

REPORT OF THE DIRECTORS



The board of directors (the “Board”) of China Unicom (Hong Kong) Limited (the “Company”) is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of Company’s subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2015 are set out on pages 84 to 85 of this annual report.

Taking into account the return to shareholders, the Company’s profitability, company debt, free cash flow and capital requirements for its future development, the Board of Directors has decided to recommend at the forthcoming shareholders’ general meeting that the payment of a final dividend of RMB0.17 per ordinary share (“2015 Final Dividend”), totaling approximately RMB4,071 million for the year ended 31 December 2015. Going forward, the Company will strive to enhance future profit while paving the way for an increase in future dividends.

FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 166 to 167 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2015.

Please refer to the financial statements on pages 82 to 165 for the operating results of the Group for the year ended 31 December 2015 and the respective financial positions of the Group and the Company as at that date.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the sections headed “Chairman’s Statement” on pages 8 to 13, “Business Overview” on pages 15 to 19, “Financial Overview” on pages 21 to 27, “Financial Statements” on pages 82 to 165, “Human Resources Development” on pages 72 to 73, “Corporate Social Responsibility” on pages 74 to 77, “Corporate Governance Report” on pages 35 to 51 and “Report of the Directors” on pages 52 to 71 respectively of this annual report.

LOANS

Please refer to Notes 21, 26 and 40.1(b) to the financial statements for details of the borrowings of the Group.

PROMISSORY NOTES

Please refer to Note 22 to the financial statements for details of the promissory notes of the Group.

CONVERTIBLE BONDS

Please refer to Note 23 to the financial statements for details of the convertible bonds of the Group.

CORPORATE BONDS

Please refer to Note 24 to the financial statements for details of the corporate bonds of the Group.



COMMERCIAL PAPERS

Please refer to Note 27 to the financial statements for details of the commercial papers of the Group.

CAPITALISED INTEREST

Please refer to Note 6 to the financial statements for details of the interest capitalised by the Group for the year.

EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2015, the Group has not signed any equity-linked agreement.

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 6 to the financial statements for movements in the property, plant and equipment of the Group for the year.

CHARGE ON ASSETS

As at 31 December 2015, no property, plant and equipment was pledged to banks as loan security (31 December 2014: Nil).

SHARE CAPITAL

Please refer to Note 19 to the financial statements for details of the share capital.

RESERVES

Please refer to page 86 and page 138 of this annual report for the movements in the reserves of the Group and the Company during the year ended 31 December 2015 respectively. As at 31 December 2015, the distributable reserve of the Company amounted to approximately RMB4,153 million (2014: approximately RMB4,930 million).

SUBSIDIARIES AND ASSOCIATES

Please refer to Notes 11 and 12 to the financial statements for details of the Company's subsidiaries and associates.

CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 86 of this annual report for the Consolidated Statement of Changes in Equity and page 138 for the Statement of Changes in Equity.

EMPLOYEE BENEFIT EXPENSES

Please refer to Note 31 to the financial statements for details of the employee benefit expenses provided to employees of the Group.



PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to its five largest customers for the year ended 31 December 2015 did not exceed 30% of the Group's total turnover for the year.

The Group's purchases from its largest supplier for the year ended 31 December 2015 represented approximately 16.3% of the Group's total purchases for the year. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2015 accounted for approximately 37.1% of the total purchases of the Group for the year.

None of the Directors nor their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") nor any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers of the Group for the year ended 31 December 2015.

SHARE OPTION SCHEMES OF THE COMPANY

1. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme, which was amended on 13 May 2002, 11 May 2007 and 26 May 2009 (the "Share Option Scheme"). The purpose of the Share Option Scheme was to provide incentives and rewards to employees who have made contributions to the development of the Company. The Share Option Scheme was valid and effective for a period of 10 years commencing on 21 June 2000 and expired on 21 June 2010. Following the expiry of the Share Option Scheme, no further share option can 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 any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Under the Share Option Scheme:

- (1) share options may be granted to employees including all directors (the "Directors") of the Company;
- (2) any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options);
- (3) the maximum number of shares in respect of which share options may be granted must not exceed 10% of the issued share capital of the Company as at 13 May 2002;
- (4) the option period commences on any day after the date on which such share option is offered, but may not exceed 10 years from the offer date;



- (5) the subscription price shall not be less than the higher of:
 - (a) the nominal value of the shares (if applicable);
 - (b) the closing price of the shares on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on the offer date in respect of the share options; and
 - (c) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the offer date;
- (6) the total number of shares in the Company issued and to be issued upon exercise of the share options granted to a participant of the Share Option Scheme (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and
- (7) the consideration payable for each grant is HKD1.00.

During the year ended 31 December 2015, 108,000 options were exercised and 3,432,000 options were lapsed, both at the exercise price of HKD6.35 for each option granted under the Share Option Scheme.

As at 31 December 2015, no share options had been granted and remained valid under the Share Option Scheme.

2. 2014 Share Option Scheme

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

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



- (3) the maximum aggregate number of shares in respect of which share options may be granted pursuant to the 2014 Share Option Scheme shall be calculated in accordance with the following formula:

$$N = A - B - C$$

where:

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

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

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

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

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

- (4) the option period commences on any day after the date on which such share option is offered, but may not exceed 10 years from the offer date;
- (5) the subscription price shall not be less than the higher of:
- (a) the closing price of the shares on the Hong Kong Stock Exchange on the offer date in respect of the share options; and
 - (b) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the offer date;
- (6) the total number of shares in the Company issued and to be issued upon exercise of the share options granted to a participant of the 2014 Share Option Scheme (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and
- (7) the consideration payable for each grant is HKD1.00.

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

As at 31 December 2015, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme, representing approximately 7.42% of issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.



3. Interest of Directors, Chief Executives and Employees under the Share Option Scheme

During the year ended and as at 31 December 2015, none of the Directors and the chief executive of the Company had any share option.

Details of interest of employees under the Share Option Scheme are as follows:

	Date of Grant ³	Exercise Price (HKD)	No. of Options Outstanding as at			No. of Options Outstanding as at	
			1 January 2015 ¹	Granted ¹	Exercised ¹	Lapsed ¹	31 December 2015 ¹
Employees ²	15 February 2006	6.35	3,540,000	–	(108,000)	(3,432,000)	–
Total			3,540,000				–

Notes:

- Each share option gives the holder the right to subscribe for one share.
- Particulars of share options granted under the Share Option Scheme are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period
15 February 2006	6.35	15 February 2008 to 14 February 2015 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2015 (in respect of the remaining 50% of the options granted)

- Details of share options exercised during the year ended 31 December 2015 are as follows:

Grant date	Exercise price (HKD)	Weighted average closing price per share at respective dates immediately before dates of exercise of options (HKD)	Proceeds received (HKD)	Number of shares
15 February 2006	6.35	12.88	685,800	108,000

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.



SUBSTANTIAL INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

The following table sets out the interests and short positions of each person, other than a director or a chief executive of the Company, in the shares or underlying shares of the Company as notified to the Company and recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) ("SFO") as at 31 December 2015:

	Ordinary Shares Held		Percentage of Total Issued Shares
	Directly	Indirectly	
(i) China United Network Communications Group Company Limited ("Unicom Group") ^{1, 2}	–	18,032,853,047	75.30%
(ii) China United Network Communications Limited ("Unicom A Share Company") ¹	–	9,725,000,020	40.61%
(iii) China Unicom (BVI) Limited ("Unicom BVI") ¹	9,725,000,020	–	40.61%
(iv) China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI") ^{2, 3}	8,082,130,236	225,722,791	34.69%

Notes:

1. Unicom Group and Unicom A Share Company directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of Unicom BVI, and in accordance with the SFO, the interests of Unicom BVI are deemed to be, and have therefore been included in, the respective interests of Unicom Group and Unicom A Share Company.
2. Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. In accordance with the SFO, the interests of Unicom Group BVI are deemed to be, and have therefore been included in, the interests of Unicom Group.
3. Unicom Group BVI holds 8,082,130,236 shares (representing 33.75% of the total issued shares) of the Company directly. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.94% of the total issued shares) of the Company held as trustee on behalf of a PRC shareholder.

Apart from the foregoing, as at 31 December 2015, no person had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

Please also refer to Note 19 to the consolidated financial statements for details of the share capital of the Company.



COMPOSITION OF THE BOARD

The Directors during the year were:

Executive Directors:

Wang Xiaochu (<i>Chairman and Chief Executive Officer</i>)	(appointed on 1 September 2015)
Lu Yimin	
Li Fushen	
Zhang Junan	
Chang Xiaobing	(resigned on 24 August 2015)

Non-Executive Director:

Cesareo Alierta Izuel

Independent Non-Executive Directors:

Cheung Wing Lam Linus	
Wong Wai Ming	
Chung Shui Ming Timpson	
Law Fan Chiu Fun Fanny	
John Lawson Thornton	(resigned on 4 March 2015)
Cai Hongbin	(resigned on 25 November 2015)

Pursuant to the Articles of Association, Mr. Wang Xiaochu, Mr. Lu Yimin, Mr. Li Fushen, and Mrs. Law Fan Chiu Fun Fanny (together, the "Directors for Re-Election") will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The personal biographies of the Directors for Re-Election are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 33 of this annual report. Save as disclosed in the section headed "Biographical Details of Directors and Senior Management", the Directors for Re-Election have not held any other directorship in any listed public companies in the last three years nor any post in an affiliated company of the Group. In addition, save as disclosed in the section headed "Biographical Details of Directors and Senior Management", the Directors for Re-Election do not have any other relationship with any Director, senior management or substantial or controlling shareholders of the Company. Save as disclosed in this section, the subsection headed "Share Option Schemes of the Company – 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme" and "Directors' Interests and Short Positions in Shares, Underlying Shares or Debentures", Directors for Re-Election do not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.



Among the Directors for Re-election, Mrs. Law Fan Chiu Fun, Fanny is an independent non-executive director of the Company. Mrs. Law has confirmed to the Company that she is in compliance with the requirements of independence pursuant to Rule 3.13 of the Listing Rules. The Company has conducted assessment on her independence, and is of the view that she complies with the guidelines on independence as set out in Rule 3.13 of the Listing Rules and that she is considered as independent in accordance with the provisions of the guidelines.

The terms of services agreed between the Directors for Re-Election and the Company neither specify the length of service nor require the Company to give more than one year's advance notice or to make payments equivalent to more than one year's emoluments to terminate the service (other than statutory compensation). However, the Directors are subject to retirement by rotation at annual general meetings in accordance with the Articles of Association.

Please refer to Note 31 to the financial statements for details of the emoluments of the Directors.

The proposed remuneration package of each executive director and senior management of the Company will be determined by the Remuneration Committee, subject to approval by the Board and compliance with the applicable PRC laws, regulations and policies, and taking into account the duties of such person in the Company, his experience and performance as well as the prevailing market conditions. The proposed remuneration package of each executive director and senior management will include three components: basic annual salary, performance-linked annual bonus and performance-linked incentive bonus for the term of the position. The Company will disclose as and when appropriate once the proposed remuneration packages for such persons have been determined.

The proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny includes an annual fee of HKD300,000 for being independent non-executive director. Furthermore, the proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny includes an annual fee of HKD70,000 and HKD20,000 for being a member of the Audit Committee and Nomination Committee, respectively. The proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny has been determined with reference to her duties and the prevailing market conditions.

Save as disclosed in this annual report, each of the Directors for Re-Election has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company and that there is no other information to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" were as follows:

Director	Capacity	Ordinary Shares Held	Percentage of Total Issued Shares
Cheung Wing Lam Linus	Beneficial owner (Personal)	400,000	0.0017%
Chung Shui Ming Timpson	Beneficial owner (Personal)	6,000	0.0000%

As at 31 December 2015, none of the Directors nor the chief executive of the Company had any interests or rights to acquire shares under the share option schemes of the Company.

Apart from those disclosed herein, at no time during the year ended 31 December 2015 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of acquiring shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

Furthermore, apart from those disclosed herein, as at 31 December 2015, none of the Directors and the chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

DIRECTORS' INTEREST IN CONTRACTS

Save for the service agreements between the Company and the executive directors, as at 31 December 2015, the Directors did not have any material interest, whether directly or indirectly, in any significant contracts entered into by the Company.

None of the Directors for Re-Election at the forthcoming annual general meeting has an unexpired service agreement which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).



DIRECTORS' INTEREST IN COMPETING BUSINESSES

Unicom Group and the A Share Company are engaged in telecommunications business and other related businesses in China that are similar to and/or compete with those of the Company. Executive directors of the Company also hold executive positions with Unicom Group and the A Share Company. Please refer to the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 33 of this annual report for further details.

In addition, Mr. Wang Xiaochu, Chairman and Chief Executive Officer of the Company, has served as a director of Telefónica since September 2015. Mr. Cesareo Alierta Izuel, a Non-Executive Director of the Company, is a director of Telefónica and has served as an Executive Chairman of Telefónica since July 2000.

Mr. Lu Yimin, an Executive Director and President of the Company, has served as a Non-Executive Director of PCCW Limited ("PCCW") since May 2008 and the Deputy Chairman of the Board of PCCW since November 2011. Mr. Lu has also served as a Non-Executive Director of HKT Limited and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li Fushen, an Executive Director and Chief Financial Officer of the Company, has served as a Non-Executive Director of PCCW since July 2007 and as a Non-Executive Director of HKT Limited and HKT Management Limited since November 2011. Mr. Zhang Junan, an Executive Director of the Company, has served as a Non-Executive Director of PCCW since August 2014.

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

Apart from the above, there are no competing interests of directors which are disclosable under Rule 8.10(2)(b) of the Listing Rules at any time during the year of 2015 up to and including the date of this annual report.

DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2015 and up to the date of this report of directors are available on the Company's website (<http://www.chinaunicom.com.hk>).

PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2015, the Group had approximately 230,836 employees, 361 employees and 102 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 37,588 temporary staff in Mainland China. For the year ended 31 December 2015, employee benefit expenses were approximately RMB35.140 billion (for the year ended 31 December 2014: RMB34.652 billion). The Group endeavors to maintain its employees' remuneration in line with the market trend and to remain competitive. Employees' remuneration is determined in accordance with the Group's remuneration and bonus policies based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits and internal and external training programmes, which are tailored in accordance with individual needs.

The Company has adopted share option schemes, under which the Company may grant share options to eligible employees for subscribing for the Company's shares.



CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

As at 31 December 2015, Unicom Group is the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

On 24 October 2013 and 21 August 2015, respectively, China United Network Communications Corporation Limited (“CUCL”), a wholly-owned subsidiary of the Company, and Unicom Group entered into a comprehensive services agreement and its supplemental agreement (the “Comprehensive Services Agreement”) to renew certain continuing connected transactions and revise annual cap. Pursuant to the Comprehensive Services Agreement, CUCL and Unicom Group shall provide certain services and facilities to each other and the receiving party shall pay the corresponding service fees in a timely manner. The Comprehensive Services Agreement is valid for a term of three years starting from 1 January 2014 and expiring on 31 December 2016.

Details of the continuing connected transactions under the Comprehensive Services Agreement are as follows:

Agreement	Nature of Transactions	Consideration and Terms
(1) Telecommunications Resources Leasing	Unicom Group agrees to lease to CUCL: (a) certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities); and (b) certain other telecommunications facilities required by CUCL for its operations.	<p>The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and telecommunications facilities provided that such charges would not be higher than market rates. CUCL shall be responsible for the on-going maintenance of such international telecommunications resources.</p> <p>CUCL and Unicom Group shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in (b). Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group is responsible for maintaining any telecommunications facilities referred to in (b), CUCL shall pay to Unicom Group the relevant maintenance service charges which shall be determined with reference to market rates, or where there is no market rates, be agreed between the parties and determined on a cost-plus basis.</p> <p>CUCL and Unicom Group agree to settle the net rental charges and service charges due to Unicom Group on a quarterly basis.</p> <p>For the year ended 31 December 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB283 million.</p>



Agreement	Nature of Transactions	Consideration and Terms
(2) Property Leasing	CUCL and Unicom Group agree to lease each other properties and ancillary facilities belonging to CUCL or Unicom Group (including their respective branch companies and subsidiaries).	<p>The rental charges payable by CUCL and by Unicom Group are based on market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall 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.</p> <p>For the year ended 31 December 2015, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB929 million, and the rental charges paid by Unicom Group to CUCL was negligible.</p>
(3) Provision of Value-added Telecommunications Services	Unicom Group (or its subsidiaries) agrees to provide the customers of CUCL with various types of value-added telecommunications services.	<p>CUCL shall settle the revenue generated from the value-added telecommunications services with the branches of Unicom Group (or its subsidiaries) on the condition that such settlement will be based on the average revenue for independent value-added telecommunications content providers who provide value-added telecommunications content to CUCL in the same region. The revenue shall be settled on a monthly basis.</p> <p>For the year ended 31 December 2015, the total revenue allocated to Unicom Group in relation to value-added telecommunications services amounted to approximately RMB62 million.</p>



Agreement	Nature of Transactions	Consideration and Terms
(4) Provision of Materials Procurement Services	<p>Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL.</p> <p>Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services.</p> <p>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.</p>	<p>Charges for the provision of materials procurement services are calculated at the rate of:</p> <ul style="list-style-type: none"> (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. <p>The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles (the "Pricing Principles"):</p> <ul style="list-style-type: none"> (a) the government fixed price; (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. <p>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:</p> <ul style="list-style-type: none"> (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. <p>The service charges due to Unicom Group will be settled on a monthly basis.</p> <p>For the year ended 31 December 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB125 million.</p>



Agreement	Nature of Transactions	Consideration and Terms
(5) Provision of Engineering Design and Construction Services	Unicom Group agrees to provide to CUCL engineering design, construction and supervision services and IT services. 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.	<p>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:</p> <ul style="list-style-type: none"> (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. <p>The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.</p> <p>For the year ended 31 December 2015, the total charges paid by CUCL to Unicom Group amounted to approximately RMB5,018 million.</p>
(6) Provision of Ancillary Telecommunications Services	Unicom Group agrees to provide to CUCL ancillary telecommunications services, including certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers' acquisitions and servicing and other customers' services.	<p>The charges payable are determined by reference to the Pricing Principles and are settled between CUCL and Unicom Group as and when the relevant services are provided.</p> <p>For the year ended 31 December 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB2,504 million.</p>



Agreement	Nature of Transactions	Consideration and Terms
(7) Provision of Comprehensive Support Services	<p>Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities which are provided under the Telecommunications Resources Leasing above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services).</p>	<p>The service charges payable are determined by reference to the Pricing Principles and are settled between CUCL and Unicom Group as and when the relevant services are provided.</p> <p>For the year ended 31 December 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB1,455 million, and the total services charges paid by Unicom Group to CUCL amounted to approximately RMB12 million.</p>
(8) Provision of Shared Services	<p>Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following:</p> <ul style="list-style-type: none"> (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 (a) and (b) above to Unicom Group; and (d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters. <p>In relation to the services referred to in (b) above, CUCL will provide support services, such as billing and settlement services provided by the business support centre and operational statistics reports.</p> <p>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.</p>	<p>Unicom Group and CUCL shall share the costs related to the shared services proportionately in accordance with their respective total assets value, except that the total assets value of the overseas subsidiaries and the listed company of Unicom Group will be excluded from the total asset value of Unicom Group. The shared costs proportion will be agreed between Unicom Group and CUCL in accordance with the total assets value set out in the financial statements provided to each other, as adjusted in accordance with their respective total assets value on an annual basis.</p> <p>For the year ended 31 December 2015, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB107 million, and the services charges paid by Unicom Group to CUCL was negligible.</p>



For the financial year ended 31 December 2015, the above continuing connected transactions have not exceeded their respective annual caps. Furthermore, the aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or better or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's independent auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 63 to 67 of this annual report in accordance with paragraph 14A.56 of the Listing Rules. The independent auditors' letter has confirmed that nothing has come to their attention that cause them to believe that the continuing connected transactions:

- (A) have not been approved by the Board;
- (B) were not, in all material respects, in accordance with the pricing policies of the Group as stated in this annual report;
- (C) were not entered into, in all material respects, in accordance with the relevant agreements governing the continuing connected transactions; and
- (D) have exceeded their respective annual caps for the financial year ended 31 December 2015 set out in the previous announcements of the Company.

A copy of the independent auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

The Company confirms that it has complied with the requirements of Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which any Group member was a party during 2015. Please refer to Note 40 to the financial statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2015.

CORPORATE GOVERNANCE REPORT

Report on the Company's corporate governance is set out in "Corporate Governance Report" on pages 35 to 51.



MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2015, the Company had not been involved in any material litigation, arbitration or administrative proceedings. So far as the Company is aware of, no such litigation, arbitration or administrative proceedings were pending or threatened as at 31 December 2015.

PUBLIC FLOAT

Based on publicly available information and so far as Directors are aware, the Company has maintained the specified amount of public float as required by the Hong Kong Stock Exchange during the year ended 31 December 2015 and as at the date of this annual report.

DONATIONS

For the year ended 31 December 2015, the Group made charitable and other donations in an aggregate amount of approximately RMB6.42 million.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (1) from 10 May 2016 to 12 May 2016, both days inclusive, for the purpose of ascertaining the shareholders' rights to attend and vote at the Annual General Meeting of the Company to be held on 12 May 2016 (and any adjournment thereof) (the "AGM"). In order to qualify for attendance and voting at the AGM, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than 4:30 p.m. of 9 May 2016; and
- (2) on 19 May 2016, for the purpose of ascertaining the shareholders' entitlement to the 2015 Final Dividend. In order to qualify for the proposed 2015 Final Dividend, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than 4:30 p.m. of 18 May 2016. Subject to the approval by shareholders at the AGM, the 2015 Final Dividend is expected to be paid in Hong Kong dollars on or about 8 June 2016 to those members registered in the Company's register of members as at 19 May 2016 (the "Dividend Record Date").



WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2015 FINAL DIVIDEND

Pursuant to (i) the “Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management” (the “Notice”) issued by the State Administration of Taxation of the People’s Republic of China (the “SAT”); (ii) the “Enterprise Income Tax Law of the People’s Republic of China” (the “Enterprise Income Tax Law”) and the “Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (the “Implementation Rules”); and (iii) information obtained from the SAT, the Company is required to withhold and pay enterprise income tax when it pays the 2015 Final Dividend to its non-resident enterprise shareholders. The enterprise income tax is 10% on the amount of dividend paid to non-resident enterprise shareholders (the “Enterprise Income Tax”), and the withholding and payment obligation lies with the Company.

As a result of the foregoing, in respect of any shareholders whose names appear on the Company’s register of members on the Dividend Record Date and who are not individuals (including HKSCC Nominees Limited, other custodians, corporate nominees and trustees such as securities companies and banks, and other entities or organisations), the Company will distribute the 2015 Final Dividend payable to them after deducting the amount of Enterprise Income Tax payable on such dividend. Investors who invest in the shares in the Company listed on the Main Board of The Stock Exchange of Hong Kong Limited through the Shanghai Stock Exchange (the Shanghai-Hong Kong Stock Connect investors) are investors who hold shares through HKSCC Nominees Limited, and in accordance with the above requirements, the Company will pay to HKSCC Nominees Limited the amount of the 2015 Final Dividend after deducting the amount of Enterprise Income Tax payable on such dividend.

In respect of any shareholders whose names appear on the Company’s register of members on the Dividend Record Date and who are individual shareholders, there will be no deduction of Enterprise Income Tax from the dividend that such shareholder is entitled to.

Shareholders who are not individual shareholders listed on the Company’s register of members and who (i) are resident enterprises of the People’s Republic of China (the “PRC”) (as defined in the Enterprise Income Tax Law), or (ii) are enterprises deemed to be resident enterprises of the PRC in accordance with the Notice, and who, in each case, do not desire to have the Company withhold Enterprise Income Tax from their 2015 Final Dividend, should lodge with the Company’s Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, at or before 4:30 p.m. of 18 May 2016, and present the documents from such shareholder’s governing tax authority in the PRC confirming that the Company is not required to withhold and pay Enterprise Income Tax in respect of the dividend that such shareholder is entitled to.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the Enterprise Income Tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government agencies and adhere strictly to the information set out in the Company’s register of members on the Dividend Record Date. The Company assumes no liability whatsoever in respect of and will not process any claims, arising from any delay in, or inaccurate determination of, the status of the shareholders, or any disputes over the mechanism of withholding.

REPORT OF THE DIRECTORS



INDEPENDENT AUDITOR

At the close of the 2013 annual general meeting of the Company held on 21 May 2013, Pricewaterhouse Coopers retired as independent auditor of the Company upon expiration of its term of office. KPMG was then appointed as the independent auditor of the Company. KPMG has audited the accompanying financial statements.

A resolution will be submitted by the Board at the 2016 annual general meeting to appoint KPMG and KPMG Huazhen LLP as the independent auditors of the Group for the year ending 31 December 2016 for Hong Kong financial reporting and U.S. financial reporting purpose, respectively.

By Order of the Board

Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 16 March 2016