Group.

33. 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:

	2015	2016
Total minimum lease payments under finance lease:		
- not later than one year	292	624
- later than one year and not later than two years	280	230
	572	854
Less: Future finance charges	(30)	(60)
Present value of minimum obligations	542	794
Representing obligations under finance lease:		
- current liabilities	274	586
- non-current liabilities	268	208

34. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2015	2016
RMB denominated bank loans	Fixed interest rates ranging from 2.35% to 4.35% (2015:2.35% to 3.92%) per annum with maturity through 2017 (2015: maturity through 2016)	83,852	76,994
Total		83,852	76,994

35. COMMERCIAL PAPERS

On November 20, 2015, CUCL issued tranche two of 2015 super 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. The super short term commercial papers were fully repaid in August 2016.

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. The short term commercial papers were fully repaid in November 2016.

On April 8, 2016, CUCL issued tranche one of 2016 super short term commercial papers in an amount of RMB12 billion, with a maturity period of 90 days from the date of issue and which carries interest at 2.47% per annum. The super short term commercial papers were fully repaid in July 2016.

On April 26, 2016, CUCL issued tranche two of 2016 super short term commercial papers in an amount of RMB12 billion, with a maturity period of 90 days from the date of issue and which carries interest at 2.70% per annum. The super short term commercial papers were fully repaid in July 2016.

On June 3, 2016, CUCL issued tranche three of 2016 super short term commercial papers in an amount of RMB6 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.72% per annum.

On July 12, 2016, CUCL issued tranche four of 2016 super 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 2.55% per annum.

On November 17, 2016, CUCL issued tranche five of 2016 super 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 3.00% per annum.

On November 24, 2016, CUCL issued tranche six of 2016 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 180 days from the date of issue and which carries interest at 3.00% per annum.

On November 24, 2016, CUCL issued tranche seven of 2016 super short term commercial papers in an amount of RMB5 billion, with a maturity period of 180 days from the date of issue and which carries interest at 3.00% per annum.

36. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2016
Payables to contractors and equipment suppliers	131,202	105,742
Payables to telecommunications products suppliers	5,045	5,005
Customer/contractor deposits	4,564	4,869
Repair and maintenance expense payables	5,003	4,795
Salary and welfare payables	3,283	2,798
Interest payable	926	1,303
Amounts due to services providers/content providers	1,175	1,412
Accrued expenses	12,006	12,583
Others	4,192	4,717
	167,396	143,224

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

	2015	2016
Less than six months	146,336	120,191
Six months to one year	9,772	11,689
More than one year	11,288	11,344
	167,396	143,224

37. 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, 2016, the related financial assets at fair value through other comprehensive income amounted to approximately RMB4,138 million (2015: approximately RMB4,665 million). For the year ended December 31, 2016, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB531 million (2014: decrease of approximately RMB694 million, net of tax impact, decrease of approximately RMB520 million; 2015: decrease of approximately RMB1,041 million, together with tax impact, decrease of approximately RMB2,172 million), has been recorded in the consolidated statement of comprehensive income.

38. EQUITY-SETTLED SHARE OPTION SCHEMES

38.1 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, 2016, 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.

38. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

38.2 Share option information

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

	2014		2015		2016	
	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	6.61	174,498,077	6.35	3,540,000	—	—
Lapsed	6.00	(5,759,994)	6.35	(3,432,000)	—	—
Exercised	6.64	(165,198,083)	6.35	(108,000)	—	—
Balance, end of year	6.35	3,540,000	—	—	—	—
Exercisable at end of year	6.35	3,540,000	—	—	—	—

Exercise of share options during the year ended December 31, 2015 resulted in 108,000 shares being issued (2014: 165,198,083 shares), with exercise proceeds of approximately RMB1 million (2014: RMB871 million).

No options outstanding as of December 31, 2015 and 2016.

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

For the year ended December 31, 2014:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
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
			1,096,868,077	165,198,083

For the year ended December 31, 2015:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
February15, 2006	6.35	12.88	685,800	108,000
			685,800	108,000

For the years ended 31 December 2014, 2015 and 2016, there were no employee share-based compensation expenses.

39. 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 below.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.1 Connected transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group and its subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Note	2014	2015	2016
Transactions with Unicom Group and its subsidiaries:				
Charges for value-added telecommunications services	(i), (ii)	51	62	42
Rental charges for property leasing	(i), (iii)	955	929	1,050
Charges for lease of telecommunications resources	(i), (iv)	271	283	281
Charges for engineering design and construction services	(i), (v)	3,138	5,018	4,487
Charges for shared services	(i), (vi)	119	107	104
Charges for materials procurement services	(i), (vii)	91	125	88
Charges for ancillary telecommunications services	(i), (viii)	2,111	2,504	2,541
Charges for comprehensive support services	(i), (ix)	840	1,455	1,690
Income from comprehensive support services	(i), (ix)	19	12	51

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.1 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, 2016. Accordingly, on November 25, 2016, CUCL entered into the new agreement, "2017-2019 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2017-2019 Comprehensive Services Agreement has a term of three years commencing on January 1, 2017 and expiring on December 31, 2019, 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.

(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, 2016, the rental charge paid by Unicom Group was approximately RMB0.48 million, which was negligible.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.1 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, 2016, 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.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.1 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.

(b) Amounts due from and to Unicom Group and its subsidiaries

Amount due to Unicom Group as of December 31, 2015 included the unsecured entrusted loan from Unicom Group of RMB1,344 million with interest rate at 4.37% per annum. The loan was fully repaid in July 2016.

Apart from the 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.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.2 Related party transactions with Tower Company

(a) Related party transactions

	Note	2014	2015	2016
Transactions with Tower Company:				
The Group's Tower Assets Disposal	(i)	—	54,658	—
Interest income from Cash Consideration	(i)	—	120	809
Operating lease and other service charges	(ii)	—	2,926	14,887
Income from engineering design and construction services	(iii)	—	50	151

(i) As stated in Note 1, 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.

As of December 31, 2016, the first tranche of the Cash Consideration of RMB3,000 million was settled in February 2016. The remaining balance of the Cash Consideration of RMB18,322 million, together with related VAT of RMB2,704 million recoverable from Tower Company, will be settled before December 31, 2017. The outstanding Cash Consideration and related VAT carries interest at 3.92% per annum. For the year ended December 31, 2016, the interest income arisen from outstanding Cash Consideration and related VAT was approximately RMB809 million (2015: approximately RMB120 million).

(ii) As stated in Note 1, CUCL leased tower assets and related assets from the Tower Company. According to the signed agreements, the Group recognized operating lease and other service charges for the year ended December 31, 2016 totalled RMB14,887 million (2015: approximately RMB2,926 million) in connection with its use of telecommunications towers and related assets, inclusive of charges for the service elements and the service charges during the transition period.

(iii) The Group provide engineering design and construction services, including system integration and engineering design services to Tower Company.

(b) Amounts due from and to Tower Company

Amount due from Tower Company as of December 31, 2016 included outstanding Cash Consideration of RMB18,322 million and related VAT recoverable from Tower Company of RMB2,704 million (2015: RMB21,322 million and RMB2,704 million, respectively), both of which carries interest at 3.92% per annum, with the principal to be settled before December 31, 2017.

Amount due to Tower Company balance mainly included operating lease and other service charges payable, and payable balance in relation to power charges paid by Tower Company on behalf of the Group, of RMB4,377 million in total as of December 31, 2016 (2015: RMB3,029 million in total).

Except as mentioned above, 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.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.3 Related party transactions with Unicom Group and its subsidiaries

	Note	2014	2015	2016
Net deposit placed with Finance Company by Unicom Group and its subsidiaries	(i)	—	—	2,397
Interest expense on the deposits	(i)	—	—	11

(i) Finance Company has agreed to provide financial services to Unicom Group and its subsidiaries, including deposit services, lending and other credit services, and other financial services. For the deposit services, the interest rate for deposits placed by Unicom Group and its subsidiaries will be no more than the maximum interest rate promulgated by the People's Bank of China for the same type of deposit, the interest rate for the same type of deposit offered to other clients and the applicable interest rate offered by the general commercial banks in PRC for the same type of deposit.

Amount due to Unicom Group and its subsidiaries as of December 31, 2016 included a balance of the net deposits received by Finance Company from Unicom Group and its subsidiaries of RMB2,397 million with an interest rate at 1.50% per annum.

39.4 Operating lease and other commitments to related parties

As of December 31, 2015 and 2016, the Group had commitments to related parties in respect of total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments totalled RMB926 million and RMB49,038 million, respectively.

40. CONTINGENCIES AND COMMITMENTS

40.1 Capital commitments

As of December 31, 2015 and 2016, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	2015	2016		
	Total	Land and buildings	Equipment	Total
Authorized and contracted for	18,129	1,875	11,598	13,473
Authorized but not contracted for	21,851	9,583	25,703	35,286
	39,980	11,458	37,301	48,759

40.2 Operating lease and other commitments

As of December 31, 2015 and 2016, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases and other commitments as follows:

	2015	2016			
	Total	Land and buildings	Equipment	Ancillary facilities*	Total
Arrangements expiring:					
- not later than one year	4,838	1,003	12,351	3,837	17,191
- later than one year and not later than five years	7,572	2,574	29,300	9,616	41,490
- later than five years	1,731	69	1,434	—	1,503
	14,141	3,646	43,085	13,453	60,184

* The amount included payment commitments for non-lease elements.

40.3 Contingent liabilities

As of December 31, 2016, the Group had no material contingent liabilities and no material financial guarantees issued.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

42. 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, 2015 and 2016, RMB28,780 million and RMB28,827 million (US$4,152 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 RMB188,231 million and RMB196,644million (US$28,323 million) as of December 31, 2015 and 2016, respectively.

The following presents condensed unconsolidated financial information of the parent company only.

Condensed Statement of financial position

	As of December 31		
	2015	2016	2016
	RMB	RMB	US$
ASSETS			
Non-current assets			
Property, plant and equipment	13	10	1
Investments in subsidiaries	160,308	159,815	23,019
Loan to a subsidiary	34,461	32,602	4,696
Financial assets at fair value through other comprehensive income	4,665	4,138	596
	199,447	196,565	28,312
Current assets			
Loan to subsidiaries	113	2,467	355
Amounts due from subsidiaries	3,418	5,729	825
Dividend receivable	19,947	16,158	2,327
Prepayments and other current assets	9	6	1
Cash and cash equivalents	657	1,443	208
	24,144	25,803	3,716
Total assets	223,591	222,368	32,028
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	179,102	179,102	25,796
Reserves	(5,917)	(6,448)	(929)
Retained profits			
- Proposed final dividend	4,071	—	—
- Others	5,999	7,869	1,134
Total equity	183,255	180,523	26,001
LIABILITIES			
Non-current liabilities			
Promissory notes	3,995	—	—
	3,995	—	—
Current liabilities			
Short-term bank loans	25,828	29,331	4,225
Accounts payable and accrued liabilities	316	211	29
Loans from subsidiaries	171	970	140
Amounts due to subsidiaries	6,385	6,385	920
Taxes payable	222	29	4
Dividend payable	920	920	133
Current portion of promissory notes	2,499	3,999	576
	36,341	41,845	6,027
Total liabilities	40,336	41,845	6,027
Total equity and liabilities	223,591	222,368	32,028
Net current liabilities	(12,197)	(16,042)	(2,311)
Total assets less current liabilities	187,250	180,523	26,001

Condensed Statements of Comprehensive Income

	Year ended December 31			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
Revenue	—	—	6	1
Dividend income	12,120	7,226	371	53
General and administrative expenses	(52)	(52)	(63)	(9)
Interest income	937	1,387	1,250	180
Finance costs	(1,272)	(2,980)	(718)	(103)
Other income-net	(6,222)	67	1,060	153
Income before income tax	5,511	5,648	1,906	275
Income tax expenses	(47)	(36)	(36)	(5)
Net income	5,464	5,612	1,870	270
Other comprehensive income:				
Change in fair value of financial assets through other comprehensive income-net	(520)	(2,172)	(531)	(76)
Total comprehensive income for the year	4,944	3,440	1,339	194

Condensed Statements of Cash Flows

	Year ended December 31			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
Net cash outflow from operating activities	(194)	(56)	(85)	(12)
Net cash inflow from investing activities	423	24,613	537	77
Net cash inflow/(outflow) from financing activities	542	(25,829)	266	38
- Dividend paid to equity shareholders of the Company	(3,584)	(4,643)	(1,005)	(145)
Net increase/(decrease) in cash and cash equivalents	771	(1,272)	718	103
Cash and cash equivalents at beginning of year	966	1,852	657	95
Effect of changes in foreign exchange rate	115	77	68	10
Cash and cash equivalents at end of year	1,852	657	1,443	208

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 15, 2017.

Exhibit 4.68

CHINA UNITED NETWORK COMMUNICATIONS CORPORATION LIMITED

and

CHINA TOWER CORPORATION LIMITED

COMMERCIAL PRICING AGREEMENT

This Commercial Pricing Agreement (the "**Agreement**") is entered into by and between the following two parties on 8 July 2016 in Beijing, China:

(1) China United Network Communications Corporation Limited, a company incorporated under the laws of the People's Republic of China with limited liability ("**Party A**" or "**CUCL**"), whose registered office is at 21 Jinrong Street, Xicheng District, Beijing, and whose legal representative is Wang Xiaochu;

(2) China Tower Corporation Limited, a joint stock company with limited liability incorporated under the laws of the People's Republic of China ("**Party B**" or "**Tower Company**"), whose registered office is at 19/F, 73 Fucheng Road, Haidian District, Beijing, and whose legal representative is Liu Aili;

(together, the "**Parties**" and, individually, a "**Party**").

WHEREAS:

On 14 October 2015, China Mobile Communication Company Limited and its 31 subsidiaries, China United Network Communications Corporation Limited and its one subsidiary, China Telecom Corporation Limited, China Reform Holdings Corporation Limited and Tower Company entered into the Agreement on Purchase of Existing Telecommunications Towers and Related Assets by Issuing Shares and Paying Cash Consideration, and China Mobile Communications Corporation and its 24 subsidiaries, China United Network Communications Group Company Limited and its seven subsidiaries, China Telecommunications Corporation and its 11 subsidiaries and Tower Company entered into the Agreement on Transfer of Existing Telecommunications Towers and Related Assets. Under the aforementioned agreements, Party A and its subsidiaries shall transfer their then-owned telecommunications towers and related assets (the "**Acquired Assets**") to Tower Company.

THEREFORE, upon friendly consultations, the Parties hereby agree on the leasing and settlement of the tower products, indoor distribution products, transmission products and service products as follows:

Article 1 The pricing of tower products, indoor distribution products, transmission products and service products is subject to Annex 1 Product Catalogue and Pricing (see Annex 1 to the Agreement for details).

Article 2 The Parties shall require and procure their respective subsidiaries or branches at the provincial level to enter into agreements consistent with the template of the Provincial Service Agreement set forth in Annex 2 to the Agreement, pursuant to which Party B shall provide tower products, indoor distribution products, transmission products and service products to the subsidiaries of Party A.

Article 3 The agreements between the Parties with respect to the product catalogue and pricing of tower products, indoor distribution products, transmission products and service products shall be governed by this Agreement, which shall prevail over any and all prior oral or written consultations, agreements and arrangements between the Parties. Matters not specified in the Agreement shall continue to be governed by other agreements or arrangements between the Parties.

Article 4 The Agreement shall become effective from the date when it is executed by the legal representatives or authorized representatives and stamped with the respective corporate seals of the Parties.

Article 5 The Agreement is written in Chinese and shall be executed simultaneously in six counterparts, each of which shall be deemed to have the same binding legal effects. Each Party shall hold three copies.

(No text below and the signature pages to the Commercial Pricing Agreement between China United Network Communications Corporation Limited and China Tower Corporation Limited (No. [U12-1001-2016-000560] to follow)

Party A

China United Network Communications Corporation Limited (chop)

Legal Representative (or Authorized Representative): /s/ LI Fushen ________(signature)
8 July 2016

Party B

China Tower Corporation Limited (chop)

Legal Representative (or Authorized Representative): /s/ TONG Jilu ________(signature)

Annex 1: Product Catalogue and Pricing

Annex 2: Provincial Service Agreement (I)

Annex 1

Product Catalogue and Pricing

Notes:

1. **Scope of Application**

   This Annex is applicable to the pricing of all tower products, indoor distribution system products (hereinafter referred to as indoor distribution products), transmission products and services products for which Tower Company provides services.

2. **Effective Date**

   This Annex shall come into effect on the same date as the Commercial Pricing Agreement. The agreements between the Parties on the catalogue and pricing with respect to the tower products, indoor distribution products, transmission products and service products shall be subject to this Annex, which shall also prevail over any prior oral or written consultation, agreements and arrangements between the Parties in this regard.

   With respect to the products which Tower Company had delivered and provided services for prior to the effective date of this Annex, the terms under this Annex shall be applied retrospectively from their commencement dates confirmed by the Parties' subsidiaries or branches at the municipal level ("municipal companies").

3. **Other Notes**

   Financial expenses incurred by Tower Company, which shall be borne by Tower Company, are not presented in the pricing formula.

I. Tower Products

(i) New Tower Products

1. Product Catalogue and Standard Configuration of the Basic Product Unit

(1) Product Catalogue

The tower products provided by Tower Company include ground base towers and building base towers. The ground base towers include regular ground base towers, landscape towers and simplified towers; building base towers include regular building base towers and floor holding poles. These products are further classified by mounting height. Each mounting height can be divided into five combinations in accordance with the different equipment rooms and facilities: (1) tower + self-owned equipment room + facilities; (2) tower + rented equipment room + facilities; (3) tower + integrated cabinet + facilities; (4) tower + RRU remote + facilities; and (5) tower (without equipment room and facility).

Table 1: Tower Catalogue

Category	Type	Definition	Mounting Height (m)[Note]
Ground Base Towers	Regular Ground Base Towers	Various single-pipe towers, angle-steel towers, three-pipe towers, four-pipe towers and other towers that have platforms and at least six antennas can be installed at the same horizontal height	H<30
			30≤H<35
			35≤H<40
			40≤H<45
			45≤H≤50

Category	Type	Definition	Mounting Height (m)Note
	Landscape Towers	Various landscape towers, transmission poles, ground heightened stents, and various simplified towers with height above 20 meters (excl.), that have no platform and only three antennas can be installed at the same horizontal height	H<20
			20≤H<25
			25≤H<30
			30≤H<35
			35≤H≤40
	Simplified Towers	Municipal street lamp posts, cement poles, H posts, supporting posts, guyed supports and other towers, with the height lower than 20 meters (incl.)	H≤20
Building Base Towers	Regular Building Base Towers	Various building base towers such as heightened stents, guyed masts, floor camouflage towers, camouflage covers, that are built on the building floors	—
	Floor Holding Poles	Wall-attached or weight-countered holding poles, etc.	—

Note 1: Antenna mounting height refers to the vertical height from the highest point at which the antenna support pole or platform touches the tower to the ground. The angle-steel towers, single-pipe towers, three-pipe towers and other towers mounted on the buildings (excluding base station equipment rooms) are defined as regular ground base towers according to the similar cost principle, and their antenna mounting height refers to the vertical height from the highest point at which the antenna support or platform touches the tower to the floor.

Note 2: In the event that several telecom companies demand the products of the same mounting height at the same time, the Parties' municipal companies shall negotiate the allocation of products of the same mounting height among multiple station sites on a rotating basis.

Note 3: The definition of the camouflage (covers) provided by Tower Company is regular building base towers, and the definition of the camouflage (covers) provided by telecom companies is floor holding poles.

Note 4: Non-standardized products that cannot be categorized into in the above product catalogue according to product definitions shall be matched per similar cost principle.

(2) The Standard Configuration of the Basic Product Unit

A basic product unit for a tower product is the utilization space for three antennas (one system). The standard configuration of the carried equipment within a basic product unit is set forth in the table below:

Table 2: The Standard Configuration of the Basic Unit of Tower Products

Item of Product Configuration	Basic Configuration		
	Regular Ground Base Towers	Landscape Towers	Other Products
Number of Radio Frequency Antennas	3	3	3
Number of Systems	1	1	1
Length of a Single Antenna	2 meters	2 meters	2 meters
Number of Holding Poles	3	3	3
Installation Space of RRU	3	3	3 (not in the top of the tower)
Installation Space of Equipment	Tower + equipment room + facilities: One equipment frame (sharable) Tower + integrated cabinet + facilities: Two integrated cabinets (sharable) Tower + RRU remote + facilities: One integrated cabinet (sharable)		
Back-up Power Supply Assurance	To provide three-hour back-up battery assurance for master devices and 10-hour for transmission devices. If extra investment is incurred in relation to 10-hour back-up duration for transmission devices, the Parties' subsidiaries shall negotiate and charge separately according to the pricing formula of tower products.		

Note 1: The tower models and configuration of products provided by Tower Company shall be determined upon the actual surroundings by the design institute according to the distribution interfaces in the Customer Services Standard (Trial). For tower + RRU remote + facilities, China Power shall provide RRU back-up batteries and AC/DC modules. In the case of construction using the DC remote supply method, Tower Company shall provide DC remote supply devices. The related expenses shall be separately calculated and charged according to the construction costs previously determined by the Parties with reference to the pricing method for electricity input.

Note 2: In principle, a set of base station devices used by telecom companies, including base band, radio frequency, control and other functional modules, if deployed on a successive frequency band adopting corresponding telecommunication technical standards, shall be deemed as a set of "system". In the case that the same set of devices are adopted, if systems are enlarged without enlarging their occupied space, such devices can be deemed as a set of "system".

Note 3: In principle, the total windward area, weight, and single-system power of one antenna and one RRU shall not exceed 0.8 square meter, 47 kilograms and 1.5KW, respectively.

Note 4: Tower Company shall provide the space for installing one standard transmission frame according to the type of equipment rooms. In principle, the maximum dimensions of one transmission frame for telecom companies are 600mm×600mm×2.2m. Equipment frames and integrated cabinets shall be provided by Tower Company.

Note 5: Entrusted by telecom companies, when providing tower products, Tower Company shall concurrently coordinate the construction of, or construct, public manholes in front of entrances and exits within the red line and routers drawing up at stations (except for building base towers, only the routers drawing up at stations) on behalf of telecom companies. The expenses related to such construction and coordination shall be priced either by referencing transmission products or directly settled between the telecom companies and the resource owners with the coordination of Tower Company, or determined and settled by the Parties' subsidiaries or branches upon mutual consultation.

Note 6: In the event that the back-up power supply exceeds the standard configuration, fees shall be calculated and charged according to the price of extra battery assurance products (RMB400/hour/system/year). In other circumstances where the standard configurations are exceeded, the Parties' subsidiaries or branches shall negotiate and determine the related charges according to the cost markup method with reference to the pricing formula of tower products wherein the parameters such as years of depreciation and cost margin shall be consistent with those stated in the pricing formula for tower products.

2. Product Pricing

(1) Pricing Formula

$$\text{Base price} = \left(\frac{\text{standard construction cost①}}{\text{years of depreciation②}} \times (1 + \text{impairment rate③}) + \text{maintenance cost④} \right) \times (1 + \text{cost margin⑤})$$

Product price = base price × (1- co-tenancy discount rate 1⑧) + (site fee⑥ + electricity input cost⑦) × (1- co-tenancy discount rate 2⑧)

Notes:

① **Standard construction cost** shall include the expenses for materials, construction, designing, supervision, crop compensation and others in relation to towers (including heighten stents, masts and rooftop holding poles), equipment rooms (including integrated cabinets, necessary bounding or retaining walls and fences if permitted), facilities (including AC/DC distribution boxes, combined switching power supplies, three-hour back-up batteries, air conditioners, the power and environment supervision systems for mobile communication ("PESM"), anti-thunder counterpoises, standard racks, cabling racks, feeder windows, lighting, firefighting, and the like). Tower Company shall entrust the designers to determine the standard construction costs of various products subject to the wind pressure of $0.45KN/m^2$ and in accordance with the replacement cost method, as shown in the following table:

Table 3: Standard Construction Costs of Tower products

Product Category	**Product Type**	**Mounting Height (m)**	**Standard Construction Cost Note (RMB 10 Thousands)**				
			Tower + Self-owned Equipment Room + Facilities	**Tower + Rented Equipment Room + Facilities**	**Tower + Integrated Cabinet + Facilities**	**Tower + RRU Remote + Facilities**	**Towers without Equipment Room or Facilities**
Ground Base Towers	Regular Ground Base Towers	H<30	27.2064	23.3564	21.3095	19.1371	15.8902
		30≤H≤35	29.6595	25.8095	23.7626	21.5902	18.3433
		35≤H≤40	32.9920	29.1420	27.0951	24.9226	21.6758
		40≤H≤45	36.8090	32.9590	30.9121	28.7396	25.4928
		45≤H≤50	41.2877	37.4377	35.3908	33.2183	29.9715
	Landscape Towers	H<20	18.9308	15.0808	13.4414	12.0341	8.7872
		20≤H≤25	21.4657	17.6157	15.9764	14.5691	11.3222
		25≤H≤30	23.5495	19.6995	18.0601	16.6528	13.4060
		30≤H≤35	28.3960	24.5460	22.9067	21.4994	18.2525
		35≤H≤40	31.0728	27.2228	25.5834	24.1761	20.9292
	Simplified Towers	H≤20	14.0700	10.2200	8.5806	7.1733	3.9264
Building Towers	Regular Building Base Towers	—	14.0688	10.3688	8.7294	7.3221	4.0753
	Floor Holding Poles	—	11.2042	7.5042	5.8648	4.4575	1.2107

Note 1: The equipment rooms in the tower + self-owned equipment room + facilities combination includes brick-concrete, color-steel and other kinds of equipment rooms (excluding rented equipment rooms), and their construction cost shall be determined according to the above table.

Note 2: RRU remote refers to the situation where the master devices such as BBUs of the telecom companies are not put in Tower Company's equipment rooms.

Note 3: In the event that the telecom companies actually use tower products which do not belong to any of the above standard configured tower products, the price shall be determined subject to the standard construction cost of the actual type of towers, equipment rooms and corresponding facilities (see Schedule 1 and Schedule 2 hereto for details) and the pricing formula for tower products.

Note 4: All of the above standard construction costs exclude taxes (all construction prices and costs provided in this Annex exclude taxes, and similarly hereinafter).

② **Years of depreciation** shall be the rounded-up of the average years of depreciation of the corresponding assets of the three telecom companies, namely, the years of depreciation of towers are 10 years, the years of depreciation of a self-owned equipment room in a ground base tower are 20 years, the years of depreciation of a self-owned equipment room in a building base tower are 6 years, the years of depreciation of a rented equipment room and an integrated cabinet are 6 years, and the years of depreciation of facilities are 6 years.

③ **Impairment rate** shall be 2% per year, including relocation, overhaul and damage, etc.

④ **Maintenance cost** shall be RMB3,770 per year tentatively, and shall include the fees for the outsourced maintenance, repair and consumable items. The basic maintenance cost shall be adjusted and re-determined in accordance with the market-oriented bidding and procurement results corresponding to the maintenance particulars and quality indicators jointly confirmed by the respective subsidiaries or branches at the provincial level ("provincial companies") of the three telecom companies and Tower Company. The maintenance cost incurred prior to the bidding and procurement process shall be retrospectively adjusted according to the pricing formula. The Parties' subsidiaries or branches can consult upon the timetable of the bidding taking into account their actual conditions, and the standard fee of RMB3,770 per year shall no longer be enforced after such market-oriented bidding and procurement process.

⑤ **Cost margin** shall be 15% for the compensation of the management expenses, personnel expenses and other expenses of Tower Company.

⑥ **Site Fee** shall be calculated by station site, including site rent, one-time slotting fees and coordination costs, land requisition expenses incurred associated with Tower Company's offering products and services to the telecom companies. The respective provincial companies of Tower Company and the telecom companies shall negotiate and determine the fees on a lump-sum basis according to the rents provided in the lease agreements under relevant scenarios by the telecom companies in 2014 and by Tower Company in 2015.

In the event that the Parties are unable to determine the lump-sum fees, the Parties' provincial companies shall agree upon a transition period, during which the fees shall be charged in accordance with actual expenses incurred on an itemized basis. Particularly, the one-time slotting fees, coordination costs, land requisition expenses and others shall be amortized according to the years of depreciation of towers of 10 years.

⑦ **Electricity input cost** shall be negotiated by the Parties' provincial companies and they shall choose to adopt the lump-sum or itemized basis. Specific costs shall be calculated by the following formula:

$$\text{Electricity input cost} = \frac{\text{construction cost}}{\text{years of depreciation}} \times (1 + \text{cost margin})$$

wherein:

Construction cost shall be determined by the Parties' provincial companies: (i) if opting the pricing method on a lump-sum basis, based on the actual construction cost of the electricity input facilities under the various scenarios incurred by the telecom companies in 2014 and by Tower Company in 2015; or (ii) if opting the pricing method on an itemized basis, based on the actual construction costs incurred in the project.

Years of depreciation shall be 10 years according to the average years of depreciation of the electricity input assets of the three telecom companies.

Cost margin shall be 5%.

The above formulas are applicable to the electricity input by means of solar energy, wind power or wind-solar hybrid, in the pricing formulas for which the years of depreciation shall be determined by the Parties' subsidiaries or branches according to the average years of depreciation of similar assets of the three telecom companies.

The maintenance cost of electricity input facilities shall be included in the tower products' maintenance cost, which the Parties' provincial companies shall take into account in the bidding and procurement process for the maintenance of tower products.

⑧ **Co-tenancy discount rate**: where the same station site is used and the relevant facilities are shared by more than one telecom company, a sharing discount shall be applied. The scope of sharing discount extends to base prices, site fee and electricity input costs in relation to tower products. The commencement date of a sharing discount shall be the commencement date of the new occupier's service term.

Table 4: Co-Tenancy Discount Rate 1 (Co-Tenancy Discount Rate for Base Price)

	Sole User	Shared by Two Companies	Shared by Three Companies
Anchor Tenant	—	25% discount	35% discount
Other Tenants	—	20% discount	30% discount

Table 5: Co-Tenancy Discount Rate 2 (Co-Tenancy Discount Rate for Site Fee and Electricity Input Costs)

	Sole User	Shared by Two Companies	Shared by Three Companies
Anchor Tenant	—	45% discount	55% discount
Other Tenants	—	40% discount	50% discount

Note 1: The anchor tenant refers to the former owner of the tower, in the case of an Acquired Tower, or the first basic telecom company that exclusively occupies the tower, in the case of a New Tower. For the avoidance of doubt, the anchor tenant of a New Tower is the first basic telecom company that exclusively occupies the New Tower, the commencement date of the relevant service term for which is prior to the dates of the Product Confirmation Orders entered into by other telecom companies who later occupy such tower.

Note 2: Because the relevant costs in the base prices will increase along with the increase in the number of sharing parties, the actual discount of the base prices is lower taking into account the increased costs.

In principle, as for the station sites with existing equipment rooms, the telecom companies who later occupy shall not use the construction model of integrated cabinets.

In the event that more than one telecom company uses the same station site without sharing the relevant facilities (including equipment rooms and facilities under the towers constructed by means of RRU remote by certain telecom companies), only the part which is shared shall enjoy the co-tenancy discount. The basic price for the co-tenancy discount to be applied shall be determined according to the standard construction costs set forth in the table below and the pricing formula for tower products. In the pricing formula, the maintenance cost shall be determined by either calculating the percentage of its construction cost in the standard construction cost for corresponding tower products on the basis of the maintenance cost for tower products to be determined by the relevant provincial companies, or upon mutual consultation between the Parties' provincial companies.

Table 6: Standard Construction Costs of Various New Towers in Partial Sharing:

Product Category	Product Type	Mounting Height (m)	Standard Construction Costs of Relevant Configurations in Partial Sharing (RMB 10 Thousands)				
			Towers without Equipment Room or Facilities	Self-Owned Equipment Room + Facilities	Rented Equipment Room + Facilities	Integrated Cabinet + Facilities	RRU Remote + Facilities
Ground Base Towers	Regular Ground Base Towers	H<30	15.8902	11.3162	7.4662	5.4193	3.2469
		30≤H<35	18.3433	11.3162	7.4662	5.4193	3.2469
		35≤H<40	21.6758	11.3162	7.4662	5.4193	3.2469
		40≤H<45	25.4928	11.3162	7.4662	5.4193	3.2469
		45≤H≤50	29.9715	11.3162	7.4662	5.4193	3.2469
	Landscape Towers	H<20	8.7872	10.1435	6.2935	4.6542	3.2469
		20≤H<25	11.3222	10.1435	6.2935	4.6542	3.2469
		25≤H<30	13.4060	10.1435	6.2935	4.6542	3.2469
		30≤H<35	18.2525	10.1435	6.2935	4.6542	3.2469
		35≤H≤40	20.9292	10.1435	6.2935	4.6542	3.2469
	Simplified Towers	H≤20	3.9264	10.1435	6.2935	4.6542	3.2469
Building Base Towers	Regular Building Base Towers	—	4.0753	9.9935	6.2935	4.6542	3.2469
	Floor Holding Poles	—	1.2107	9.9935	6.2935	4.6542	3.2469

Note: In the event that the telecom companies construct by means of the RRU remote and deploy BBU together in Tower Company's equipment rooms, the first set of BBU + RRU shall be priced according to the RRU's corresponding towers and BBU's corresponding equipment room + facilities, while the rest of the RRU shall be priced according to its corresponding tower + RRU remote + facilities. If the facility space for BBU expands, it shall be priced 10% of the base price of RRU. Co-tenancy discounts shall apply in accordance with the sharing status in the actual usage.

(2) Adjustment of the Standard Construction Costs

Considering that the construction costs vary in different provinces of China, the 31 provinces are divided into four categories. The following coefficients shall be applied to the adjustment of construction costs based on the national standard construction costs:

Category 1: Inner Mongolia, Liaoning, Jiangsu, Jilin, Zhejiang, Sichuan, Heilongjiang, Anhui, Henan, Shanxi, Guangxi, Fujian, Hunan, Hubei, Gansu, Guangdong, Hainan and Xinjiang, 18 provinces in total, for which the adjustment coefficient is 1.0;

Category 2: Hebei, Chongqing, Shandong, Shaanxi, Jiangxi, Guizhou and Yunnan, 7 provinces in total, for which the adjustment coefficient is 0.9;

Category 3: Beijing, Tianjin and Ningxia, 3 provinces in total, for which the adjustment coefficient is 1.1;

Category 4: Shanghai, Tibet and Qinghai, 3 provinces in total, for which the adjustment coefficients are 1.86 for Shanghai, 2.38 for Tibet and 1.26 for Qinghai, respectively, consistent with the pricing of Acquired Towers.

Constructions in response to the demands of stations on the mountains or islands, camouflage stations (including camouflage trees) and micro stations shall be carried out on a customized manner. The Parties' municipal companies shall estimate the construction costs in prior consultation, which shall be applied to the pricing formula for tower products. Such constructions may begin only after the prices are determined. The pricing parameters in the pricing formula other than standard construction costs shall be consistent.

In addition to the above-mentioned coefficient, the Parties' municipal companies shall adjust the construction costs of towers (including the tower bases and bodies) built in areas other than those within 0.45KN/m2 wind pressure regions according to the design institute's actual wind pressure design with reference to the 50-year-return-period wind pressure distribution diagram published by the national authorities. See Schedule 1 for specific adjustments.

(3) Pricing Rules for Additional Antennas or Systems

Three antennas (one system) form a basic product unit of tower products. The pricing shall be calculated as one product unit in the case that there is less than one product unit.

Where there is more than one basic product unit:

(a) For regular ground base towers, the price shall be calculated based on one product unit for six antennas (two systems) or less. In the case of more than six antennas (two systems), every three additional antennas (one system) shall be charged at 30% of a product unit.

(b) For the other tower products, every three additional antennas (one system) shall be charged as 30% of a product unit.

(c) Where there are additional systems but no antennas in addition to the standard configurations, every additional system which expands facility space shall be charged at 10% of a product unit.

(4) Pricing Rules for Others

(a) With regard to the landscape towers, if the basic telecom companies opt not to install the RRU onto the towers, a 2% discount shall be applied to the base prices.

(b) When the telecom companies mount microwaves and WLAN APs, the price of an end microwave shall be charged as 0.3 product unit of the corresponding tower products; three sets of WLAN antennas shall be charged as 0.1 product unit of the corresponding tower products, and co-tenancy discounts shall be applied.

(c) The environmental impact assessment costs for the New Towers are not included in the standard construction costs due to the substantial variations by geographic region. Tower Company can be entrusted by the telecom companies and organize its customers to engage in (i) the EMF environmental impact assessment and approval and (ii) the environmental protection review and approval upon the acceptance in relation to the construction projects of mobile telecommunication base stations. The related expenses shall be shared by the subsidiaries of the telecom companies and directly settled with the third-party institutions carrying out the environmental impact assessment, or the Parties' subsidiaries shall determine the settlement upon consultation.

(d) In special cases beyond standardized configurations, the Parties' subsidiaries shall negotiate and determine the relevant pricing standards using the cost markup method and taking into account additional costs actually incurred with reference to the pricing formula for tower products, wherein the parameters, such as years of depreciation and cost margin, shall be consistent with those parameters in the pricing formula for tower products.

(ii) Acquired Towers

The Acquired Towers refer to all tower products constructed by the telecom companies and transferred to Tower Company (subject to the Parties' Asset Handover Confirmation List). Other tower products shall hereafter be deemed New Towers.

The pricing for the Acquired Towers shall be applicable to the former owners of the Acquired Towers, the telecom companies which started to share the Acquired Towers prior to October 31, 2015 (hereinafter referred to as the "Existing Sharing Parties") and the basic telecom companies who subsequently started to share the Acquired Towers transformed by Tower Company (hereinafter, the "New Sharing Parties").

1. Product Catalogue and Standard Configuration of the Basic Product Unit

The product catalogue and definitions, the definition of product unit, the standard configuration of the basic product unit and other specifications of the Acquired Towers shall be consistent with those applicable to the New Towers, namely, the product catalogue applicable to the New Towers shall be applied to all Acquired Towers. The backup power supply assurance duration is subject to the actual backup duration as at handover of the acquired assets. The specific service standards shall be negotiated by the Parties.

2. Product Pricing

(1) Pricing Formula

$$\text{Base price} = \left(\frac{\text{standard construction cost of New Towers}}{\text{years of depreciation of New Towers}} \times \text{discount rate ①} \times (1+ \text{impairment rate ②}) + \text{maintenance cost ③}\right) \times (1+ \text{cost margin ④})$$

Product price = base price × (1-co-tenancy discount rate 1 ⑥) + site fee ⑤ × (1-co-tenancy discount rate 2 ⑥)

Notes:

① The formula for the discount rate is as follows:

$$\text{Discount rate} = \frac{\Sigma \text{ appraised value / years of depreciation of Acquired Towers}}{\Sigma\ (\Sigma \text{ standard construction cost of New Towers of the sub-category / years of depreciation of New Towers} \times \text{percentage of similar products of Acquired Towers}) \times \text{number of Acquired Towers}}$$

Wherein, in respect of the years of depreciation of acquired assets, the years of depreciation of batteries and other supporting facilities shall be determined subject to their remaining years of depreciation, and the years of depreciation of the towers, equipment rooms, air-conditioners, electricity input and other assets shall be determined subject to the years of depreciation of similar New Towers.

See Schedule 3 for the adjustment coefficients applicable to each province. The adjustment coefficients therein are applicable to all Acquired Towers, except that the wind pressure adjustment coefficient and the newly constructed regional coefficient shall not be taken into account.

No separate electricity input cost will be charged for the Acquired Towers. Before the commencement date when electricity services are charged on a lump-sum basis, f the telecom companies request an alteration in power supply from DC to AC, or from high voltage to low voltage, for the Acquired Towers, the electricity input cost shall be simultaneously adjusted to the electricity input prices applicable to the corresponding New Towers and charged separately.

② **Impairment rate** shall be the same as that of the New Towers.

③ **Maintenance cost** includes the expenses for outsourced maintenance, repair and consumable items, and shall be jointly determined by the Parties' provincial companies upon mutual consultations in accordance with existing contracts or the market-oriented bidding and procurement results.

④ **Cost margin** shall be the same as that of the New Towers for compensating the management expenses, personnel expenses and other expenses of Tower Company.

⑤ **Site fee** shall be calculated by station site, including the remaining pre-amortization cost of the site rent, land requisition expenses and other one-time expenses. The site lease agreements with respect to the Acquired Towers were executed by the telecom companies, the rent of which will be uncertain upon the expiration of such agreements. Therefore, the rent shall be determined on an itemized basis in line with the rent provided in the original site lease agreements prior to expiration of such contracts. The one-time land requisition expenses paid by telecom companies shall be determined on an itemized basis in accordance with the remaining pre-amortization value as of the asset appraisal date.

Upon the expiration of the site lease agreements, or if no such agreements exist, the site fee shall be negotiated and determined by the Parties' provincial companies on an itemized basis according to the renewed agreements and remaining pre-amortization costs, or on a lump-sum basis for certain scenarios.

The site fee for sites where the rent is tentatively uncertain shall be determined by the Parties' provincial companies upon mutual consultation. In case the actual site fee deviates from the consulted cost, the cost shall be retrospectively adjusted.

⑥ **Co-tenancy discount** rates and rules shall be the same as those applicable to the New Towers.

For the New Sharing Parties: They shall be charged based on the "same tower same price" principle. The base price and site fee for the New Sharing Parties shall be based on the prices of the Acquired Towers located at the same station and shall enjoy the co-tenancy discount. No electricity input fee shall be charged separately. The electricity input switching expenses which are incurred by any newly added product unit or New Sharing Party shall be calculated according to the electricity input pricing formula for the New Towers and paid separately by the New Sharing Parties.

For the Existing Sharing Parties: Prior to 2018, they will be charged at 30% of each of the base price and the site fee. The former owner shall be entitled to the anchor discount for the base price, with the site fee to be charged at 70% (if there are two tenants) or 40% (if there are three tenants). When the third party starts sharing the Acquired Tower, the prices for the Existing Sharing Parties shall remain unchanged; the former owner shall be entitled to the anchor discount (namely, to be charged at 65% of the base price and 45% of the site fee). However, effective from January 1, 2018, the pricing rules applicable to the Existing Sharing Parties shall be the same as those applicable to the New Sharing Parties.

In the event that multiple telecom companies share the same station site of the Acquired Tower without sharing the relevant acquired facilities, only the shared parts shall enjoy the co-tenancy discount, and the price basis for the co-tenancy discount shall be determined according to the pricing formula for the Acquired Towers.

(2) Pricing of Additional Antennas or Systems

Prior to the Completion Date (October 31, 2015), all product units constructed by telecom companies on the Acquired Towers shall be deemed as a whole and priced at the base price of the product unit with the highest antenna mounting height on the relevant Acquired Towers.

The newly added product unit of the Acquired Towers (including the product units constructed and added by Tower Company prior to the Completion Date) shall be priced the base price of the corresponding product unit of the Acquired Towers. Every additional three antennas (one system) shall be charged at 30% of the price for a product unit and every one additional system (excluding the antennas) which expands facility space shall be charged at 10% of the price for a newly added product unit.

3. Service Commencement Date of the Acquired Towers

The service commencement date of the Acquired Towers (also for the Existing Sharing Parties) is November 1, 2015. The lease and settlement arrangements with the basic telecom companies that started sharing the Acquired Towers transformed by Tower Company prior to November 1, 2015 shall be agreed separately.

II. Indoor Distribution Products

(i) Product Catalogue and Standard Configuration of Basic Product Units

1. Product Catalogue

The indoor distribution products provided by Tower Company include building distribution products and tunnel distribution products. The building distribution products include indoor distribution products in commercial buildings and large-scale structures (including airports, railway stations, exhibition centers, gymnasiums, etc.). The tunnel distribution products include indoor distribution products in subway tunnels (including subway platforms) and railway tunnels.

Table 7: Indoor Distribution Product Catalogue

Category	Product Scenario	Pricing Unit	No. of Systems
Building distribution products	Commercial buildings	m^2	2 sets
	Large-scale structures (including airports, railway stations, exhibition centers, gymnasiums, etc.)	m^2	2 sets
Tunnel distribution products	Subway tunnels (including subway platforms)	km	2 sets
	Railway tunnels	km	2 sets

2. Standard Configuration of an Indoor Distribution Product Unit

With regard to the indoor distribution products, 2 sets of systems form a basic product unit. The standard configuration of devices in a basic product unit is set forth in the following table:

Table 8: Standard Configuration of an Indoor Distribution Product Unit

Item of Product Configuration	Basic Configuration	
	Building Distribution Products	Tunnel Distribution Products
Distribution System	POI or combiner + passive antenna feeder distribution system (feeder line + passive device + indoor antenna)	POI or combiner + leakage cable distribution system
Space for Signal Source Installation	1 RRU/system/POI or combiner	1 RRU/system/POI or combiner
Space for Equipment Installation	1 BBU device/system + 1 transmission device	1 BBU device/system + 1 transmission device
Back-up Power Supply	To provide 1-hour back-up battery assurance for BBUs and 10-hour back-up battery assurance for transmission devices according to the actual installation conditions. If extra investment is incurred due to the provision of 10-hour backup battery assurance for transmission devices, the Parties' subsidiaries shall negotiate and charge separately according to the pricing formula of indoor distribution products.	

Note 1: Indoor distribution products shall be constructed by means of double cables using combiners when constructed by one company and POI and high-quality components when jointly constructed by two or more companies.

Note 2: Tower Company will, upon request, subject to actual environment, provide the equipment rooms (or cabinets), switching power supply, AC/DC distribution units, PESM, air conditioners, fire equipment and grounding & lightning protection systems, etc.

Note 3: As entrusted by the telecom companies, Tower Company will coordinate public manholes in front of entrances and exits within the red line and routes drawing up at stations when providing indoor distribution products. Related expenses shall be directly settled by the telecom companies and the resource owners.

Note 4: If the cascading method is used for the RRU, the space for multiple RRU installations can be provided. In other circumstances beyond the standard configurations, the Parties' subsidiaries or branches shall negotiate and determine the price by means of cost markup method with reference to the pricing mechanism for indoor distribution products, wherein the parameters such as the years of depreciation, cost margin and others shall be consistent with those in the pricing scheme for indoor distribution products.

(ii) Pricing

1. Pricing Formula for Indoor Distribution Products in Commercial Buildings

$$\text{Base price} = \left(\Sigma \frac{\text{standard construction cost ①}}{\text{years of depreciation ②}} \times (1 + \text{impairment rate ③}) + \text{maintenance cost ④}\right) \times (1 + \text{cost margin ⑤})$$

Product price = (base price × covering construction area + site fee ⑥) × (1 - co-tenancy discount rate)

Notes:

① Standard Construction Cost:

The standard construction cost for indoor distribution products in commercial buildings includes the expenses for distribution systems, ancillary facilities, municipal electricity input and others. Tower Company shall entrust a third-party design institute and determine the standard construction cost with respect to the construction using POI, high-quality components and double cable. Such standard construction cost is set forth in the table below.

Table 9: Standard Construction Cost of Indoor Distribution Products in Commercial Buildings

Category	Product Scenario	Pricing Unit	No. of Systems	Standard Construction Cost
Building distribution products	Commercial buildings	m^2	2 sets	RMB16.24 / m^2

Under the following two circumstances, certain adjustments shall be applied to the standard construction cost of indoor distribution products in commercial buildings:

(a) where the landlord requires the use of galvanized steel pipes and wiring bridges/frames for constructing indoor distribution products:

Construction cost = standard construction cost × special adjustment coefficient

Wherein: the special adjustment coefficient is fixed at 1.3.

(b) where there are significant differences between the actual construction cost and the standard construction cost:

When the actual construction cost deviates from the standard construction cost by ±15% due to certain objective reasons, the Parties' municipal branches shall negotiate and apply the pricing formula for indoor distribution products to the indoor distribution products in commercial buildings based on the actual construction cost. The parameters shall be the same except the standard construction cost. The aforementioned objective reasons include, but are not limited to, using optical fiber distribution systems or some special requirements for equipment and materials from the landlord or other situations.

Under the above cases, the Parties' subsidiaries or subsidiary shall negotiate the estimated construction cost. The construction may begin after the price is determined based on the agreed construction cost and pricing formula for indoor distribution products.

② The years of depreciation are 7 years.

③ Impairment rate is fixed at 2%, including overhaul and damages.

④ Maintenance cost includes the expenses for outsourced maintenance, repair and consumable items. In accordance with the maintenance particulars and standards, Tower Company determines the maintenance cost as RMB0.2/year/m^2, wherein the expenses for outsourced maintenance is RMB0.12/year/m^2 and the expense for repair and consumable items is RMB0.08/year/m^2. The maintenance cost shall be adjusted according to the maintenance particulars and quality indicators jointly confirmed by the provincial companies of the three telecom companies and Tower Company as well as the bidding results. The base price shall be re-calculated. The maintenance cost incurred prior to the bidding and procurement process shall be retrospectively adjusted according to the pricing formula. In principle, such bidding and procurement process should be completed before March 1, 2016 and the standard of RMB0.2/year/m^2 will no longer be enforced. The Party's subsidiaries shall negotiate the specific bidding date based on actual situations.

⑤ Cost margin is fixed at 15% and used to compensate the management expenses, personnel and other costs of Tower Company.

⑥ Site fee includes the expenses for site rent, one-time slotting allowances and coordination expenses incurred when Tower Company provides products and services for the telecom companies. The Parties' provincial companies shall negotiate and determine the pricing on a lump-sum or itemized basis.

If pricing is on a lump-sum basis, the Parties' provincial companies shall negotiate and determine the standard site fee according to the price in the leasing contracts entered into by the telecom companies in 2014 and by Tower Company in 2015.

If pricing is on an itemized basis, the Parties' municipal branches shall determine the price on an itemized basis in accordance with the actual situations. The one time slotting allowances and coordination expenses shall be amortized according to the years of depreciation of 7 years for indoor distribution products.

In order to cut cost and enhance efficiency, the Party's provincial companies can negotiate and decide to price the indoor distribution products in the buildings on a lump-sum basis within the province or municipality.

2. Pricing Formula for Other Indoor Distribution Products

Other indoor distribution products include distribution products in large stadiums and subways (including subway platforms) as well as railway tunnels. Such products shall be priced on an itemized basis.

$$\text{Base price} = (\Sigma \frac{\text{construction cost ①}}{\text{years of depreciation ②}} \times (1 + \text{impairment rate ③}) + \text{maintenance cost ④}) \times (1+ \text{cost margin ⑤})$$

Product price = (base price + site fee ⑥) × (1- co-tenancy discount rate)

Notes:

① Construction cost:

The construction cost of other indoor distribution products shall be determined according to the actual construction cost incurred in the relevant project, including the construction cost for the distribution systems, ancillary facilities, municipal electricity input and other items.

② Years of depreciation shall be the average years of depreciation of the same assets of the three telecom companies, among which the years of depreciation for the distribution systems are 7 years.

③ Impairment rate is fixed at 2]%, including overhaul and damages.

④ Maintenance cost includes the expenses for outsourced maintenance, repair and consumable items, and shall be determined based on the actual final bidding price with the maintenance particulars and quality indicators jointly confirmed by the provincial companies of the three telecom companies and Tower Company.

⑤ Cost margin is fixed at 15]% and used to compensate the management expenses, personnel and other costs of Tower Company.

⑥ Site fee:

The Parties' subsidiaries shall determine the pricing for site fee on an itemized basis due to the significant differences on site fee of indoor distribution products for large stadiums, subways and railway tunnels. Site fee includes the expenses for site rent, one-time slotting allowances and coordination expenses incurred when Tower Company provides products and services for the telecom companies. The one-time slotting allowances and coordination expenses shall be amortized according to the years of depreciation of 7 years for indoor distribution products.

3. Calculation Method for Product Units Numbers

With regard to the indoor distribution products, every 2 sets of systems are deemed as a basic product unit. Less than one basic product unit shall be charged as one product unit.

Where there is more than one basic unit, every one set of newly added system shall be charged at 10% of the price for one basic product unit.

In principle, the telecom companies should put forward their demands for the number of systems once before the project construction. The reserved systems shall be charged as the accessed systems.

4. Co-tenancy discount Rate of Indoor Distribution Products

Where the same indoor distribution system is shared by multiple telecom companies, the co-tenancy discount rate shall be applied to base price and site fee of the indoor distribution product. The co-tenancy discount shall be applied from the commencement date of the service term of the party who later start to use the product. No anchor discount policy is applicable.

Table 10: The Co-Tenancy Discount Rate of Indoor Distribution Products

	Exclusive use by one company	Shared by two companies	Shared by three companies
Discount rate	–	40%	50%

(iii) Base Price of Indoor Distribution Products

The base price of indoor distribution products in commercial buildings shall be a nationwide unified price according to the relevant parameters. Given the complexity of large indoor distribution construction projects such as subways, high-speed railways, airports and exhibition centers, their prices shall be determined on an itemized basis according to the actual costs and shall be standardized later when the conditions are satisfied.

Table 11: Base Price of Indoor Distribution Products

Category	Product Scenario	Pricing Unit	No. of Systems	Base Price
Building distribution products	Commercial buildings	m^2	2 sets	RMB2.95/m^2/year
	Large-scale structure (including airports, railway stations, exhibition centers, gymnasiums, etc.)	m^2	2 sets	on an itemized basis
Tunnel distribution products	Subway tunnels	km	2 sets	on an itemized basis
	Railway tunnels	km	2 sets	on an itemized basis

III. Transmission Products

(i) Product Catalogue

Transmission products include pipes, pole lines, optical cables, manholes in front of entrances and exits, routers drawing up at stations, etc. In principle, if jointly entrusted by two or more telecom companies, Tower Company can provide transmission products by means of outsourced construction or services.

(ii) Product Pricing

1. Pricing Based on Outsourced Construction

In the case of outsourced construction, the pricing for transmission products shall be determined on an itemized basis by the Parties' municipal branches according to the principle of one-time amortization. The pricing formula shall be as follows:

$$\text{Product price} = \frac{\text{actual construction cost ①}}{\text{number of accessed telecom companies}} \times (1 + \text{cost margin ②})$$

Wherein:

① Construction cost includes, but is not limited to, the expenses for materials, construction, designing, supervision and reimbursement during the process.

The reimbursement expenses include, but are not limited to, expenses for coordination, road, bridge/river-crossing, road-crossing, farmland and forest-crossing, etc.

② Cost margin is fixed at 5%.

In the case of outsourced construction, the municipal branches of the telecom companies shall negotiate and determine the ownership, maintenance work and expenses of the transmission products based on the joint construction and sharing of transmission products among these telecom companies prior to the establishment of Tower Company.

2. Product Pricing Based on Service Mode

In the case of providing services, the price shall be determined by the Parties' municipal branches on an itemized basis, and the product service fees shall be paid monthly. The pricing formula shall be as follows:

$$\text{Product price} = \left(\Sigma \frac{\text{construction cost ①}}{\text{years of depreciation ②}} \times (1+ \text{impairment rate ③}) + \text{maintenance cost ④}\right) \times (1+ \text{cost margin⑤}) \times (1-\text{co-tenancy discount rate ⑥})$$

Wherein:

① Construction cost includes, but is not limited to, the expenses for materials, construction, designing, supervision and reimbursement during the process.

The reimbursement expenses include, but are not limited to, expenses for coordination, road, bridge/river-crossing, road-crossing, farmland and forest-crossing, etc.

② Years of depreciation are 10 years.

③ Impairment rate is fixed at 2%, including overhaul and damages.

④ Maintenance cost includes the expenses for outsourced maintenance, repair and consumable items, and shall be determined according to the amount actually incurred.

⑤ Cost margin is fixed at 15% and used to compensate the management expenses, personnel and other costs of Tower Company.

⑥ Co-tenancy discount rate is the same as that of the tower products' base price, without anchor discount (i.e., a 20% discount rate if there are two tenants and 30% if there are three tenants).

In the case of providing services, the ownership of the transmission product assets shall belong to Tower Company and the maintenance work and expenses shall be borne by Tower Company.

IV. Service products

(i) Service Product Catalogue

Tower Company can provide services such as power supply, oil machine power generation and extra battery assurance based on the demands of the telecom companies.

Table 12: Service Product Catalogue

Product Category	Product Definition
Power Supply Services	To provide electricity services for one site on a lump-sum basis
Oil Machine Power Generation Services	To provide oil machine power generation services for one site for certain duration
Extra Battery Assurance Services	To provide extra battery assurance services for one system (less than 1.5KW of equipment power in principle) in addition to standard configuration

Note: The number of times of oil machine power generation services and the number of hours of extra battery assurance services purchased by the telecom companies in the same station site shall be consistent. The expenses for oil machine power generation services in a shared station site shall be shared equally by the telecom companies. The charge commencement date of power supply services and oil machine power generation services shall be the activation day of the telecom companies equipment. In principle, the pricing and settlement of the acquired service products and new service products shall be consistent.

(ii) Pricing Method

1. Power Supply Service

Tower Company shall provide the power supply services on a lump-sum basis. The Parties' provincial companies shall state in the Provincial Service Agreement that the service term shall not exceed three years and neither service mode nor price can be changed during such term.

For those who choose the lump-sum power supply service, Tower Company's municipal branches shall determine the total amount of electricity fees according to the lump-sum electricity fees agreed by the Parties' provincial companies and shall pay the electricity fees monthly. If a station site is activated for less than one month, the electricity fees will be calculated according to the actual number of days for which such station site has been activated. The lump-sum expenses of power supply and the monthly service fees of towers shall be charged at the same time and Tower Company's municipal branches shall issue value-added taxation ("VAT") invoices and electricity consumption split sheets to the telecom companies' municipal branches.

For those who do not choose the lump-sum power supply services, Tower Company's municipal branches shall provide the electricity bill and electricity consumption split sheet to the telecom companies' municipal branches. For the shared station sites, the electricity charges shall be shared by the telecom companies' municipal branches according to the percentage of nominal power or actual electricity consumption (DC metering) of their respective equipments. The telecom companies' municipal branches shall pay the fees to the relevant power supply unit or the landlord for their electricity consumption and shall obtain the receipts. In circumstances where no invoices or receipts can be obtained, the Parties' subsidiaries shall negotiate and resolve the problem.

2. Oil Machine Power Generation Services

The Parties' provincial companies shall negotiate to provide the oil machine power generation service on a lump-sum or frequency basis. The telecom companies' municipal branches shall confirm in the Product Confirmation Order if they will purchase the oil machine power generation services from Tower Company.

(a) on a lump-sum basis:

The Parties' provincial companies shall negotiate to determine the lump-sum service price and settlement, which shall be confirmed by the Parties' municipal branched in the Product Confirmation Order.

(b) on frequency basis:

The Parties' provincial companies shall negotiate to determine the price for single-time power generation service. The formula is as follows:

Single-time service price = single-time power generation cost ① × (1 + cost margin ②)

① Single-time power generation cost:

The Parties' provincial companies can calculate and determine the single-time power generation cost with reference to the following formula:

Single-time power generation cost = base price for single-time power generation + oil cost for power generation per hour × power generation duration + vehicle usage fee per kilometer × number of kilometers

The Parties' provincial companies shall determine the related parameters with reference to the third-party power generation prices.

② Cost margin is fixed at 5% of single-time power generation cost.

3. Extra Battery Assurance Service

One standard extra battery assurance product refers to the service of providing one hour battery extra assurance for one system (the total power not exceeding 1.5KW in principle). The pricing formula is as follows:

$$\text{Product price} = \frac{\text{construction cost}}{\text{years of depreciation}} \times (1 + \text{impairment rate}) \times (1 + \text{cost margin})$$

The related parameter is RMB400 /year upon calculation with reference to the parameters in the pricing formula of tower products.

Where the equipment power exceeds 1.5KW, the Parties' subsidiaries shall negotiate to determine the expenses to be increased with reference to the above formula.

The telecom companies' subsidiaries can purchase N pieces of extra battery assurance products (here "N" expresses an integer) subject to their respective demands. However, the hours of extra battery assurance purchased by the telecom companies in the same station site shall be the same.

V. Adjustment Mechanism

To take into account factors such as inflation, the Parties shall adjust the maintenance cost and the site fee for the year with reference to the prior year's CPI (Consumer Price Index) published by the national statistical authority. Such adjustment shall be effective from January 1st of the year and applied retrospectively.

Should there be significant fluctuations in the real estate market or steel prices, the Parties shall negotiate and make adjustments to site fee, product prices and others accordingly.

Upon the expiration of the years of depreciation (10 years) of towers, the Parties shall negotiate separately the applicable adjustments based on the actual business operation of Tower Company.

If there is any material change in the actual business operation of Tower Company, such as the share rate, construction cost and profit differing from the forecast in 2016, the pricing mechanism hereunder shall be adjusted by the end of 2016.

Schedule 1: Adjustment Coefficient Related to Standard Construction Cost

Schedule 2: Standard Construction Cost of Equipment Rooms and Facilities

Schedule 3: Discount Rate of Acquired Towers

Schedule 1: Adjustment Coefficient Related to Standard Construction Cost

Schedule 1.1: Wind-Adjustment Coefficient for Standard Construction Cost of Towers pressure

Range of Wind Pressure	0.3 ≤n<0.4	0.4 ≤n<0.5	0.5 ≤n<0.6	0.6 ≤n<0.7	0.7 ≤n<0.8	0.8 ≤n<0.9	0.9 ≤n<1.0	1.0 ≤n<1.1	1.1 ≤n<1.2	1.2 ≤n<1.3
Adjustment Coefficient	0.92	1.00	1.08	1.17	1.33	1.46	1.61	1.77	1.95	2.14

Notes:

1. The above adjustment coefficients are only applicable to the adjustment of construction costs of the base and body of the regular ground base towers and landscape towers which are the New Towers.
2. If the wind pressure falls beyond the above ranges, the tower shall be constructed in customized manner. The Parties' subsidiaries or branches shall negotiate and estimate construction cost, determine the product price and then start the construction.
3. The wind-pressure adjustment coefficients are not applicable to equipment rooms, facilities, simplified towers, regular building base towers and floor holding poles.

Schedule 1.2:Construction Cost of Towers under Different Wind-pressure Conditions (Unit: RMB10,000)

Type of Product		Range of Wind Pressure	**0.3 ≤n<0.4**	**0.4 ≤n<0.5**	**0.5 ≤n<0.6**	**0.6 ≤n<0.7**	**0.7 ≤n<0.8**	**0.8 ≤n<0.9**	**0.9 ≤n<1.0**	**1.0 ≤n<l.l**	**l.l ≤n<1.2**	**1.2 ≤n<1.3**
Ground Base Tower	Regular Ground Base Tower	H<30	14.6190	15.8902	17.1614	18.5915	21.1340	23.1997	25.5832	28.1256	30.9859	34.0050
		30≤H<35	16.8758	18.3433	19.8108	21.4616	24.3966	26.7812	29.5327	32.4676	35.7694	39.2546
		35≤H<40	19.9417	21.6758	23.4098	25.3607	28.8288	31.6466	34.8980	38.3661	42.2678	46.3862
		40≤H<45	23.4533	25.4928	27.5322	29.8265	33.9054	37.2194	41.0433	45.1222	49.7109	54.5545
		45≤H≤50	27.5737	29.9715	32.3692	35.0666	39.8620	43.7583	48.2541	53.0495	58.4444	64.1389
	Landscape Tower	H<20	8.0843	8.7872	9.4902	10.2811	11.6870	12.8294	14.1475	15.5534	17.1351	18.8047
		20≤H<25	10.4164	11.3222	12.2280	13.2470	15.0585	16.5304	18.2288	20.0403	22.0783	24.2295
		25≤H<30	12.3335	13.4060	14.4784	15.6850	17.8299	19.5727	21.5836	23.7285	26.1416	28.6887
		30≤H<35	16.7923	18.2525	19.7127	21.3554	24.2758	26.6487	29.3865	32.3069	35.5924	39.0604
		35≤H≤40	19.2549	20.9292	22.6036	24.4872	27.8359	30.5567	33.6961	37.0448	40.8120	44.7886
	Simplified Tower	H≤20	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264	3.9264
Building Base Tower	Regular Building Base Tower	—	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753	4.0753
	Floor Holding Pole	—	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107	1.2107

Note: The above construction costs of towers only include those of tower foundations and bodies.

Schedule 2: Standard Construction Cost of Equipment Rooms and Facilities

Schedule 2.1:Standard Construction Cost of Equipment Rooms (RMB10,000)

Type of Product	Equipment Rooms (excluding Rented Equipment Rooms)	Rented Equipment Rooms	Integrated Cabinet (base only)	RRU Remote (base only)
Regular Ground Base Towers, Landscape Towers, Simplified Towers	5.4915	1.6415	0.5915	0.4415
Regular Building Base Towers, Floor Holding Poles	5.3415	1.6415	0.5915	0.4415

Schedule 2.2:Standard Construction Cost of Ancillary Facilities (RMB10,000)

Type of Product	Ancillary Facilities for Equipment Rooms	Ancillary Facilities for Integrated Cabinets	Ancillary Facilities for RRU Remote
Regular Ground Base Towers	5.8247	4.8278	2.8054
Landscape Towers, Simplified Towers, Regular Building Base Towers, Floor Holding Poles	4.6520	4.0627	2.8054

Note:

1. Ancillary facilities for equipment rooms include the AC distribution box, the switching power supply, the rectifier module, the monitor module, the battery (3-hour backup), PESM, the air conditioner, the fire device and the equipment rack, etc.
2. Ancillary facilities for the integrated cabinet include the outdoor integrated cabinet (dual-cabinet), the embedded switching power supply, the rectifier module, the monitor module, the battery (3-hour backup) and the PESM, etc.
3. Ancillary facilities for RRU remote include the outdoor integrated cabinet (sole-cabinet), the embedded switching power supply, the rectifier module, the monitor module, the battery (3-hour backup) and the PESM, etc.

Schedule 3: Discount Rate for the Acquired Towers

Number	Province	Discount Rate
1	Beijing	1.03
2	Tianjin	0.98
3	Hebei	0.62
4	Shanxi	0.73
5	Inner Mongolia	0.88
6	Liaoning	0.77
7	Jilin	0.74
8	Heilongjiang	0.68
9	Shanghai	1.86
10	Jiangsu	0.73
11	Zhejiang	0.76
12	Anhui	0.80
13	Fujian	0.73
14	Jiangxi	0.75
15	Shandong	0.71
16	Henan	0.82
17	Hubei	0.79
18	Hunan	0.70
19	Guangdong	0.91
20	Guangxi	0.72
21	Hainan	1.44
22	Chongqing	0.74
23	Sichuan	0.85
24	Guizhou	0.73
25	Yunnan	0.70
26	Tibet	2.38
27	Shaanxi	0.67
28	Gansu	0.79
29	Qinghai	1.26
30	Ningxia	1.01
31	Xinjiang	1.14

Note: If there is any change to the data used to calculate the above discount rate, the Parties shall make retrospective adjustment to such parameter.

Annex 2: Provincial Service Agreement (I)

[XXX Province/Municipality/Autonomous Region]
Provincial Service Agreement I
(Template)

Ref. No.: ____

The Provincial Service Agreement (I) (the "**Agreement**") is made and entered into between the following parties on [Date] in [City], [Province] of China.

Party A: [name of provincial subsidiary of the basic telecom company]

Party B: [name of provincial branch of Tower Company]

(together, the "**Parties**" and, individually, a "**Party**")

Whereas,

1. On 14 October 2015, China Mobile Communication Company Limited and its 31 subsidiaries, China United Network Communications Corporation Limited and its one subsidiary, China Telecom Corporation Limited, China Reform Holdings Corporation Limited and Tower Company entered into the Agreement on Purchase of Existing Telecommunications Towers and Related Assets by Issuing Shares and Paying Cash Consideration, and China Mobile Communications Corporation and its 24 subsidiaries, China United Network Communications Group Company Limited and its seven subsidiaries, China Telecommunications Corporation and its 11 subsidiaries and Tower Company entered into the Agreement on Transfer of Existing Telecommunications Towers and Related Assets. Under the aforementioned agreements, the sellers shall transfer their then-owned telecommunications towers and related assets (the "**Acquired Tower**") to Tower Company and complete relevant handover procedures.
2. Annex I Product Catalogue and Pricing to the Commercial Pricing Agreement entered into between [name of the telecom company] and Tower Company has stipulated the pricing of tower products, indoor distribution products, transmission products and service products.

Therefore, upon friendly consultations, pursuant to the Commercial Pricing Agreement, the Parties hereby agree on the leasing and settlement of the tower products, indoor distribution products, transmission products and service products provided by Party B to Party A, as follows:

I. Party B agrees to lease to Party A the Acquired Tower for which the handover has been completed, and charge service fees. The rights and obligations of the Parties shall be subject to the then effective Commercial Pricing Agreement as amended from time to time and other agreements entered into by the Parties, and the Provincial Service Agreement (I) between [name of provincial subsidiary of the telecom company] and [name of provincial branch of Tower Company] and any other then effective supplementary agreements entered into by the Parties from time to time.

II. The Parties and their respective subsidiaries or branches shall execute Bulk Lease Forms, the template of which is set out in Schedule 1 hereto, for the Acquired Tower and other products for which the handover has been completed. Upon the execution of a Bulk Lease Form, it shall prevail over any and all prior oral or written agreement, intention or arrangement reached by the Parties and its subsidiaries or branches in relation to the products specified therein.

III. From the effective date of the Agreement, the Parties and their respective subsidiaries shall execute Product Confirmation Orders, the template of which is set out in Schedule 2 hereto, in relation to the lease of new products.

IV. The Parties shall procure their respective subsidiaries or branches to settle and complete the payments of the service fees specified in the relevant Bulk Lease Form and Product Confirmation Orders as scheduled therein.

V. The service term for each of the tower products, indoor distribution products, transmission products and service products shall be five years. Prior to the expiration of the service term, the Parties or their respective subsidiaries or branches shall negotiate with each other, and to the extent they are able to reach an agreement, they shall enter into new Product Confirmation Orders to specify the terms governing the provision of the relevant products thereafter.

VI. In the event of termination of services caused by Party A prior to the expiration of the service term, Party B shall cooperate with Party A in removing the carried equipment, the expenses of which shall be borne by Party A. Party A shall compensate Party B for the removal expenses in accordance with the rules set forth below:

a) In the event that Party A removes a portion of the products from a certain station site, and after such removal there are products of the same type running at the same station site, Party A shall not be obligated to compensate Party B for the expenses related to the removal, and the service fee shall be calculated based on the number of remaining units of the relevant products;

b) In the event that Party A, being the sole user of the product facility, terminates the services related to all products of the same type prior to the expiration of the service term, Party A shall pay Party B the service fee for the remaining service term (excluding site rent and maintenance cost), penalty fees for early termination of the site rent paid by Party B (if any), and the remaining long-term expenses to be amortized (if any);

c) In the event that Party A shares the product facility with other telecom company(ies), Rule [   ] set forth below shall apply:

Rule 1:

(1) Where Party A terminates the services related to all products of the same type at a certain station site prior to the expiration of the service term, Party A shall pay Party B the service fees for the remaining service term with respect to Party A and penalty fees for early termination of the site rent paid by Party B (if any).

(2) Where a telecom company (the "**Terminating Sharing Party**") sharing a certain station site with Party A terminates the services related to all products of the same type prior to the expiration of the service term, the co-tenancy discounts applicable to service fees for the use of the same type of products by Party A shall remain unchanged in the current service term and terms thereafter (if any) with respect to Party A until the proposed expiration date of the service term of the Terminating Sharing Party, and from such expiration date the co-tenancy discounts applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products.

Rule 2:

(1) Where Party A terminates the services related to all products of the same type at a certain station site prior to the expiration of its service term, and Party A is any of the following: (i) the anchor tenant; (ii) an Existing Sharing Party; or (iii) a tenant who started occupying the station site, in the case of a New Tower, at the same time as the other telecom companies, Party A shall pay Party B the service fees (excluding site rent and maintenance cost) for the remaining service term with respect to Party A and penalty fees for early termination of the site rent paid by Party B (if any).

(2) Where Party A terminates all services of the same type of products at a certain station site prior to the expiration of the service term, and Party A is a New Sharing Party who started occupying the station site later than the other tenant(s), the following rules shall apply: (i) if Party A had maintained the service for three years or more, it shall not be obligated to compensate Party B; or (ii) if Party A had maintained the service for less than three years, it shall pay Party B the service fees (excluding site rent and maintenance cost) for the remaining service term applicable to Party A to the extent of three years.

(3) Where a telecom company sharing a certain station site with Party A terminates the services related to all products of the same type prior to the expiration of the service term, and the Sharing Terminating Party is any of the following: (i) the anchor tenant; (ii) an Existing Sharing Party; or (iii) a tenant who started occupying the station site, in the case of a New Tower, at the same time as Party A, the co-tenancy discounts applicable to service fees (excluding site fee and maintenance cost) for the use of the same type of products by Party A shall remain unchanged in the current service term and terms thereafter (if any) with respect to Party A until the proposed expiration date of the service term of the Terminating Sharing Party, and from such expiration date the co-tenancy discounts applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products.

(4) Where a telecom company sharing a certain station site with Party A terminates the services related to all products of the same type prior to the expiration of the service term, and the Sharing Terminating Party is a New Sharing Party who started occupying the New Tower later than the other tenants, (i) if the Terminating Sharing Party had maintained the service for three years or more, the co-tenancy discount applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products, or (ii) if the Terminating Sharing Party had maintained the service for less than three years, the co-tenancy discount applicable to service fees (excluding site fee and maintenance cost) for the use of the same type of products by Party A shall remain unchanged in the current service term and terms thereafter (if any) until the third anniversary of the service term of the Terminating Sharing Party had it not terminated, and from then the co-tenancy discounts applicable to Party A shall be determined based on the actual status with respect to the sharing of the relevant products.

Party B shall provide Party A with the relevant supporting documents to demonstrate the basis and calculation of the aforesaid expenses.

With respect to the arrangement of termination of services prior to the expiration of the service term, provisions in the Agreement shall prevail over any and all prior oral or written arrangements in any form entered into by the Parties, to the extent inconsistent.

VII. With respect to the matters governed by the Agreement, provisions in this Agreement shall prevail over any and all prior oral or written agreement or arrangement in any form entered into by the Parties, to the extent inconsistent. Matters not specified hereunder shall be subject to the Commercial Pricing Agreement and any other agreements or arrangements entered into by the Parties.

VIII. The schedules of this Agreement are inseparable parts of the Agreement and shall be deemed to have the same binding legal effect as the text of this Agreement.

IX. The Agreement shall be executed simultaneously in two counterparts, each of which shall be held by a Party and deemed to have the same binding legal effect. The Agreement shall be effective upon the execution and stamp with the corporate seals by the Parties.

(No text below and the signature and stamp page for [XXX Province/Municipality/Autonomous Region] Provincial Service Agreement (I) (Ref. No. [ ]) to follow)

Party A: [name of the provincial subsidiary of telecom companies] (chop)
Signature:
Date:

Party B: [name of the provincial branch of Tower Company] (chop)
Signature:
Date:

Schedule 1.1

Bulk Lease Form for Acquired Towers in XX City, XX Province
([Name of telecom company], former owner)

Party A (Full Name)		Serial Number						Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
Service Commencement Date:	2	Tower Company’s Station Site Serial Number						
	3	Operator’s Self-Owned Station Site Name						
	4	Operator’s Self-Owned Station Site Serial Number						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Product Configuration						
	9	Actual Highest Antenna Mounting Height (m)						
	10	BBU Deployed in Tower Company’s Equipment Room in Case of RRU Remote?						
	11	Total Number of Existing Sharing Parties on the Towers						
	12	Total Number of Existing Sharing Parties in Equipment Rooms and Facilities						
	13	Number of New Sharing Parties in Existing Towers						
	14	Number of New Sharing Parties in Existing Equipment Rooms and Facilities						
	15	OM Available During 0.00 a.m.- 6.00 a.m.?						
Party B (Full Name)	16	Maintenance Level						Name of Tower Company subsidiary company: Date:
	17	Price Mode of Power Supple Assurance Service						
Service Termination Date:	18	Power Generation Conditions Met?						
	19	Power Generation Service Selected?						
	20	Price Mode of Oil Machine Power Generation Service						
	21	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	22	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	23	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	24	Other Fees (RMB/year, tax inclusive)						
	25	Description of Other Fees						
	26	Base Price of Towers (RMB/year, tax inclusive)						
	27	Base Price of Equipment Rooms & Facilities (RMB/year, tax inclusive)						
	28	Maintenance Cost (RMB/year, tax inclusive)						
	29	Number of Product Units						
	30	Site Fee (RMB/year, tax inclusive)						
	31	Site Fee Discount						
	32	Co-tenancy discount for Towers						
	33	Co-tenancy discount for Equipment Rooms and Facilities						
	34	Total Product Service Fees (RMB/year, tax excluded)						
	35	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month’s service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note: The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.2

Bulk Lease Form for Acquired Towers in XX City, XX Province
([Name of telecom company], Existing Sharing Party)

Party A (Full Name)		Serial Number						Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
Service Commencement Date:	2	Tower Company’s Station Site Serial Number						
	3	Operator’s Self-Owned Station Site Name						
	4	Operator’s Self-Owned Station Site Serial Number						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Product Configuration						
	9	Actual Highest Antenna Mounting Height (m)						
	10	BBU Deployed in Tower Company’s Equipment Room in Case of RRU Remote?						
	11	Total Number of Existing Sharing Parties on the Towers						
	12	Total Number of Existing Sharing Parties in Equipment Rooms and Facilities						
	13	Number of New Sharing Parties in Existing Towers						
	14	Number of New Sharing Parties in Existing Equipment Rooms and Facilities						
	15	OM Available During 0.00 a.m.- 6.00 a.m.?						
Party B (Full Name)	16	Maintenance Level						Name of Tower Company subsidiary company: Date:
	17	Price Mode of Power Supple Assurance Service						
Service Termination Date:	18	Power Generation Conditions Met?						
	19	Power Generation Service Selected?						
	20	Price Mode of Oil Machine Power Generation Service						
	21	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	22	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	23	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	24	Other Fees (RMB/year, tax inclusive)						
	25	Description of Other Fees						
	26	Base Price of Towers (RMB/year, tax inclusive)						
	27	Base Price of Equipment Room & Facilities (RMB/year, tax inclusive)						
	28	Maintenance Cost (RMB/year, tax inclusive)						
	29	Number of Product Units						
	30	Site Fee (RMB/year, tax inclusive)						
	31	Site Fee Discount						
	32	Co-tenancy discount for Towers						
	33	Co-tenancy discount for Equipment Rooms and Facilities						
	34	Total Product Service Fees (RMB/year, tax excluded)						
	35	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of of each month, and Party A shall pay to the designated bank account of Party B the prior month’s service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

1. The Existing Sharing Parties refer to the telecom companies which shared the Acquired Towers prior to October 31, 2015.

2. The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.3

Bulk Lease Form for Acquired Towers in XX City, XX Province
([Name of telecom company], transformed towers)

Party A (Full Name)		Serial Number					Total:	Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Site Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Type of Towers						
	9	Equipment Room Configuration						
	10	Sharing Information						
	11	Height						
	12	Number of Antennas						
	13	Number of Systems						
	14	Is RRU Put in the Towers?						
	15	Total Number of Sharing Parties on the Tower at Present						
	16	Total Number of New Sharing Parties in the Existing Equipment Rooms and Facilities at Present						
	17	OM Available During 0.00 a.m.- 6.00 a.m.?						
	18	Maintenance Level						
	19	Duration of Back-up Battery (hour)						
	20	Price Mode of Power Supple Assurance Service						
Party B (Full Name)	21	Power Generation Conditions Met?						Name of Tower Company subsidiary company: Date:
	22	Power Generation Service Selected?						
	23	Price Mode of Oil Machine Power Generation Service						
	24	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	25	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	26	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	27	Fee for Extra Battery Assurance (RMB/year, tax inclusive)						
	28	Other Fees (RMB/year, tax inclusive)						
	29	Description of Other Fees						
	30	Base Price of Towers (RMB/year, tax inclusive)						
	31	Base Price of Equipment Rooms and Facilities (RMB/year, tax inclusive)						
	32	Maintenance Cost (RMB/year, tax inclusive)						
	33	Number of Product Units						
	34	Electricity Input Fee (RMB/year, tax inclusive)						
	35	Site Fee (RMB/year, tax inclusive)						
	36	Discount of Site Fee and Electricity Input Fee						
	37	Co-tenancy discount for Towers						
	38	Co-tenancy discount for Equipment Rooms and Facilities						
	39	Service Commencement Date						
	40	Service Termination Date						
	41	Total Product Service Fees (RMB/year, tax excluded)						
	42	Total Product Service fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

1. Transformed towers refer to the towers previously owned by the telecom companies and/or shared by the Existing Sharing Parties to which Tower Company added product units.

2. The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.4

Bulk Lease Form for New Towers in XX City, XX Province
([*Name of telecom company*])

Party A (Full Name)		Serial Number					Total	Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Site Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Type of Towers						
	9	Equipment Room Configuration						
	10	Sharing Information						
	11	Height						
	12	Number of Antennas						
	13	Number of Systems						
	14	Is RRU put in the Towers?						
	15	Total Number of Sharing Parties on the Tower at Present						
	16	Total Number of New Sharing Parties in the Existing Equipment rooms and Facilities at Present						
	17	OM Available During 0.00 a.m.- 6.00 a.m.?						
	18	Maintenance Level						
	19	Duration of Back-up Battery (hour)						
	20	Price Mode of Power Supple Assurance Service						
Party B (Full Name)	21	Power Generation Conditions Met?						Name of Tower Company subsidiary company: Date:
	22	Power Generation Service Selected?						
	23	Price Mode of Oil Machine Power Generation Service						
	24	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	25	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	26	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	27	Fee for Extra Battery Assurance (RMB/year, tax inclusive)						
	28	Other Fees (RMB/year, tax inclusive)						
	29	Description of Other Fees						
	30	Base Price of Towers (RMB/year, tax inclusive)						
	31	Base Price of Equipment Rooms & Facilities (RMB/year, tax inclusive)						
	32	Maintenance Cost (RMB/year, tax inclusive)						
	33	Number of Product Units						
	34	Electricity Input Fee (RMB/year, tax inclusive)						
	35	Site Fee (RMB/year, tax inclusive)						
	36	Discount of Site Fee and Electricity Input Fee						
	37	Co-tenancy discount for Towers						
	38	Co-tenancy discount for Equipment Rooms and Facilities						
	39	Service Commencement Date						
	40	Service Termination Date						
	41	Total Product Service Fees (RMB/year, tax excluded)						
	42	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.5

Bulk Lease Form for Transformed Towers Based on Acquired Towers in XX City, XX Province
([*Name of telecom company*])

Party A (Full Name)		Serial Number					Total	Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Site Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Detailed Location						
	6	Longitude						
	7	Latitude						
	8	Type of Towers						
	9	Equipment Room Configuration						
	10	Sharing Information						
	11	Height						
	12	Number of Antennas						
	13	Number of systems						
	14	Is RRU Put in the Towers?						
	15	Total Number of Sharing Parties on the Tower at Present						
	16	Total Number of New Sharing Parties in the Existing Equipment rooms and Facilities at Present						
	17	OM Available During 0.00 a.m.- 6.00 a.m.?						
	18	Maintenance Level						
	19	Duration of Back-up Battery (hour)						
	20	Price Mode of Power Supple Assurance Service						
Party B (Full Name)	21	Power Generation Conditions Met?						Name of Tower Company subsidiary company: Date:
	22	Power Generation Service Selected?						
	23	Price Mode of Oil Machine Power Generation Service						
	24	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	25	Service Fee for Oil Machines Power Generation Service (RMB/year, tax inclusive)						
	26	Extra Maintenance Cost for Station Sites Exceeding 10% Premium Service (RMB/year, tax inclusive)						
	27	Fee for Extra Battery Assurance (RMB/year, tax inclusive)						
	28	Other Fees (RMB/year, tax inclusive)						
	29	Description of Other Fees						
	30	Base Price of Towers (RMB/year, tax inclusive)						
	31	Base Price of Equipment Rooms & Facilities (RMB/year, tax inclusive)						
	32	Maintenance Cost (RMB/year, tax inclusive)						
	33	Number of Product Units						
	34	Electricity Input Fee (RMB/year, tax inclusive)						
	35	Site Fee (RMB/year, tax inclusive)						
	36	Discount of Site Fee and Electricity Input Fee						
	37	Co-tenancy discount for Towers						
	38	Co-tenancy discount for Equipment Rooms and Facilities						
	39	Service Commencement Date						
	40	Service Termination Date						
	41	Total Product Service Fees (RMB/year, tax excluded)						
	42	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B last month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

3. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

4. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

1. Transformed Towers Based on Acquired Towers refer to the towers transformed by Tower Company using existing towers in order to satisfy demands of new occupiers.

2. The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 1.6

Bulk Lease Form for Indoor Distribution Products in XX City, XX Province
([*Name of telecom company*])

Party A (Full Name)		Serial Number					Total:	Name of Telecom Company: Date:
	1	Product Confirmation Order Ref. no.						
	2	Station Location Serial Number						
	3	Demand Confirmation Letter Ref. no						
	4	Name of Station Site						
	5	Name of Location						
	6	Longitude						
	7	Latitude						
	8	Type of Products						
	9	Type of Scenario						
	10	Construction Area/Tunnel Length (M^2/Kilometer)						
	11	Number of Systems						
	12	Total Number of Sharing Parties at Present						
Party B (Full Name)	13	Duration of Back-up Battery (Hour)						Name of Tower Company subsidiary company: Date:
	14	Price Mode of Power Supple Assurance Service						
	15	Service Fee for Power Supple Assurance Service (RMB/year, tax inclusive)						
	16	Other Fees (RMB/year, tax inclusive)						
	17	Description of Other Fees						
	18	Base Price (RMB/year, tax inclusive)						
	19	Maintenance Fees						
	20	Number of Product Units						
	21	Site Fee (RMB/year, tax inclusive)						
	22	Co-tenancy discount						
	23	Service Commencement Date						
	24	Service Termination Date						
	25	Total Product Service Fees (RMB/year, tax excluded)						
	26	Total Product Service Fees (RMB/year, tax inclusive)						

Payment method of service fees:

1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.

3. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Bulk Lease Form. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Bulk Lease Form.

4. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Bulk Lease Form shall be revised accordingly.

Note:

The particulars of the specific Bulk Lease Form shall be subject to the one that is actually executed.

Schedule 2.1 Product Confirmation Order for Tower Products Ref. no:

Party A (Full Name):		Party B (Full Name):	
Service Commencement Date:		Service Termination Date:	

Product Service Fees

Serial Number	Items	Base Price (RMB /year) Of Telecommunications Towers	Of Equipment Rooms + Facilities	Number of Product Units (Set)	Discount for RRU On Tower Or Not	Total (RMB /year)	Site Fee (RMB /year)	Electricity Input Cost (RMB /year)	Co-tenancy discount (%) Site Fee + Electricity Input	Telecommunications Towers	Equipment rooms +Facilities	Product Service Fees (RMB /year) (Tax excluded)
1.1	Tower Products											
1.2	WLAN											
1.3	Microwave											
2.1	Electricity Assurance Service fee						Lump Sum ☐ Payment Assistance (resale) ☐ Payment Assistance (transmission) ☐ Payment Assistance (withholding) ☐					
2.2	Oil Machine Power Generation Service Fee						Lump Sum ☐ Per Time ☐ Others ☐					
2.3	Fee for Extra BatteryAssurance											
2.4	Extra Maintenance Cost of Station Sites Exceeding 10% Premium Service											
2.5	Modification Fee for Electricity and Facilities											
2.5	Other Fees					Description of Other Fees, Manual Entry						
	Total (RMB/year, tax inclusive)											

Item Information

Station Site Name:		Station Site Serial Number:			
Longitude:		Latitude:			
Detailed Location:		Demand Confirmation Letter Ref. no:			
Type of Telecommunications Towers:		Tower Height (m):			
Equipment Room Configuration:	Self-owned ☐ Rented ☐ Integrated Cabinet ☐ RRU Remote ☐ No ☐	Wind Pressure Coefficient:			
Sharing Information:	The First Newly-added ☐ The Sharing Newly-added ☐ Owner of the Acquired ☐ The Sharing Acquired (existing) ☐ The Sharing Acquired (new) ☐	Total Number of Sharing Parties on the Telecommunications Tower at Present		Total Number of Sharing Parties in the Existing Equipment Rooms and Facilities at Present:	
OM Available Or Not During 0.00 a.m. – 6.00 a.m.?:	Y☐ N☐	Maintenance Level:			
Notes to Item Information		Operator's Physical Station Site Serial Number:	(filled by the operator)		

Product Configuration

Telecommunications Towers	Product Serial Number		Mounting Height (m)	Number of Antennae (set)	Number of Systems (set)	RRU Mounted on Tower Or Not	Put BBU In Equipment Room Of Tower Company When RRU Remote?	Number of Product Units (set)
	[Tower Serial Number1]					Yes or no	Yes or no	
	[Tower Serial Number2]							
	[Microwave Serial Number]							
	[WLAN Serial Number]							
	Total							

Equipment Rooms	Power Configuration	Backup Battery (Hour)	With Generation Conditions?	Select Power Generation Service Or Not	Installation Space Device Rack (Set)	Transmission Rack Space
	____ V____ KW		Y☐ N☐	Y☐ N☐		0.6mX0.6mX2m

Payment method of service fees: 1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month. 2. If Party A chooses the pricing mode on an itemized basis for oil machine power generation service, the monthly settlement shall be applied according to the actual number of times for power generation. Party A shall pay Party B the monthly oil machine power generation fees with the service fees.			
3. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the current Product Confirmation Order. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Product Confirmation Order. 4. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Product Confirmation Order shall be revised accordingly.			
Other Related Descriptions:	This template form is only for reference, and the form actually generated from Tower Company's IT system shall prevail.		
Party A		Party B	
Bank Name:		Bank Name:	
A/C No.:		A/C No.:	
Party A (Seal): Clerk (Signature): Date:		Party B (Seal): Clerk (Signature): Date:	

Schedule 2.2 Product Confirmation Order for Indoor Distribution Products			Ref. no:
Party A (Full Name):		Party B (Full Name):	
Service Commencement Date:		Service Termination Date:	

Product Service Fees

Serial Number	Service Items	Base Price				Site Fee (RMB / year)	Co-tenancy discount (%)	Product Service Fee (RMB /year) (Tax excluded)	Product Service Fee (RMB /year) (Tax inclusive)
		Base Price (RMB/ year)	Construction Area of Commercial Buildings (M^2)	Number of Product Units (set)	Total (RMB /year)				
1	Indoor Distribution Products								
2	Service Products								
2.1	Lump-sum Service Fee for Electricity Assurance								
	Total:								

Item Information

Station Site Name:		Station Site Serial Number:	
Longitude:		Latitude:	
Detailed Location:		Number of antenna sites	
Number of Existing Sharing Parties		Demand Confirmation Letter Serial Number:	
Other Descriptions:			

Product Configuration

Indoor Distribution	Type of Products	Scene of Products	Construction Area (or Tunnel Length) (M^2/Kilometers)	Number of Systems (set)	Number of Product Units (set)
Equipment Rooms	Power Configuration	Backup Battery (hour)	Facilities Installation Space		
	______ V ______ KW		To provide customer source and facilities installation space		

Payment method of service fees:
1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month, and Party A shall pay to the designated bank account of Party B the prior month's service fees prior to the 25th day of each month.

1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the current Product Confirmation Order. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Product Confirmation Order.
2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Product Confirmation Order shall be revised accordingly.

Other Related Descriptions:	This template form is only for reference, and the form at actually generated from Tower Company's IT system shall prevail.

Party A		Party B	
Bank Name:		Bank Name:	
A/C No.:		A/C No.:	
Party A (Seal): Clerk (Signature): Date:		Party B (Seal): Clerk (Signature): Date:	

<table>
<tr><td colspan="8">Schedule 2.3 Product Confirmation Order for Transmission Products Ref. no:</td></tr>
<tr><td colspan="3">Party A (Full Name):</td><td></td><td colspan="2">Party B (Full Name):</td><td colspan="2"></td></tr>
<tr><td colspan="3">Service Commencement Date:</td><td></td><td colspan="2">Service Termination Date:</td><td colspan="2"></td></tr>
<tr><td colspan="8">Product Service fees</td></tr>
<tr><td>Serial Number</td><td>Service Items</td><td>Construction cost (RMB)</td><td>Product Price (RMB) (Tax excluded)</td><td>Product Price (RMB) (Tax inclusive)</td><td>Number of Customers Accessed</td><td colspan="2">Product Service Fee (RMB) (Tax inclusive)</td></tr>
<tr><td>1</td><td>Transmission Products</td><td></td><td></td><td></td><td></td><td colspan="2"></td></tr>
<tr><td></td><td>Total:</td><td colspan="3"></td><td></td><td colspan="2"></td></tr>
<tr><td colspan="8">Item Information</td></tr>
<tr><td colspan="2">Station Site Name:</td><td colspan="2"></td><td colspan="2">Station Site Serial Number:</td><td colspan="2"></td></tr>
<tr><td colspan="2">Longitude:</td><td colspan="2"></td><td colspan="2">Latitude:</td><td colspan="2"></td></tr>
<tr><td colspan="2">Detailed Location:</td><td colspan="2"></td><td colspan="2">Demand Confirmation Letter Serial Number:</td><td colspan="2"></td></tr>
<tr><td colspan="2">Mode of Delivery of Service:</td><td colspan="2">By Outsourcing☐ By Service☐</td><td colspan="2">Owner of Assets Or Not?</td><td colspan="2">Yes☐ No☐</td></tr>
<tr><td colspan="2">Other Descriptions:</td><td colspan="2"></td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td colspan="8">Product Configuration</td></tr>
<tr><td colspan="2" rowspan="2">Transmission Products</td><td colspan="3">Pipes</td><td rowspan="2">Pole Road (Pole kilometers)</td><td colspan="2" rowspan="2">Fiber Optic Cables (12 core. kilometers)</td></tr>
<tr><td>Pipe Jacking (Meters)</td><td colspan="2">Excavation Pipeline (Sub-hole kilometers)</td></tr>
<tr><td colspan="2"></td><td></td><td colspan="2"></td><td></td><td colspan="2"></td></tr>
<tr><td colspan="2"></td><td></td><td colspan="2"></td><td></td><td colspan="2"></td></tr>
<tr><td colspan="8">Payment method of service fees:
1. Party B shall provide the product and service settlement list prior to the 5th day of each month, which Party A shall verify prior to the 10th day of each month. Party B shall then provide Party A the VAT invoice that complies with national laws and tax regulations prior to the 12th day of each month. Party A shall pay product and service fees to the designated bank account of Party B prior to the 25th day of the next month of the service term in the case of outsourcing construction; Party A shall pay the prior month's product and service fees to the designated bank account of Party B prior to the 25th day of each month in the case of construction by service mode.</td></tr>
<tr><td colspan="8">1. During the term of services, the Parties can execute a new Product Confirmation Order if they intend to revise the content of the Product Confirmation Order. The new Product Confirmation Order shall prevail if there is any inconsistency with any prior Product Confirmation Order.
2. Matters not specified in this Agreement shall be subject to the Provincial Service Agreement (I) entered into between the provincial companies of the Parties and any other relevant agreements. In circumstances where the Provincial Service Agreement (I) is revised, supplemented or renewed, the content of the Product Confirmation Order shall be revised accordingly.</td></tr>
<tr><td colspan="2">Other Descriptions:</td><td colspan="6">This template form is only for reference, and the form actually generated from Tower Company's IT system shall prevail.</td></tr>
<tr><td colspan="4">Party A</td><td colspan="4">Party B</td></tr>
<tr><td colspan="2">Bank Name:</td><td colspan="2"></td><td colspan="2">Bank Name:</td><td colspan="2"></td></tr>
<tr><td colspan="2">A/C No.:</td><td colspan="2"></td><td colspan="2">A/C No.:</td><td colspan="2"></td></tr>
<tr><td colspan="4">Party A (Seal):
Clerk (Signature):
Date:</td><td colspan="4">Party B (Seal):
Clerk (Signature):
Date:</td></tr>
</table>

Exhibit 4.69

2017-2019 Comprehensive Services Agreement

between

CHINA UNITED NETWORK COMMUNICATIONS GROUP COMPANY LIMITED

and

CHINA UNITED NETWORK COMMUNICATIONS CORPORATION LIMITED

November 25, 2016

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The Comprehensive Service Agreement (hereinafter referred to as “the Agreement”) is signed by the following Parties on November 25, 2016 in Beijing, People’s Republic of China (hereinafter referred to as “China”):

(1) Party A: China United Network Communications Group Company Limited (hereinafter referred to as “the Unicom Group”)

Address: 21 Financial Street, Xicheng District, Beijing

Legal Representative: WANG Xiaochu

(2) Party B: China United Network Communications Corporation Limited (hereinafter referred to as “CUCL”)

Address: 21 Financial Street, Xicheng District, Beijing

Legal Representative: WANG Xiaochu

Each of the Parties to the Agreement is individually called “the Party” and collectively “the Parties”.

Whereas:

1. Duly organized and validly existing under the laws of China, the Unicom Group is an integrated telecom service carrier with limited liability. Duly organized and validly existing under the laws of China, China United Network Communications Limited (hereinafter referred to as “the Unicom A Share Company”) is a company limited by shares and traded on the Shanghai Stock Exchange (hereinafter referred to as “the SHSE”) starting from October 9, 2002. The Unicom Group is the controlling shareholder of the Unicom A Share Company;

2. The Unicom A Share Company exercises indirect share-holding of China Unicom (Hong Kong) Limited (hereinafter referred to as “the Unicom Red-chip Company”) through China Unicom (BVI) Limited (“the Unicom BVI Company”). Registered in the Hong Kong SAR, China (hereinafter referred to as “Hong Kong”), the Unicom Red-chip Company is a company limited by shares and traded on Hong Kong and the U. S. exchanges;

3. CUCL is a foreign-invested company duly organized and validly existing under the laws of China, with the Unicom Red-chip Company holding 100% of its stake. CUCL mainly operates mobile telecommunications services nationwide, fixed communications services, data communication services, all kinds of value-added telecom services, domestic and international communications facility services, as well as system integration businesses related to communications and information services, etc.; and

4. For the purpose of enabling the Unicom Red-chip Company and its subsidiaries to run telecom businesses and in conformity with the relevant provisions of the Shanghai Stock Exchange Listing Rules (hereinafter referred to as "the SHSE Rules") applicable from time to time and the Hong Kong Stock Exchange Listing Rules (hereinafter referred to as "the HKSE Rules") applicable from time to time, the Unicom Group and its subsidiaries (excluding the Unicom A Share Company and its subsidiaries) have established a series of arrangements with CUCL for continuing connected transactions (hereinafter referred to as the "Arrangement for Continuing Connected Transactions"). As per the SHSE Rules and the HKSE Rules, such continuing connected transactions shall be made public by the Unicom A Share Company and the Unicom Red-chip Company in conformity with their respective listing rules as applicable. The arrangements for the above continuing connected transactions will be valid for 3 years, starting from 1 January 2017 and ending on December 31, 2019.

As per the specific implementation of the relevant Arrangement for Continuing Connected Transactions, following joint research and discussions as well as based on equality and mutual benefit, the Parties have reached the following agreement:

1. Basic Principles

1.1 The "Integrated Services" under the Agreement refers to certain services and facilities provided from one Party to the other Party or mutually provided between the Parties, with the receiving Party paying the associated costs (hereinafter referred to as "the Service Fee") to the providing Party. Unless otherwise agreed to, the Parties have the right to allow its controlled subsidiaries (to be determined in light of the Corporate Accounting Standards as revised by Ministry of Finance from time to time) to provide or receive services as well as charge or pay for services as per the terms and conditions of the Agreement.

1.2 The services and/or facilities provided from any Party to the other Party as per the Agreement shall be regarded as paid transactions in the business exchanges between companies, where the providing Party has the right to charge a reasonable amount of fees for the service and/or facilities it provides pursuant to the fair market principle and the receiving Party shall fulfill the corresponding payment obligations.

1.3 The conditions and quality of services and/or facilities provided by either Party to the other Party shall not be any worse than those of the same or similar services and/or facilities it provides to any third party. While exercising rights or fulfilling obligations under the Agreement, the Parties shall comply with the principle of fair trade.

1.4 In case that either Party requires the other Party to increase the services and/or facilities provided under the Agreement, the other Party shall make its best efforts to provide the requested services and/or facilities, with conditions of such services and/or facilities no worse than those provided to any third party.

1.5 In case that the services and/or facilities under the Agreement cannot be provided in whole or in part by one Party not due to its own reasons, the Party in question shall promptly notify the other Party, and do its best to help the other Party to get the same or similar services and/or facilities from other sources.

1.6 The services and/or facilities provided under the Agreement shall comply with the purpose of usage as agreed upon by the Parties and the standards prescribed by the State.

1.7 For any losses inflicted upon the counter Party as a result of breach of the Agreement by any Party, the inflicting Party shall bear the corresponding liabilities to the other Party for the breach (including but not limited to direct and indirect losses inflicted upon the other Party for breach of the Agreement). However, the inflicting Party shall not be held liable for losses caused by force majeure.

1.8 While either Party is fulfilling its obligations under the Agreement, the other Party shall provide reasonable assistance where necessary.

1.9 Pursuant to the premise of Clause 1.3 of the Agreement and on condition that the charges from one Party do not exceed those from an independent third party, the Party that receives the services and/or facilities (hereinafter referred to as "the receiving Party") agrees to opt for the counter Party as its preferred service provider.

1.10 If there is an independent third party within the jurisdiction of one Party where the services are provided, and the independent third party: (i) provides higher quality of services; or (ii) provides the same level of services but charges less; then the receiving Party has the right to terminate the services provided by the counter Party within the jurisdiction following a written notice to the counter Party, for which the receiving Party shall bear no liability.

2. The Components of Integrated Services

2.1 The integrated services mutually provided between the Parties under the Agreement and the associated arrangements are set out in the following annexes:

Annex I: Lease of Telecommunication Resources (provided from Party A to Party B);

Annex II: Premises Leasing (mutually provided);

Annex III: Telecom Value-added Services (provided from Party A to Party B);

Annex IV: Materials Procurement (provided from Party A to Party B);

Annex V: Project Design and Construction (provided from Party A to Party B);

Annex VI: Auxiliary Telecommunication Services (provided from Party A to Party B);

Annex VII: Integrated Services (mutually provided);

Annex VIII: Shared Services (mutually provided);

Annex IX: Financial Services (provided from Party B to Party).

3. Pricing Principle and Payment

3.1 The pricing principles and/or service fee under the Agreement are set out in the annexes to the Agreement.

3.2 Calculation of the exact amount of service fee under the Agreement is subject to the relevant Chinese accounting standards applicable from time to time.

3.3 In case that the Parties cannot agree upon the amount of service fee under the Agreement, they shall jointly submit the matter to the competent department for the latter to determine the level of fees with reference to the spirit and provisions of the Agreement and in accordance with price-related national policies and regulations. The decision of that department shall be deemed final and binding on the Parties.

3.4 As per the pricing principles and standards contained in the Agreement and the annex herewith, either Party shall pay the other Party in a timely fashion for the corresponding services it receives.

3.5 In case that either Party does not pay the service fee as agreed upon by the Parties in due course, then for each day exceeding the time limit, the defaulting Party shall pay the other Party a late fee of 0.05% of the amount overdue; in case that the time limit is exceeded by 60 days and above, the other Party may opt to terminate the corresponding services following a written notice to the defaulting Party. If the defaulting Party still does not pay the service fee 30 days after receipt of the notice, the receiving Party may declare termination of the corresponding services. However, the suspension or termination of such services shall not affect any prior rights or obligations of the Parties that have already occurred or arisen under the Agreement.

3.6 In October each year, the Parties shall carry out a review of the pricing standards and other terms for the next fiscal year in regard to the services and facilities provided as per the Agreement, for which a supplementary agreement is to be signed. If the Parties fail to reach a consensus prior to the above deadline in regard to the provisions of the supplementary agreement, then the pricing standards and relevant provisions for the current year shall apply in the next fiscal year before the Parties reach a consensus or the discrepancies between the Parties are duly addressed pursuant to Clause 3.3 of the Agreement.

4. Validity

4.1 The Agreement is valid until December 31, 2019, with immediate effect the next day following satisfaction of the conditions contained in Clause 6 of the Agreement.

4.2 Unless Party B informs Party A via a written notice at least 60 days in advance, the Agreement shall be automatically renewed for another 3 years at the expiry of the Agreement or its extended period as long as the relevant laws, regulations or regulatory rules are applied.

5. Representations, Warranties and Commitments

5.1 The Parties make the following representations, warranties and commitments to each other:

5.1.1 It has full power and authority (including but not limited to the approval, consent or permission from competent government departments) to sign the Agreement and its annexes;

5.1.2 The Agreement and its annexes are valid and binding upon signing and sealing in the manner provided in the Agreement, with compulsory execution permissible as per its terms;

5.1.3 Any provisions in the Agreement and its annexes are not in violation of the laws and regulations of China.

6. Coming Into Force

The agreement shall come into force from the date appearing atop the main text of the Agreement subject to the review and approval by the General Meeting of Shareholders of the Unicom A Share Company and the Board of Directors of the Unicom Red-chip Company as well as signatures and seals by the Parties.

7. Force Majeure

In the event that one Party cannot fulfill its obligations as per the agreed conditions contained in the Agreement and its annexes due to unforeseeable force majeure of which the occurrences and consequences are unavoidable and insuperable, the Party shall promptly inform the situation to the other Party, and present to the other Party within 15 days the details and valid documents supporting its inability to fulfill in whole or in part of its obligations under the Agreement and its annexes or listing the reasons for its delayed execution of such obligations. As per the magnitude of influence of force majeure on the execution of such obligations, the Parties shall decide whether to suspend, partially exempt or delay the execution of such obligations.

8. Confidentiality

Unless otherwise provided for by laws or regulatory authorities or for the purpose of information disclosure by Party B to regulatory authorities, without written permission from the counter Party, neither Party shall provide or disclose any material or information relating to the businesses of the other Party to any company, enterprise, organization or individual.

9. Non Waiver

Unless otherwise provided for by laws, failure by either Party to exercise or delay the exercise of its rights, power or privilege under the Agreement shall not be deemed as waiver of such rights, power or privilege, and the exercise of such rights, power or privilege in part shall not hinder future exercise of such rights, power or privilege.

10. Notice

Any notice in relation to the Agreement shall be made in writing and delivered by hand, fax or post from one Party to the other Party. Notices shall be regarded as delivered when signed by the recipient (hand delivery), or when the sender's fax machine displays "sent" (facsimile) or on the third working day in the wake of mailing (postal delivery, in which case the date shall be automatically extended when coinciding with statutory holidays). Notices shall take immediate effect upon delivery.

11. Applicable Laws

Governed by the laws of China (for the purposes of the Agreement, except for the laws of Hong Kong, Macao and Taiwan, the same below), interpretation and implementation of the Agreement is also subject to the laws of China.

12. Dispute Resolution

Except for the situation provided for in Clause 3.3 of the Agreement, all disputes arising out of implementation of the Agreement or relating to the Agreement shall be resolved through friendly consultations between the Parties. In case that no consensus is reached within thirty (30) days after one Party makes the request to resolve the dispute through consultations, either Party may submit the dispute to China International Economic and Trade Arbitration Commission (CIETAC), in which case three (3) arbitrators are required to resolve the dispute in Beijing by arbitration as per the then effective arbitration rules. With Chinese as the arbitration language, the arbitration award shall be final and binding on the Parties. Unless otherwise provided by the arbitral tribunal, the arbitration costs shall be borne by the losing Party.

13. Other

13.1 Once the Agreement enters into force, the original arrangement of continuing connected transactions shall be terminated on December 31, 2016.

13.2 Annex I to Annex VIII of the Agreement forms an integral part of the Agreement and bears the same effect as the main text of the Agreement. In case that the text of the annexes is inconsistent with that of the main text of the Agreement, the text of the annexes shall prevail.

13.3 As agreed by the Parties, the Parties may opt to amend or supplement the Agreement and its annexes. All amendments or supplements shall enter into force following signatures and seals by special seal for contractual by legal representatives or authorized representatives of the Parties.

13.4 The Agreement is severable, i.e., if any provision of the Agreement or its annexes is determined as illegal or unenforceable, the effectiveness and implementation of other provisions of the Agreement and its annexes shall not be affected accordingly.

13.5 The Agreement is made in four original copies, with each Party holding two copies and all the four copies bearing the same legal effect.

Annex I: Lease of Telecommunication Resources

1. Lease of Telecommunication Resources

   The two Parties agree that Party B leases Party A's international telecommunications channel gateways (including international submarine cable landing stations, international land cable entry points, landing stations or entry extension terminal stations, as well as international satellite earth stations), international telecommunications service gateways (including international voice exchanges, the STPs, international ATM/FR nodes, international transmission/DDN, international nodes for IP networks and international internet gateways (IIGs)), the international submarine cable capacity, international land cables and other international telecommunications resources (the "International Telecommunications Resources"), as well as other telecommunications facilities owned by Party A but needed by Party B in its service operations ("Telecommunications Resources and Facilities").

2. Contents of the Lease of Telecommunications Resources and Facilities

   2.1 Party B leases international telecommunications resources owned by Party A.

   2.2 Party B leases other telecommunications resources and facilities owned by Party A.

   2.3 The two Parties shall make adjustments where necessary to the scope, type and quantity of telecommunications resources and facilities at any time. Such adjustments shall be confirmed once a year.

3. Obligations

   3.1 Party B shall be responsible for maintaining the leased international telecommunications resources at its own expense in accordance with relevant regulations and specifications.

   3.2 The two Parties shall determine through consultation which Party is to undertake the maintenance in part or in full for the telecommunications facilities, in which case the relevant costs shall be borne by Party B (unless otherwise agreed by the two Parties); if Party A undertakes the maintenance in part or in full for the telecommunications facilities, Party B shall make compensations to Party A for the costs arising therefrom.

   3.3 Party B shall make proper use of the leased telecommunications resources and facilities. In the validity of this annex and to the extent permitted by the laws where applicable, Party B shall be entitled to lease the telecommunications resources and facilities to any of the third parties as part of its normal Network Elements (NE) lease services, for which the rates shall be based on relevant state regulations and the principles of equality and fairness.

3.4 If Party B deems it necessary to suspend the telecommunications resources and facilities for the sake of maintenance and other reasons, a prior notice shall be issued to Party A within a reasonable period of time.

4. Quality Assurance

4.1 Party A shall ensure that the quality of its leasing telecommunications resources and facilities are in line with national standards and regulations.

4.2 Party B shall ensure that its telecommunications equipment connected to the telecommunications resources and facilities is in line with the quality standards and technical requirements provided by the competent national authorities.

5. Fees and Payment

5.1 The rental fees payable by Party B for the leased resources and facilities equals to the annual depreciation amount of the communication resources and facilities, and shall not be higher than the market price.

5.2 Within three months after the end of each calendar year, the two Parties shall carry out a review of the rental fee of the telecommunications resources and facilities (if necessary) provided pursuant to this annex. Adjustments shall be made in the next year with regard to the rental fee errors (if any) identified in the review process.

5.3 The expenses to be paid under Clause 3.2 of this annex shall be determined with reference to the market price. In case that no market price is available, the price shall be worked out by the two Parties through negotiation. However, the price shall be negotiated on a “reasonable cost plus reasonable profit” basis, and the “reasonable cost” means the cost to be determined by the two Parties through negotiation.

5.4 At the time of determining the price standard or reasonable profit, the management shall, to the extent practicable, refer to the rate of profit of at least two comparable transactions with the independent third party during the same period or profit of related industries.

5.5 Within ten working days following the end of each quarter, Party B shall provide to Party A a list of rental charges of the previous quarter, as well as a list of the charges and fees provided pursuant to aforementioned Clause 5.3 of this annex. Meanwhile, Party B shall pay Party A the balance of rental charges after deduction of the relevant charges provided pursuant to Clause 5.3 hereinbefore. After the receipt of the payment, Party A shall issue a statement of payment to Party B. Where dispute arises, adjustments shall be made in the next quarter upon confirmation by the two Parties.

5.6 The two Parties shall pay rental charges and fees in light of the articles heretofore. In the event of overdue payment, a penalty charge of 0.05% of the amount due will be imposed on the Party owing the payment for each day (1 day) of outstanding payment.

6. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the communications resources and facilities leased by Party A to Party B shall be RMB 600 million.

Annex II: Premises Leasing

1. Scope and Purposes of Leasing

   1.1 Party A and Party B agree to lease premises and related attached equipment owned respectively by their branches, subsidiaries, affiliated companies or holding enterprises or units ("subsidiary companies") to each other for the purpose of production and operation. Both Parties confirm that subsidiary companies hereinbefore have agreed to entrust Party A and Party B with the rights to lease the premises under this annex.

   Party A agrees to lease its own premises and related attached equipment under this annex ("Party A's Premises") to Party B; Party B agrees to rent Party A's Premises and pay the consideration accordingly. Meanwhile, Party B agrees to lease its own premises and related attached equipment under this annex ("Party B's Premises") to Party A; Party A agrees to rent Party B's Premises and pay the consideration accordingly.

   1.2 Party A and Party B agree that the premises leased from each other are to be used for business operation in accordance with the law within the scope permitted. One Party may sub-lease the other Party's premises to the third parties upon the written permission of the other Party herein. However, the sub-lessee shall still bear the responsibilities and obligations hereunder for the leased premises.

2. Lease Term

   2.1 The lease term of the premises under the annex shall be determined by the two Parties in accordance with the specific leasing circumstances of each leased premise, but shall be subject to the provisions of Clause 2.2 of this annex.

   2.2 If the Lessee commits one of the acts described hereinafter, the Lessor is entitled to terminate the lease of the premises under this annex:

   (1) The Lessee subleases or lends the Lessor's premises to other parties without the Lessor's consent (excluding subleasing or lending to the affiliated companies or associated companies of the Lessee);

   (2) The Lessee breaches the agreed articles of lease purposes, or uses the Lessor's premises to carry out unlawful or illegal activities and infringes upon the interests of the public.

   2.3 On the expiry of this annex, if the Lessee does not exercise the right to renew the lease according to this annex, but is unable to actually return the rental premises to the Lessor due to business operation, the Lessor shall extend, as appropriate, the lease term, and shall be entitled to charge the Lessee for the extended rent. The specific amount shall be determined by the Lessee and the Lessor through consultation.

3. Rents and Payment

3.1 The Parties agree on rental fees of premises and related ancillary equipment mutually leased by both Parties based on the market price. If the market price is not available or cannot be determined, the rental fees shall be determined through the Parties' negotiation.

(1) The market price refers to the market price or charging standard for an independent third party to provide the same or similar assets or services under the normal commercial terms.

(2) The negotiated price is the price determined in accordance with the reasonable cost plus the tax and reasonable profit of the lease.

(3) At the time of determining the price standard or reasonable profit, the management shall, to the extent practicable, refer to the rate of profit of at least two comparable transactions with the independent third party during the same period or profit of related industries.

3.2 Party A and Party B agree that the leasing of each Party's specific premises may be stipulated in separate implementation documents otherwise signed in order to provide the applicable terms and conditions. However, the implementation documents shall be in line with the principles, guidelines, terms and conditions provided by this annex.

3.3 A review of the rent provided in this Article hereto shall be carried out once a year, and whether adjustments are needed as well as the specific rental prices after adjustments shall be determined by both Parties through consultations. Only the adjusted rent shall be no higher than the market price.

3.4 The rent shall be settled on a quarterly basis, and the settlement date shall be the last day of each quarter. Should the last day be Saturday, Sunday or public holiday, the settlement date shall be postponed to the first working day after the end of holidays.

3.5 All administrative fees and other fees arising from the lease of Party A and Party B's premises charged by the state and local government shall be borne by the Lessor, unless otherwise expressly stipulated in this annex.

3.6 The Lessee shall pay the rent to the Lessor in light of the Article hereof. In the event of overdue payment, a penalty charge of 0.05% of the amount due will be charged by the Lessor for each day (1 calendar day, similarly hereinafter) of outstanding payment.

4. Repairing and Refurbishment during Lease Term.

The Lessor shall undertake the obligations of repairing and refurbishing the premises during the lease term and bear the costs arising therefrom. Unless otherwise provided by this annex, the Lessee shall consult the Lessor and both Parties shall reach written agreements before carrying out any necessary decoration construction in the leased premises, such as transformation of the main structure of the premise. However, the Lessor shall not reject or delay the Lessee's request for the transformation of the main structure of the premise without reasonable grounds. With the main structure of the premises remaining untouched, the Lessee can make alteration and addition at its own expenses without informing the Lessor or obtaining its consent. The additions or values arising from the decoration, alteration or addition made by the Lessee or the Lessor during the lease term shall belong to the Lessor.

5. Change of Lessor

5.1 In the event that the Lessor transfers the ownership of its rental premises to the third parties, this annex shall remain valid for the new owner of the premises.

5.2 The Lessor shall inform the Lessee three months prior to the transfer of the ownership of the leased premises. Under the same terms the Lessee has the right of preemption to the Premises.

6. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the premises leased by Party A to Party B shall be RMB 2.5 billion, and those for the premises leased by Party B to Party A shall be RMB 100 million.

Annex III: Telecom Value-added Services

1. General Description of Service Contents

   Party A (or its holding subsidiaries) as a Provider offers various value-added services to Party B's subscribers through all kinds of telecommunications networks and data platforms.

2. Settlement

   2.1 The actual cash income generated by value-added services provided by Party A to Party B under this annex, shall be settle by the branches of Party A and Party B according to the average proportion of amount paid by Party B to other provider of value-added telecom services content providers (CP/SP) independent from Party B in the market in the same area.

   2.2 Settlement shall be based on Party B's billing information.

   2.3 Both Parties agree that the settlement should be made once a month directly by each Party's relevant subordinated bodies in light of the settlement principles provided by this annex.

3. Obligations

   3.1 Where the services under this annex may be affected due to one Party's network construction (including but not limited to capacity expansion or renovation), the Party carrying out the construction work shall inform the other Party six months in advance.

   3.2 Both Parties shall conduct network maintenance in line with related regulations provided by competent national telecommunications authorities at any time so as to guarantee the normal operation of the whole network.

   3.3 Without the consent of the other Party, neither Party shall suspend the telecommunications generated from services under this annex. Where telecommunications were suspended or severely impeded, both Parties shall take effective measures immediately to recover the telecommunications service.

4. Transaction Caps

   In 2017, 2018 and 2019, the transaction caps for various value-added services provided by Party A to Party B shall be RMB 500 million.

Annex IV: Materials Procurement

1. Scope of Materials Procurement Services

   1.1 Materials procurement service items provided by Party A to Party B under this annex include but not limited to:

      (1) Procurement of imported telecom materials;

      (2) Procurement of domestic telecom materials;

      (3) Procurement of domestic non-telecom materials.

   Abovementioned procurement services also include management of bidding and tendering, review of technical specifications, installation, inquiry, and agent services.

   1.2 The proprietary materials sold by Party A directly to Party B mainly include cables, modems and so on.

   1.3 Party A also provides Party B with storage, transportation and other services related to material procurement services and direct materials procurement.

2. Service Fees and Payment

   2.1 Party B shall pay service fees to Party A for purchasing equipment:

      (1) The pricing and/or charging standard of the commission on the domestic material procurement services under this annex shall not exceed 3% of the material procurement contract amount.

      (2) The pricing and/or charging standard of the commission on the imported material procurement services under this annex shall not exceed 1% of the material procurement contract amount.

      (3) Pricing standards for Party B to sell proprietary materials under this annex, and the pricing standards and/or charging standard of commissions for storage and transportation services related to the procurement services and direct procurement pricing shall be determined based on the market price. If the market price is not available or cannot be determined, the rental fees shall be determined by the negotiated price.

         (A) Market price refers to the market price or charging standard for the third party to provide the same or similar assets or services under the normal commercial terms.

         (B) Negotiated price refers to the price determined in accordance with the reasonable cost of sales plus tax and reasonable profits.

(C) At the time of determining the price standard or reasonable profit, the management shall, to the extent practicable, refer to the rate of profit of at least two comparable transactions with the independent third party during the same period or profit of related industries.

2.2 Party B agrees to pay service fees to Party A each month.

In the event of overdue payment, Party B shall pay Party A a penalty at the rate of 0.05% of the amount overdue for each day (1 day).

3. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the materials procurement services provided by Party A to Party B shall be RMB 1 billion.

Annex V: Project Design and Construction

1. Main contents under this annex

   Party A shall provide the following services for Party B in terms of project design and construction:

   1.1 Project design, including:

   Planning and design, project investigation and survey, communication circuit engineering (including pipeline projects, fiber and cable projects, and overhead pole line projects), communication equipment projects (including phone switching project, transmission projects, data and multimedia projects, communication power and air-conditioning projects, microwave communication projects and technical support system projects) and corporate communication projects;

   1.2 Project construction, including:

   Communication equipment, communication lines, communication power (including air conditioners for communication), communication pipelines and technical business support system;

   1.3 Project supervision

   1.4 IT services, including:

   Office automation, software testing, network upgrading, R&D of new services and support systems.

2. Pricing principles

   2.1 The pricing and / or charging standards for engineering design and construction services under this annex shall be determined by reference to the market price, except as provided for in the second paragraph of this article. Market price is the market price or charge standard for the third party to provide the same or similar products or services under the normal commercial terms. When determining the price standard, the management shall, to the extent practicable, refer to at least two comparable transactions with the independent third party.

   2.2 Licensee shall, through the tender to determine the specific service provider of the engineering design and construction. The provider shall have the qualifications and conditions of not less than the independent third party, and in an equal position with the independent third party to participate in the bidding process. In this case, the price should be determined according to the bidding procedure.

3. Service payments

3.1 Party B shall pay Party A or Party A's fiduciaries service fees for services received in a timely manner in accordance with the pricing and charging standards defined in this annex, the supplementary agreements of this annex (if any) and the implementation documents.

3.2 If Party B fails to pay the relevant service fees as scheduled according to the provisions in this annex, the supplementary agreements of this annex (if any) and the implementation documents, Party B shall pay Party A 0.05% of the overdue amount as fine for delaying payment every one (1) day (calendar day, hereinafter inclusive); if the payment is deferred for sixty (60) days, Party A may inform Party B in written form of the suspension of the service; if Party B fails to pay the relevant service fees within thirty (30) days upon the receipt of the written notification, Party A may declare the termination of the relevant services. However, the suspension or termination of the services will not affect the rights and obligations underway between the two Parties under this annex.

4. Priority

4.1 Unless otherwise provided, for the same service, if the clauses and conditions provided by independent third party for Party B are not superior to those provided by Party A, Party B shall give priority to Party A.

4.2 Party A shall make commitment to Party B that the conditions Party A provides for the third party will not be superior to that provided to Party B concerning the same or similar services under this annex.

4.3 Party A has rights to provide services for the third party under the circumstances that services provided by Party A for Party B under this annex will not be affected.

5. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the project design and construction services provided by Party A to Party B shall be RMB 6.5 billion.

Annex VI: Auxiliary Telecommunication Services

1. Main contents

   The auxiliary telecom services provided by Party A for Party B under this annex include: the provision of the auxiliary telecom services including pre-sale, sale and after-sale of various communication services, such as installation, disassembly, transfer and repair of customers' communication equipment, agential sales of certain communication products, bills printing and mailing, collecting telephone charges, making telephone cards and developing new customers; market and customers information collection and feedback; maintenance of auxiliary equipment of communication bureaus or rooms (such as air conditioners and firefighting equipment) and telephone booths.

2. Pricing principles

   2.1 The pricing and / or charging standards of the Auxiliary Telecommunication Services under this annex shall be determined on the basis of the market price.

   (1) Market price is the market price or charge standard for the third party to provide the same or similar assets or services under the normal commercial terms.

   (2) The negotiated price refers to the price determined at reasonable cost plus sales tax and reasonable profit.

   (3) At the time of determining the price standard or reasonable profit, the management shall, to the extent practicable, refer to the rate of profit of at least two comparable transactions with the independent third party during the same period or profit of related industries.

   2.2 The specific amount of service fees under this annex shall be calculated pursuant to the relevant accounting principles in China (if applicable).

   2.3 Party A and Party B shall examine and verify (if necessary) every service and facility provided under this annex and the pricing standards set for the next accounting year before December 31 of every year.

   2.4 Party A and Party B are expected to sign specific implementation documents as needed concerning the services provided. The implementation documents shall specify the services required by Party B and the binding principles, criteria and clauses and conditions under this annex.

3. Service payments

   3.1 Party B shall pay Party A or Party A's fiduciaries for service fees in a timely manner in accordance with the pricing and charging standards defined in this annex, the supplementary agreements of this annex (if any) and the implementation documents.

3.2 If Party B fails to pay the relevant service fees as scheduled according to the provisions in this annex, the supplementary agreements of this annex (if any) and the implementation documents, Party B shall pay Party A 0.05% of the overdue amount as fine for delaying payment every one (1) day (calendar day, hereinafter inclusive); if the payment is deferred for sixty (60) days, Party A may inform Party B in written form of the suspension of the service; if Party B fails to pay the relevant service fees within thirty (30) days upon the receipt of the written notification, Party A may declare the termination of the relevant services. However, the suspension or termination of the services will not affect the rights and obligations underway between the two Parties under this annex.

4. Priority

4.1 For the same service, if the clauses and conditions provided by independent third party for Party B are not superior to those provided by Party A, Party B shall give priority to Party A.

4.2 Party A shall make commitment to Party B that the conditions that Party A provide for the third party will not be superior to those provided to Party B concerning the same or similar services under this annex.

4.3 Party A has rights to provide services for the third party under the circumstances that services provided by Party A for Party B under this annex will not be affected.

5. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the auxiliary telecommunication services provided by Party A to Party B shall be RMB 4.5 billion.

Annex VII: Integrated Services

1. Main contents

   Party A and Party B agree to provide or receive the services from each other in accordance with the clauses and conditions under this annex, including catering service, equipment leasing (except the facilities/equipment covered by the Framework Agreement on Leasing of Communication Resources), vehicle service, medical care, labor service, security, hotel service, meeting service, gardening (afforestation), decoration, products sale, infrastructure agents, equipment maintenance, market development, technical support, R&D, cleaning service, parking service, employment training, warehousing (such as storage of telecom equipment, including parts and circuits), advertisements (such as those made by Party B and published on the media of Party A) and publication/printing, property management and ICT services (including support services such as construction and installation, system integration service, software development, products sales and agency service, operation and maintenance service and consultancy service).

2. Pricing principles

   2.1 The pricing and / or charging standards of the Integrated Services under this annex shall be determined on the basis of the market price.

   (1) Market price is the market price or charge standard for the third party to provide the same or similar assets or services under the normal commercial terms.

   (2) The negotiated price refers to the price determined at reasonable cost plus sales tax and reasonable profit.

   (3) At the time of determining the price standard or reasonable profit, the management shall, to the extent practicable, refer to the rate of profit of at least two comparable transactions with the independent third party during the same period or profit of related industries.

   2.2 The specific amount of service fees under this annex shall be calculated pursuant to the relevant accounting principles in China (if applicable).

   2.3 Party A and Party B shall examine and verify (if necessary) every service and facility provided under this annex and the pricing standards set for the next accounting year before December 31 of every year.

   2.4 Party A and Party B are expected to sign specific implementation documents as needed concerning the services provided. The implementation documents shall specify the services required by Party B and the binding principles, criteria and clauses and conditions under this annex.

3. Service payments

    3.1 The service receiving Party shall pay Party A or Party A's fiduciaries for service fees in a timely manner in accordance with the pricing and charging standards defined in this annex, the supplementary agreements of this annex (if any) and the implementation documents.

    3.2 If the service receiving Party fails to pay the relevant service fees as scheduled according to the provisions in this annex, the supplementary agreements of this annex (if any) and the implementation documents, Party B shall pay Party A 0.05% of the overdue amount as fine for delaying payment every one (1) day (calendar day, hereinafter inclusive); if the payment is deferred for sixty (60) days, Party A may inform Party B in written form of the suspension of the service; if Party B fails to pay the relevant service fees within thirty (30) days upon the receipt of the written notification, Party A may declare the termination of the relevant services. However, the suspension or termination of the services will not affect the rights and obligations underway between the two Parties under this annex.

4. Priority

    4.1 For the same service, if the terms and conditions of the independent third party are not superior to the terms and conditions proposed by the other Party, the Party may give priority to the other Party.

    4.2 The Parties undertake that the conditions of the same or similar service provided to the third party will not be superior to that provided to the other Party.

    4.3 A party shall have the right to provide services to the third party only if it does not affect the service provided to the other Party in accordance with this annex.

5. Transaction Caps

    In 2017, 2018 and 2019, the transaction caps for the integrated services provided by Party A to Party B shall be RMB 3.5 billion, and those for the integrated services provided by Party B to Party A shall be RMB 400 million.

Annex VIII: Shared Services

1. Contents of services

   Party A and Party B agree to provide or receive relevant services from each other based on the clauses and conditions agreed upon under this annex, including (but not limited to): (1) the headquarter HR service provided by Party B for Party A; (2) the services of business support center (BSC) provided by the two Parties for each other and the hosting service related to the services in the Article 1 (1) and (2) provided by Party B for Party A; (3) other shared services such as sites and the headquarters' listed service provided by Party A for Party B.

2. Headquarter HR service

   The HR services offered by Party B for Party A include shared service of administrative personnel and business operational management personnel at the headquarter and the hosting management of Party A's businesses, finance and personnel.

3. BSC Services

   3.1 BSC services provided by Party B for Party A include:

   (1) Collecting the data on international communication services, billing and generation of the monthly account and account checking and settlement with overseas operators;

   (2) Collecting and distributing the roaming data about the whole network-based services, including but not limited to the smart network (such as 300 and 800), IP cards, PHS SMS and generation the inter-province roaming statement of accounting;

   (3) Settlement with other domestic operators or settlement entities for the whole network;

   (4) Intra-network settlement;

   (5) Providing statistical reports on business data for the associated units of Party A;

   3.2 BSC services provided by Party A for Party B include:

   (1) Producing and issuing telephone cards and IC cards on the backbone smart networks of Party A (hereinafter referred to as telecommunication cards), including identifying qualifications of, evaluating and managing card providers and relevant raw materials providers; organizing the bidding among card providers and signing of framework agreement on telecommunication cards procurement; overseeing the contracts execution by manufacturers and provincial companies; formulating the annual theme plan of telecommunication cards; according to the theme plan, organizing the subscription and production of telecom cards by provincial companies; signing, executing the contracts on code cards of Party A and organizing their production.

(2) Managing telecom cards service, including development of the regulations on production of telecom cards and graphic design; gathering statistical data on cards business for operational analysis.

3.3 Obligations of the Parties

(1) Party B is obligated to complete the international settlement, inter-network settlement and inter-province settlement of all services in a timely and accurate manner pursuant to the rules about international settlement, inter-network settlement and inter-province settlement introduced by the competent agency of communication industry of the State Council and report to Party A as required.

(2) Party A is obligated to complete the design, production and management of the valued cards according to the required time limit, quantity and quality, which are agreed upon between the two Parties.

(3) Party A shall meet and complete other business demands presented by Party B on time based on the business system and network capabilities.

4. Use of site

4.1 Purpose of site use

(1) Party A agrees to provide its site, No. 21 office building located at the Financial Street, Xicheng District, Beijing (including air conditioners, power supply, utilities equipment and other relevant auxiliary facilities within), for Party B according to Party B’s demand.

(2) Party B takes the above-mentioned site as its main working place.

4.2 Commitment and guarantee.

Party A guarantees that it has right to provide the above-mentioned site for use (including air conditioners, power supply, utilities equipment and other relevant auxiliary facilities within) for Party B. If any third party, in any condition and for any reason, takes objection to Party A’s ownership and/or right of use with the above-mentioned site or assets, and hence Party B’s rights under this annex cannot be fulfilled or are subject to any harm, Party A agrees to undertake and pay all the losses incurred to Party B. Party A promises to provide Party B’s auditors with the accounting records about Party A and its associated personnel concerning the connected transaction.

5. Other shared services listed by the headquarter

Party A provides Party B with other shared services listed by the headquarter, such as advertisements, publicity, R&D, business reception, maintenance and repair as well as property management.

6. Cost sharing of shared services

Party A and Party B agree that costs incurred by the HR service provided for Party A from Party B, BSC services provided for each other, and sites and other shared services listed by the headquarter (including depreciation of equipment and assets added for the shared service under this agreement and the actual rental fee, property management fee and labor cost) will be shared between the two Parties based on each other's ratio of total assets (among which, Party A's total assets exclude those of its overseas subsidiaries and listed companies, the sharing ratio will be decided upon consultation after the two Parties offer total assets listed the their financial statements to each other and will be adjusted every year based on the change of the two Parties' total assets). The specific settlements will be jointly worked out by the two Parties.

7. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the shared services provided by Party A to Party B shall be RMB 500 million, and those for the shared services provided by Party B to Party A shall be RMB 100 million.

Annex IX: Financial Services

1. Main contents

The financial services provided by Party B or any of its subsidiaries under this annex shall include:

1.1 Deposit services;

1.2 Loans and other credit services, including loans, finance leases, bills discounting, guarantees, etc..

1.3 Other financial services, including settlement services, bill acceptance, entrusted loans, credit verification, financial advisory, consulting and agency services, approved by the insurance agency services, other services which may be engaged by the financial services provider under this annex as approved by the CBRC.

2. Pricing principles

2.1 On deposit

The deposit interest rate charged by Party B or its subsidiary party to Party A should not be higher than the upper limit imposed by the People's Bank of China on the interest rate of deposit in the same type, and not higher than the interest rate of the same type of deposits charged to other customers of Party B or its subsidiaries and not higher than the interest rate charged by the general commercial banks providing similar type of deposit to Party A.

2.2 On loans

The loan interest rate should follow the standard rates specified by the People's Bank of China, and not be less than the interest rate of the same type of loans charged to other customers of Party B or its subsidiaries and not lower than the interest rate charged by the general commercial banks providing similar type of load to Party A.

2.3 Other financial services

The fees charged by Party B or its subsidiaries to provide financial services to Party A shall be subject to the relevant provisions of the People's Bank of China or the banking regulatory commission. If there are no relevant provisions, the service fee shall be determined by a fair agreement between the two Parties on the basis of the fees charged for the same kind of financial services on the market.

2.4 Party A and Party B or its subsidiaries will enter into implementation document regarding the providing of relevant services based on its demand from time to time; the implementation document should contain specific services needed by Party A at the time, and specify the binding principles, standards and terms and conditions under this annex.

3. Service payments

3.1 Party A shall be in accordance with the supplementary agreement of this annex, this annex (if any), pricing and charging standards implementation document, make payment in a timely manner for the service charges of the service received from Party B or its subsidiary.

3.2 If Party A fails to pay related fees as scheduled in accordance with the supplementary agreement of this annex, this annex (if any), and the implementation document, Party B or its subsidiaries may charge Party A fines according to the standard imposed by the People's Bank of China or the CBRC; if the payment is deferred for sixty (60) days, Party A may inform Party B in written form of the suspension of the service; if Party B fails to pay the relevant service fees within thirty (30) days upon the receipt of the written notification, Party A may declare the termination of the relevant services. However, the suspension or termination of the services will not affect the rights and obligations underway between the two Parties under this annex .

4. Transaction Caps

In 2017, 2018 and 2019, the transaction caps for the financial services provided by Party A to Party B shall be as follows:

Daily deposits (including interest) shall not exceed RMB 8.2 billion;

Daily loan balance (including interest) and other daily credit service balance shall not exceed RMB 6.3 billion, of which daily guarantee balance shall not exceed RMB 100 million;

The service fee charged for other financial services shall not exceed RMB 100 million.

Exhibit 8.1

List of Significant Subsidiaries

Name of Subsidiary	Country of Incorporation	Ownership Interest
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%
China Unicom (Russia) Operations Limited Liability Company	Russia	100%
China Unicom (Brazil) Telecommunications Company Limited	Brazil	100%

Exhibit 12.1

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, 2017

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chief Executive Officer

Exhibit 12.2

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, 2017

By: /s/ Li Fushen
Name: Li Fushen
Title: Chief Financial Officer

Exhibit 13.1

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, 2016 (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, 2017	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.

Exhibit 13.2

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, 2016 (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, 2017	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.

Exhibit 16.1

21 April 2017

Securities and Exchange Commission

Washington, D.C. 20549

Ladies and Gentlemen:

We were previously principal accountants for China Unicom (Hong Kong) Limited and, under the date of March 16, 2016, we reported on the consolidated financial statements of the Company as of and for the years ended December 31, 2014 and 2015, and the effectiveness of internal control over financial reporting as of December 31, 2015. On May 12, 2016, we were dismissed.

We have read China Unicom (Hong Kong) Limited's statements included under Item 16F(a) of its Form 20-F dated April 21, 2017, and we agree with such statements, except that we are not in a position to agree or disagree with China Unicom (Hong Kong) Limited's statement that the change was recommended by the board of directors.

Very truly yours,

/s/ KPMG

Hong Kong, China