

To: Business/Finance Editors

## CHINA UNICOM ANNOUNCES 2016 INTERIM RESULTS

### Highlights :

- Strived to mitigate underlying shortcomings in 1H2016, with positive business momentum emerging
- Mobile service sets to accelerate as 4G gaining edge
- Sustained growth in fixed-line service amid fierce competition, leveraging high bandwidth and video offerings
- Foster scale development of key innovative services to create new growth drivers
- Enhanced by “Focus Strategy” and “Cooperation”, network advantages further strengthened despite substantial reduction in CAPEX
- To speed up progressive turnaround, capitalising on firm execution of “Focus Strategy”, innovation and cooperation

Financial Highlights (RMB millions)	1H2016	HoH Change	YoY Change
Operating Revenue <sup>1</sup>	140,255	6.0%	-3.1%
Service Revenue	121,913	6.0%	1.4%
EBITDA <sup>2</sup>	41,282	11.5%	-18.2%
<i>EBITDA as % of Service Revenue</i>	<i>33.9%</i>	<i>1.7pp</i>	<i>-8.1pp</i>
Net Profit <sup>3</sup>	1,429	Turn profitable <sup>4</sup>	-79.6%
Basic EPS (RMB)	0.060	Turn profitable <sup>4</sup>	-79.5%
Free Cash Flow <sup>5</sup>	23,827	Turn positive	181.9%

Hong Kong, 17 August 2016 – China Unicom (Hong Kong) Limited and its subsidiaries (“China Unicom” or “the Company” and “the Group”) (HKEx: 0762; NYSE: CHU) is pleased to announce today its 2016 interim results.

In the first half of 2016, the Company endeavoured to attain long-term sustainable development, actively promoted the implementation of the new development strategy centered on “Focus, Cooperation and Innovation” and strived to mitigate the underlying shortcomings, such as network, terminals, channels, services, IT, systems and mechanisms. The Company achieved initial success in turning around the unfavorable conditions in business development and saw the

<sup>1</sup> Service revenue = operating revenue – sales of telecommunications products;

<sup>2</sup> EBITDA = profit for the period before finance costs, interest income, shares of profit/loss of associates and joint ventures, other income – net, income tax, depreciation & amortisation;

<sup>3</sup> Net profit represented profit attributable to equity shareholders of the Company;

<sup>4</sup> The net loss for 2H2015 was RMB3.36 billion, excluding the gain on disposal of towers;

<sup>5</sup> Free cash flow = Operating cash flow – CAPEX.

emergence of positive business momentum. A more solid foundation has been built for healthy development in the future with stronger growth momentum.

In the first half of 2016, service revenue of the Company bottomed out and reached RMB121.91 billion, up by 1.4% year-on-year and 6.0% half-on-half. Revenues from non-voice services accounted for 73.1% of the service revenue, representing a year-on-year increase of 4.8 percentage points, evidencing further optimisation of the revenue structure. To promote long-term sustainable development, the Company braved short-term profit pressure, strengthened its fundamental capabilities, and increased cost initiatives as appropriate to strive for a gradual turnaround. During the first half of the year, the Company's EBITDA amounted to RMB41.28 billion, down by 18.2% year-on-year and up by 11.5% half-on-half, and accounted for 33.9% of the service revenue. Net profit of the Company was RMB1.43 billion, down by 79.6% year-on-year. The year-on-year decline in EBITDA and net profit was mainly because sales and marketing expenses increased significantly year-on-year during the period, and tower usage fee kick-in, higher energy charges and property rentals, etc. led to a substantial increase year-on-year in network, operation and support expenses. Compared to the loss attributable to equity shareholders of the Company (excluding the gain on disposal of tower assets) of approximately RMB3.36 billion in the second half of last year, net profit for the first half of this year showed substantial improvement.

Leveraging our own resources and strengths and through "Focus Strategy" and cooperation, the Company swiftly enhanced its network capabilities despite decline of capital expenditure by 39% year-on-year to RMB18.10 billion in the first half of the year. Benefitted from the gradual improvement in service revenue and the substantial decline in capital expenditure, free cash flow of the Company improved significantly and reached RMB23.83 billion.

Taking into account the Company's profitability, debt obligations and cash flows, capital required for future development, etc., the Board of Directors does not recommend the payment of interim dividend for the current year. The Board will submit a proposal for final dividend payment based on our overall results for the year for consideration at the shareholders' general meeting.

### **Mobile Service Sets to Accelerate as 4G Gaining Edge**

In the first half of 2016, the Company achieved initial success in overcoming operational challenges. Mobile service revenue reached RMB73.04 billion, the decline of which narrowed from -8.0% last year to -0.6% during the period. The number of mobile billing subscribers turned around the downward trend for consecutive months last year, registering a net addition of 8.39 million and reaching a total of 260.70 million mobile billing subscribers. With the improvement in 4G network quality, terminal market share and competitiveness, the number of 4G subscribers



of the Company witnessed a rapid growth with a net increase of 28.26 million in the first half of the year to a total of 72.42 million. Improvement in the mobile subscriber mix accelerated with the proportion of 4G subscribers to mobile billing subscribers increasing to 28% from 18% as at the end of last year. Mobile billing subscribers ARPU steadily improved. The mobile service growth is set to accelerate.

### **Sustained Growth in Fixed-lined Service Amid Fierce Competition, Leveraging High-Bandwidth and Video Offerings**

The Company actively leveraged its advantages in fibre network and informatisation to accelerate the development of its high-growth businesses such as Internet Data Centre (IDC), Information Communications Technology (ICT), value-added and integrated information services, mitigating the risk of revenue decline in fixed-line voice. Faced with fierce market competition in the fixed-line broadband, the Company proactively strengthened and enhanced its differentiated competitive edge of “quality plus service” in the broadband service, upgraded network speed for subscribers, enriched offerings of high-bandwidth content and applications including 4K high-definition videos, improved end-to-end network user perception and service experience, and leveraged “Smart WO Family” to accelerate growth in innovative service for home Internet. In the first half of the year, the Company’s fixed-line broadband access revenue amounted RMB22.23 billion, flat year-on-year, and fixed-line broadband subscribers increased by 4.7% year-on-year to 73.94 million, of which 62% were Fibre-to-the-home (FTTH) subscribers. Fixed-line service revenue was RMB48.23 billion, up by 4.4% as compared to the same period of last year.

### **Foster Scale Development in Key Innovative Services**

The Company actively created new growth engines in innovative service, focusing on platform-based services and industrial Internet, and pushed forward development of innovative service including Internet of Things, IDC and cloud computing, Big Data, industry applications, payment/finance and so on.

### **Network Deployment**

Focusing on key areas and key services such as 4G and fixed-line broadband, the Company deepened cooperation and resources sharing to effectively deploy premium network. In the first half of the year, leading advantage of the Company in network coverage, quality and speed in core areas gradually emerged, and user perception of network improved rapidly, building up foundation capabilities for accelerated development in the mobile service. As a result of an accelerated push in fibre broadband network upgrade, eight provinces in Northern China



achieved “all fibre network”, and city areas basically have access capability to 100Mbps connection.

### **Deepen Cooperation and Innovative Transformation**

The Company actively promoted open cooperation in various aspects. It pushed forward comprehensive and strategic cooperation with China Telecom to facilitate resources sharing within the industry, promote cost-effectiveness, efficiency and rapid improvement in the network capability. In the meantime, the Company also promoted 6-mode all-access terminals together with China Telecom and unified the standards for 4K smart set-top box and broadband service to further enhance service quality.

Mr. Wang Xiaochu, Chairman and CEO of China Unicom said: “Currently, the Company is undergoing a new stage of transformation, and facing both opportunities and challenges. We are more than confident in our future development. The Company will persist in its strategic focus and further deepen implementation of Focus Strategy, step up the improvement of capabilities in marketing, network support, operations and management. The Company aims to drive continuous improvement in operational performance with continuous enhancement in its basic capabilities, and speed up the turnaround in financial performance.”

The Company will deploy premium network with craftsmanship spirit, accelerate the development of selective advantages for its mobile network in key areas, proceed with fibre upgrade of its fixed-line broadband network steadily, and fully enhance its service support capability. The Company will pragmatically lay a solid foundation for its operation, expedite 4G development to drive mobile service growth, enhance the value of broadband products with high-quality applications to drive stable growth in fixed-line service, and create new growth engines with scale development in key innovative service. The Company will speed up implementation of cooperation projects, extend the width and depth of cooperation, expand the scale of social cooperation to realise solid achievement in cooperation. We will also deepen reform in systems and mechanisms, strengthen corporate culture establishment, lift corporate vibrancy, deepen quality and efficiency improvement, and enhance refined management capability of the Company to continuously enhance shareholder value.

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



*in the Company's most recent Annual Report on Form 20-F and other filings with the U.S. Securities and Exchange Commission.*

For media enquiries, please contact:

China Unicom (Hong Kong) Limited

Investor Relations Department

Mr. Ivan Wong / Ms. Summer Mo / Mr. Billy Tang

Tel: (852) 2121 3210 / (852)2121 3206 / (852)2121 3275

Email: [ivanw@chinaunicom.com.hk](mailto:ivanw@chinaunicom.com.hk) / [summer@chinaunicom.com.hk](mailto:summer@chinaunicom.com.hk) / [billy@chinaunicom.com.hk](mailto:billy@chinaunicom.com.hk)