

# CORPORATE GOVERNANCE *REPORT*



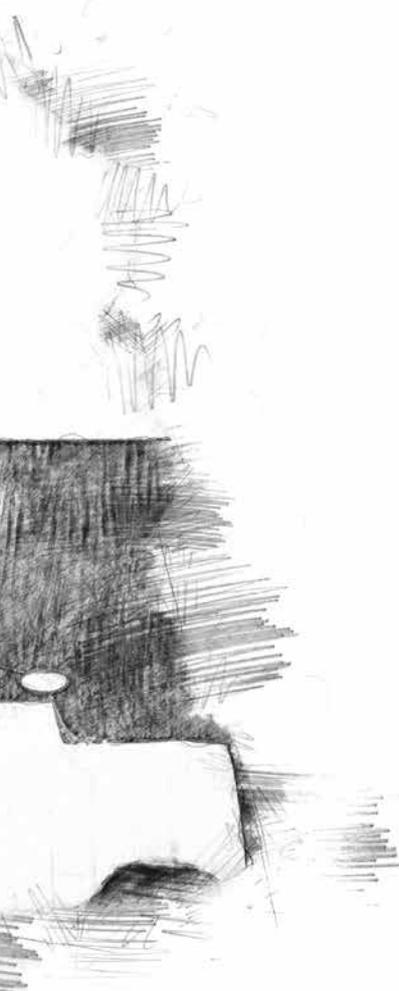
中國聯合網絡通信(香港)股份有限公司  
China Unicom (Hong Kong) Limited

2016 年度業績發佈會  
2016 Annual Results Announcement

香港 Hong Kong 2017-03-15



## CORPORATE GOVERNANCE REPORT



The Board is committed to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Company's business. As a company incorporated in Hong Kong, the Company adopts the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance of Hong Kong and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company dual-listed in Hong Kong and the United States, the current Articles of Association are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the regulatory requirements for non-US companies listed in the United States. These rules serve as guidance for the Company to improve the foundation of its corporate governance, and the Company strives to comply with the relevant requirements of international and local corporate governance best practices. The Company has regularly published statements relating to its internal control in accordance with the US Sarbanes-Oxley Act and the regulatory requirements of the U.S. Securities and Exchange Commission and the New York Stock Exchange to confirm its compliance with related financial reporting, information disclosure, corporate internal control requirements and other regulatory requirements. The Board is responsible for performing overall corporate governance duties. The Company has adopted a Corporate Governance Practice which sets out the key terms of reference of the Board on corporate governance functions, including, amongst others, developing and reviewing the Corporate Governance Policy and corporate governance practices of the Company; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's media enquiry policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and reviewing the Company's compliance with the Code.

In 2016, the Company's continuous efforts in corporate governance gained wide recognition from the capital markets and the Company was accredited with a number of awards. The company was awarded as "Asia's No.1 Best Managed Company – TMT Sector" in "Asia's Best Managed Companies Poll 2016" by FinanceAsia. Meanwhile, Mr. Wang Xiaochu, Chairman and CEO of the Company was named as "Best CEO in China – 1st", Mr. Li Fushen, Executive Director and CFO of the Company was named as "Best CFO in China – 2nd". The Company was voted by institutional investors as "Asia's No.1 Most Honored Telecom Company" in "2016 All-Asia Executive Team" ranking organised by the authoritative financial magazine, Institutional Investor. Meanwhile, Mr. Wang Xiaochu was named as "Asia's Best CEO (Telecoms) – 1st", Mr. Li Fushen was named as "Asia's Best CFO (Telecoms) – 2nd". The Company was awarded the "The Best of Asia – Outstanding on Corporate Governance" by Corporate Governance Asia. Meanwhile, Mr. Wang Xiaochu was named "Asia's Best CEO", Mr. Li Fushen was also named "Asia's Best CFO", and the Company was also honoured as "Best Investor Relations Company". The company was voted by investors as the "Most Progress in Investor Relations" at "IR Magazine Awards – Greater China 2016", and Mr. Wang Xiaochu was voted "Best Senior Management". The Company was accredited with "Platinum Award for Excellence in Governance, CSR & Investor Relations" in "The Asset Corporate Awards 2016".

The Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") provides for code provisions (the "Code Provisions") and recommended best practices with respect to (i) Directors, (ii) remuneration of Directors and senior management and evaluation of the Board of Directors (the "Board"), (iii) accountability and audit, (iv) delegation by the Board, (v) communication with shareholders and (vi) company secretary. Other than the disclosures made in the section headed "Board of Directors" below, the Company confirms that for the year ended 31 December 2016, it complied with all the Code Provisions.

## CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS

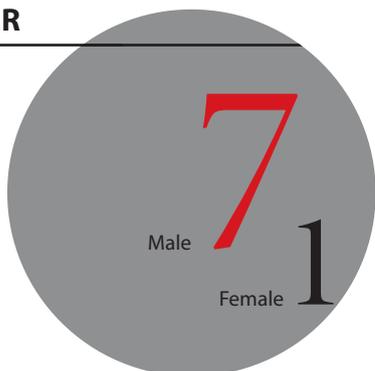
To serve the best interests of the Company and its shareholders, the Board is responsible for reviewing and approving major corporate matters, including, amongst others, business strategies and budgets, major investments, capital market operations, as well as mergers and acquisitions. The Board is also responsible for monitoring risk management and internal control, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities.

In order to achieve a sustainable and balanced development, the Company views Board diversity as a key element for supporting its strategic goals and maintaining sustainable development. The Board membership maintains wide representation.

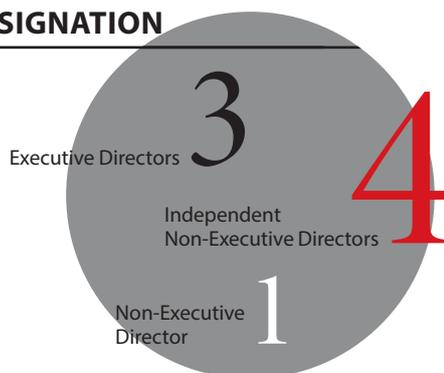
Members of the Board consist of outstanding individuals from different professions in Mainland China, Hong Kong and overseas. As at 31 December 2016, the Board comprises eight Directors, including three executive Directors, one non-executive Director and four independent non-executive Directors. Particulars of the Directors are set out on pages 28 to 33 of this annual report. The Company believes that the Board currently comprises experts from diversified professions such as telecommunications, information technology, banking, finance and management, and is diversified in terms of gender, age, duration of service, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

The below sets out the analysis of the composition of the Board as at 31 December 2016:

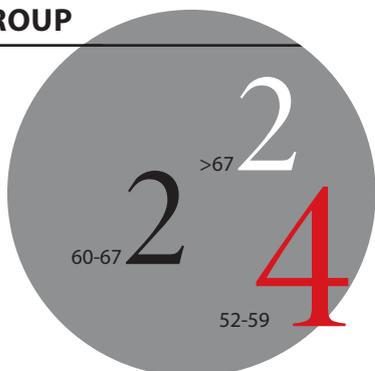
#### GENDER



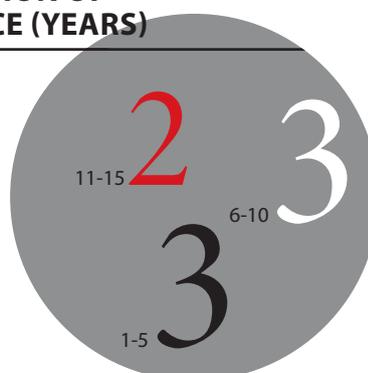
#### DESIGNATION



#### AGE GROUP



#### DURATION OF SERVICE (YEARS)



## CORPORATE GOVERNANCE REPORT

The roles and responsibilities of chairman and chief executive of the Company were performed by the same individual for the year ended 31 December 2016. Mr. Wang Xiaochu serves as Chairman and CEO of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Wang Xiaochu is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company. The Board believes that at the present stage, Mr. Wang Xiaochu and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities of the Company's strategies in a more effective manner so as to support the effective development of the Company's business.

All non-executive Director and independent non-executive Directors of the Company are influential members of society and possess good knowledge and experience in different areas. They have been making positive contributions to the development of the Company's strategies and policies through

independent, constructive and informed advices. They have maintained close contact with the management and actively express constructive opinions on matters relating to the shareholders and the capital market at board meetings. These views and opinions facilitate the Board in making their decisions in the shareholders' best interests. All independent non-executive Directors, except for their equity interests and remuneration disclosed in this annual report, do not have any business with or financial interests in the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. The functions of non-executive Director and independent non-executive Directors include, amongst other things, attending board meetings, exercising independent judgements at meetings, playing a leading role in resolving any potential conflicts of interest, serving on committees by invitation and carefully examining whether the performance of the Company has reached the planned corporate targets and objectives, and monitoring and reporting on matters relating to the performance of the Company.



## CORPORATE GOVERNANCE REPORT



China  
un.com 中國聯通

中國聯合網絡通信(香港)股份有限公司  
China Unicom (Hong Kong) Limited

股東週年大會  
Annual General Meeting

With respect to the nomination and appointment of new directors and senior management members, the Nomination Committee would, after considering the Company's need for new directors and/or senior management members, identify a wide range of candidates from within the Company and the human resources market and make recommendations to the Board. The Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. After having obtained the consent from candidates in relation to the relevant nomination and based on the Company's actual needs, the Board would convene a meeting, attendees of which include independent non-executive Directors and non-executive Director, to consider the qualifications of the candidates. The Directors of the Company (including non-executive Directors) are not appointed for a specific term but are subject to retirement by rotation at general meetings pursuant to the Company's articles of association and at least once every three years.

Every newly appointed Director is provided with a comprehensive, formal and tailored induction on appointment, and would subsequently receive all briefing and professional development necessary to ensure that he/she has proper understanding of the Company's operations and businesses, full understanding of his/her responsibilities under the statutes, the common law, the Listing Rules, applicable legal and regulatory requirements, and the Company's business and corporate governance policies. Furthermore, formal letters of appointment setting out the key terms and conditions of the Directors' appointment will be duly prepared.

Directors' training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and/or industrial environment to Directors.

## CORPORATE GOVERNANCE REPORT

In 2016, the Directors as at 31 December 2016 have participated in various training and continuous professional development activities and the summary of which is as follows:

	Types of training
<b>Executive Director</b>	
Wang Xiaochu ( <i>Chairman</i> )	A, B
Lu Yimin	A, B
Li Fushen	A, B
<b>Non-Executive Director</b>	
Cesareo Alierta Izuel	A, B
<b>Independent Non-Executive Director</b>	
Cheung Wing Lam Linus	A, B
Wong Wai Ming	A, B
Chung Shui Ming Timpson	A, B
Law Fan Chiu Fun Fanny	A, B

A: attending relevant seminars and/or conferences and/or forums; delivering speeches at relevant seminars and/or conferences and/or forums

B: reading or writing relevant newspapers, journals and articles relating to general economy, general business, telecommunications, corporate governance or directors' duties



## CORPORATE GOVERNANCE REPORT

The remuneration package for executive Directors includes salary and performance-linked annual bonuses. The remuneration of executive Directors is determined by reference to their respective duties and responsibilities in the Company, their respective experience, prevailing market conditions and applicable regulatory requirements while the award of the performance-linked annual bonuses is tied to the attainment of key performance indicators or targets set by the Company. The remuneration of non-executive Directors is determined by reference to prevailing market conditions and their respective workload from serving as non-executive Directors and members of the board committees of the Company. The Company also adopted share option schemes for the purpose of providing long term incentives to eligible participants, including Directors (details of such share option schemes are set out in the paragraph headed "Share Option Schemes of the Company" on pages 60 to 61 of this annual

report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 122 to 124 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

The Board has provided clear guidelines for delegation of powers and responsibilities to management. However, certain important matters must be decided only by the Board, including, but not limited to, long-term objectives and strategies, annual budget, initial announcements on quarterly, interim and final results, dividends, major investments, equity-related capital market operations, mergers and acquisitions, major connected transactions and annual internal control evaluation. The arrangements on delegation of powers and responsibilities to management are reviewed by the Board periodically to ensure that they remain appropriate to the needs of the Company.



## CORPORATE GOVERNANCE REPORT

The Board convenes meetings regularly and all Directors have adequate opportunity to be present at the meetings and to include matters for discussion in the meeting agenda. Notices of regular board meetings are delivered to the Directors at least 14 days in advance of the meetings. The Company delivers, on a best endeavour basis, all documents for regular board meetings to the Directors at least one week prior to the meetings (and ensures that all documents are delivered to the Directors no less than three days prior to the regular meetings as required by the Code Provisions).

The Company Secretary, being an employee of the Company, has day-to-day knowledge of the Company's affairs and reports to the Chairman of the Board. He keeps close contact with all Directors and ensures that the operation of the Board and all board committees is in compliance with the procedures as set forth in the Articles of Association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meetings will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform his duties, the Company Secretary attended sufficient professional training in 2016.

The Directors may, upon request, obtain independent professional advice at the expense of the Company. In addition, if any substantial shareholder of the Company or any Directors has significant conflicts of interest in a matter to be resolved, the Board will convene a board meeting in respect of such matter and those Directors who have conflicts of interest must abstain from voting and will not be counted in the quorum of the meeting.

All Directors are required to devote sufficient time and attention to the affairs of the Company. A culture of openness and debate are promoted in the Board and the Directors are encouraged to express their views and concerns. The Company provides monthly operating update to the Directors, so as to ensure the Directors are familiar with the Company's latest operations. In addition, through regular Board meetings and reports from management, the Directors are able to clearly understand the operations, business strategy and latest development of the Company and the industry. Besides formal board meetings, the Chairman also meets annually with non-executive Director and independent non-executive Directors, without the presence of the executive Directors, which further promotes the exchange of diversified views and opinions. In order to ensure that all Directors have appropriate knowledge of the matters discussed at the meetings, adequate, accurate, clear, complete and reliable information regarding those matters is provided in advance and in a timely manner, and all Directors have the right to inspect documents and information in relation to matters to be decided by the Board. The Directors have frequently visited various branches in Mainland China to gain better understanding of the Company's daily operations. In addition, the Company has arranged relevant trainings for the Directors (which include training sessions conducted by professional advisers, such as lawyers and accountants, from time to time) in order to broaden their knowledge in the relevant areas and to improve their understanding of the Company's business, legal and regulatory requirements and the latest operational technologies. The Board also conducts annual evaluation of its performance. Such efforts have improved the corporate governance of the Company.

In 2016, the Board held four board meetings and passed one written resolution for, amongst other things, discussion and approval of important matters such as the 2015 annual results, the 2015 Form 20-F, the 2016 annual budget, the 2016 interim results, the first and the first three quarters results for 2016, reports on risk management and internal control, continuing connected transactions as well as the appointment of the Chairman and member of the Nomination Committee.

## CORPORATE GOVERNANCE REPORT

Set forth below is an overview of the attendance during the year by the Board members at various meetings:

	Meetings Attended/Held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Shareholders Meeting
<b>Executive Directors</b>					
Wang Xiaochu ( <i>Chairman</i> )	3/4	N/A	N/A	1/1	1/1
Lu Yimin	4/4	N/A	N/A	N/A	1/1
Li Fushen	4/4	N/A	N/A	N/A	1/1
Zhang Junan <sup>2</sup>	0/4	N/A	N/A	N/A	0/1
<b>Non-Executive Director</b>					
Cesareo Alierta Izuel	0/4	N/A	N/A	N/A	0/1
<b>Independent Non-Executive</b>					
Cheung Wing Lam Linus	4/4	5/5	1/1	N/A	1/1
Wong Wai Ming	3/4	4/5	0/1	N/A	0/1
Chung Shui Ming Timpson <sup>1</sup>	4/4	5/5	1/1	1/1	0/1
Law Fan Chiu Fun Fanny <sup>1</sup>	4/4	5/5	N/A	1/1	1/1

Note 1: On 16 February 2016, Mr. Chung Shui Ming Timpson was appointed as the chairman of the Nomination Committee; Mrs. Law Fan Chiu Fun Fanny was appointed as a member of the Nomination Committee.

Note 2: On 1 November 2016, Mr. Zhang Junan resigned as executive Director of the Company.

Note 3: Certain Directors (including independent non-executive Directors) did not attend the Annual General Meeting and some of the meetings of the Board and committees due to other business commitments or being overseas.



## CORPORATE GOVERNANCE REPORT

In 2016, the Board performed their fiduciary duties and devoted sufficient time and attention to the affairs of the Company. The Board works effectively and performs its responsibilities efficiently with all key and appropriate issues being discussed and approved in a timely manner.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers", as set out in Appendix 10 to the Listing Rules to govern securities transactions by directors. Further to the specific enquiries made by the Company to the directors, all directors have confirmed their compliance with the Model Code for the year ended 31 December 2016.

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2016, which give a true and fair view of the financial position of the Company as at the statement of financial position date and financial performance and cash flows of the Company for the year ended the statement of financial position date, are properly prepared on the going concern basis in accordance with relevant statutory requirements and applicable financial reporting standards. A statement of the independent auditors about their reporting responsibilities related to the financial statements is set out in the independent auditor's report on page 80 to page 85 of this annual report.

### COMMITTEES UNDER THE BOARD

The Company has established three committees of the Board under the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee has a written charter, which is available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). From time to time as required by the Listing Rules, the Board also establishes independent board committee for the purpose of advising and providing voting recommendations to independent shareholders on connected transactions and transactions subject to independent shareholders' approval entered into by the Company and/or its subsidiaries. The committees are provided with sufficient resources,

including, amongst others, obtaining independent professional advice at the expense of the Company, to perform its duties. The committees report their decisions or recommendations to the Board after meetings.

### Audit Committee

#### Composition

As at 31 December 2016, the Audit Committee comprised Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Wong Wai Ming. All members of the Audit Committee have satisfied the "independence" requirements in relation to an Audit Committee member under applicable laws, regulations and rules. The Chairman of the Audit Committee is an accountant with expertise and experience in accounting and financial management. Another member of the Audit Committee is also an accountant with extensive accounting professional experience.

#### Major Responsibilities

The primary responsibilities of the Audit Committee include: as the key representative body, overseeing the Company's relationship with the independent auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor's independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from the independent auditor to the management and responses of the management; discussing the risk management and internal control system with the management



## CORPORATE GOVERNANCE REPORT

as well as reviewing the reports on the risk management and internal control procedures of the Company.

### **Work Completed in 2016**

The Audit Committee meets at least four times each year, and assists the Board in its review of the financial statements to ensure effective risk management and internal control as well as efficient audit.

The Audit Committee held five meetings in 2016 for, amongst other things, discussion and approval of the 2015 annual results, the 2015 Form 20-F, the 2016 interim results, and the first and the first three quarters results for 2016. In addition, the Audit Committee approved in the meetings the continuing connected transactions, the report on risk management, the report on internal audit and internal control, the re-appointment, the audit fees and the audit plans of the independent auditor as well as the non-audit services provided by the independent auditor in 2016.

The Audit Committee has performed its duties effectively, and enabled the Board to better monitor the financial condition of the Company, supervise the risk management and internal control of the Company, ensure the integrity and reliability of the financial statements of the Company, prevent significant errors in the financial statements and ensure the Company's compliance with the relevant requirements of the Listing Rules, the U.S. federal securities regulations and the New York Stock Exchange listing standards with respect to audit committee.

### **Remuneration Committee**

#### **Composition**

As at 31 December 2016, the Remuneration Committee comprised Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson, all being independent non-executive Directors of the Company. The Chairman of the Remuneration Committee is Mr. Cheung Wing Lam Linus.

#### **Major Responsibilities**

The primary responsibilities of the Remuneration Committee include: considering and approving the remuneration policies and structure for Directors' and senior management's remuneration; considering and making recommendation to the Board on the remuneration packages of Directors and senior management; and considering and approving the Company's share option schemes. The Remuneration Committee conducts performance review of the CEO and determines the CEO's year-end bonus pursuant to the performance target contract entered into between the Board and the CEO. The CEO is responsible for the performance review and proposal of performance-based year-end bonuses for the other members of the Company's management, which is subject to the review of the Remuneration Committee. In addition, the Remuneration Committee consults the Chairman on the remuneration proposals for other executive directors.

#### **Work Completed in 2016**

The Remuneration Committee meets at least once a year. The Remuneration Committee held one meeting in 2016 for, amongst other things, discussion and approval of the 2015 appraisal report and the 2016 performance contract of the CEO and bonus for senior management for 2015.

## CORPORATE GOVERNANCE REPORT

The Remuneration Committee has performed its duties effectively on reviewing and approving the remuneration packages, especially the performance-based remunerations for the CEO, as well as making recommendations to the Board with regards to the remuneration packages for senior management.

**Nomination Committee****Composition**

As at 31 December 2016, the Nomination Committee comprised Mr. Chung Shui Ming Timpson, Mr. Wang Xiaochu and Mrs. Law Fan Chiu Fun Fanny. Except for Mr. Wang Xiaochu, who is the Chairman and CEO of the Company, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny are independent non-executive Directors of the Company. The Chairman of the Nomination Committee is Mr. Chung Shui Ming Timpson.

**Major Responsibilities**

The primary responsibilities of the Nomination Committee include: reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board; formulating, reviewing and implementing the board diversity policy; assessing the independence of independent non-executive directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; giving its opinion to the Board on candidates of the senior management nominated by the CEO and on changes to the senior management of the Company.

**Work Completed in 2016**

The Nomination Committee meets at least once a year.

The Nomination Committee held one meeting in 2016 for, amongst other things, reviewing the structure, size and composition of the Board, assessment of the independence of independent non-executive Directors and making recommendations to the Board on the proposed re-election of Directors.

The Company has adopted a policy concerning diversity of board members. The Company recognises and embraces the benefits of having a diverse Board, and notes increasing diversity at Board level as an essential element in maintaining a competitive advantage. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective. In reviewing Board composition, the Nomination Committee will consider a number of factors, including professional knowledge, skills, experience and diversity of perspectives which are appropriate to the Company's business model and specific needs. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

## CORPORATE GOVERNANCE REPORT

### INDEPENDENT AUDITOR

KPMG is the independent auditor of the Company. Apart from audit services, it also provides other audit related and non-audit services. The remuneration paid/payable to the independent auditor for provision of services in 2016 is as follows:

Items	Note	<b>2016 (in RMB thousands)</b>
Audit services	(i)	<b>68,943</b>
Other assurance services	(ii)	<b>10,296</b>
Non-audit services	(iii)	<b>88</b>

Notes:

- (i) Audit services in 2016 included audit work in connection with the audit of the Company's consolidated financial statements and internal control over financial reporting, pursuant to Section 404 of the U.S. Sarbanes-Oxley Act of 2002.
- (ii) Other assurance services included other assurance and related services that can be reasonably provided by the independent auditor. In 2016, the provisions of audit-related services mainly included professional services in relation to the issuance of bonds, audit service in relation to a reorganisation of subsidiaries within the Group and the audit services provided to overseas subsidiaries by KPMG International Member Firms.
- (iii) Non-audit services included other services that can be reasonably provided by the independent auditor. In 2016, the provisions of non-audit services mainly included tax compliance services.

### RISK MANAGEMENT AND INTERNAL CONTROL

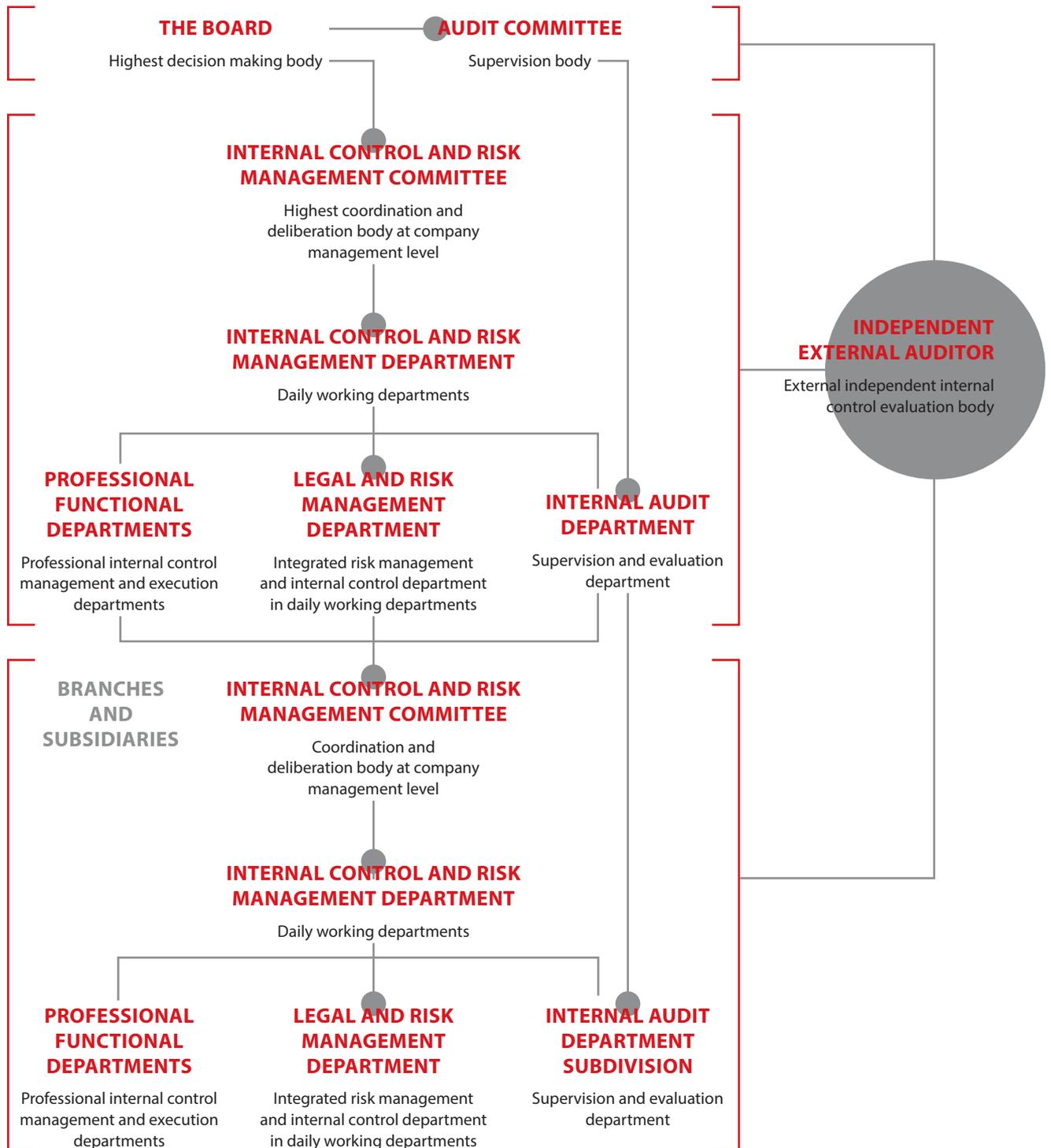
The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems, promotes the sustainable and healthy development of the Company, and enhances the Company's operation management level and risk prevention ability. The Board should oversee management in the design; implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems. The Board acknowledges that it is its responsibility for the risk management and internal control systems and reviewing their effectiveness.

Risk management and internal control systems have been designed to monitor and facilitate the accomplishment of the Company's business objectives, safeguard the Company's assets against loss and misappropriation, ensure maintenance of proper accounting records for the provision of reliable financial information, ensure the Company's compliance with applicable laws, rules and regulations. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

#### Organisation systems

The Company set up a group-wide risk management and internal control systems consisting of the Board, the Internal Control and Risk Management Committee, the Integrated Management Department and each relevant professional functional departments.

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The Company has a legal and risk management department with over 600 full-time staff members. Legal and risk management departments at all levels responsible for overall risk evaluation, special risk evaluation and internal control self-testing etc. The Company has also formulated targeted risk prevention and control measures, conducted risk follow-up inspections and has enhanced the risk awareness of the employees, all of which have played an active role in the Company's effective support and safeguard of its operation management and business development. The Legal and Risk Management Department reports directly to the Audit Committee on timely manner.

The Company has an internal audit department with over 450 staff members, with officers stationed at various provincial branches. The internal audit department reports directly to the Audit Committee at least twice annually and is independent of the Company's daily operation and accounting functions. With an emphasis on the effectiveness of internal control with respect to the efficiency of operations, accuracy of financial information, and compliance with rules and regulations, the internal audit department conducts, amongst others, internal control assessment and internal audit on economic accountability. In addition, the internal audit department also contributes to strengthening the operation and management, improving internal control systems, mitigating operational risks and increasing the economic efficiency of the Company.

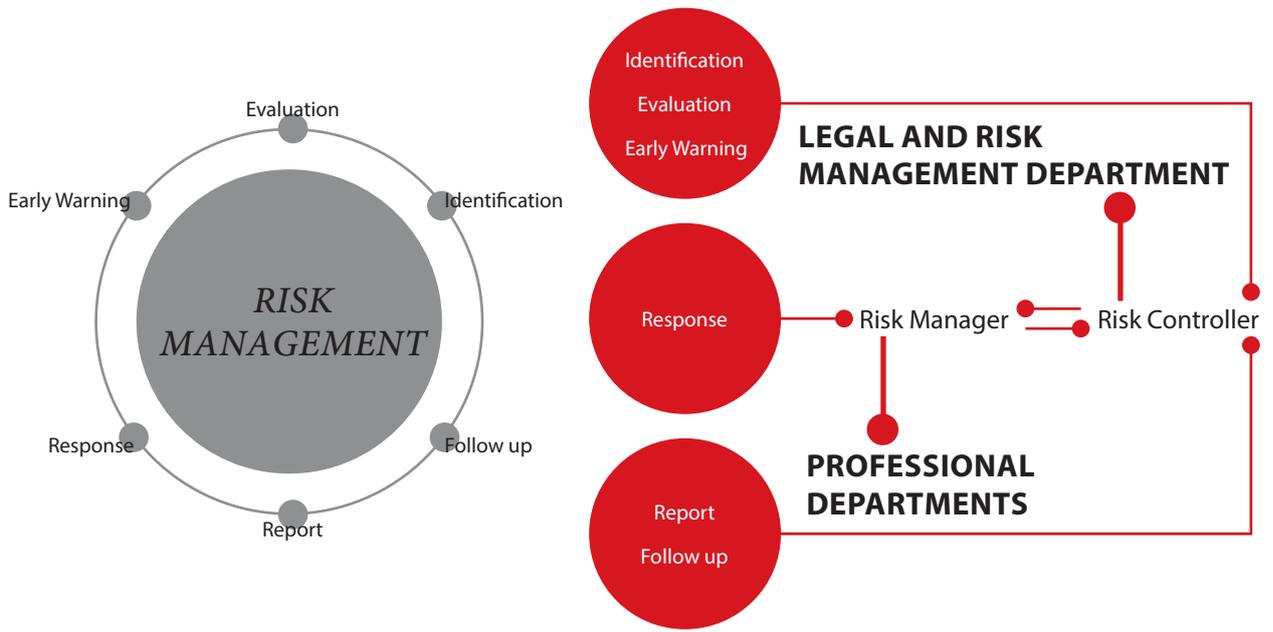
Using the risk evaluation as fundamental with the adoption of Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (the "COSO"), the Company established internal control systems based on the following five fundamental components:

1. Control Environment: Establishes the control environment which fulfill COSO requirements to provide the appropriate operating environment for the effective implementation of internal control
2. Risk Evaluation: Establishes the Policy on Risk Evaluation Management and evaluation mechanism, evaluates the risks to the achievement of its objectives across the Company and identifies to the new risk due to the changes
3. Control Activities: Deploys appropriate policies and control procedures over the Company's business activities, identifies key control procedures and policies of significant control activities thru evaluation
4. Information and Communication: Identifies relevant information and communication methods, establishes information and communication mechanisms to aggregate and delivers relevant information
5. Monitoring Activities: Establishes the internal control monitoring mechanism, implements the monitoring procedures and adopted the before, during and extensive monitoring principles, and carries on the proper monitoring to the internal control

### **Risk evaluation and management**

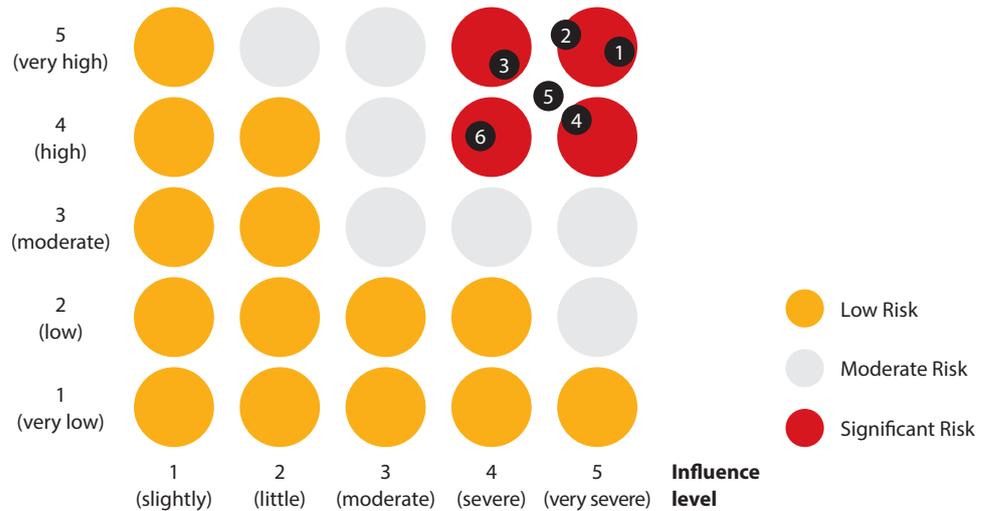
The Company has established and gradually improved its comprehensive closed-loop risk management system for the purpose of "integrating management of day-to-day general risks and spontaneous critical risks", achieved the closed-loop management by risk evaluation, early warning and follow-up inspections to ensure the effectiveness of operation management. In the "Circular regarding the printing and distributing of the Summary Analysis Report of the Comprehensive Risk Management of the Central Enterprises in 2015 (Gai Ge Han [2015] No.29)" issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company's achievements in risk management have been fully recognised.

CORPORATE GOVERNANCE REPORT



2016 Risk evaluation result

Possibility of occurrence



1. Policy Risk – Adjustment of regulatory policies in the industry
2. Policy Risk – Increase in tower operation and maintenance costs
3. Market Risk – Telecommunications operation competition
4. Market Risk – Internet substitution
5. Technology Management Risk – Accelerate changes in telecommunication technology
6. Regulation Management Risk – Optimisation of rules and regulations

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In the 2016 risk evaluation process, the Company first adopted the risk catalog rating method which generally involved all levels of corporate management and frontlines, and created new two-way risk evaluation method which was broadly participated, focus and accurate. The Company fully considered the changes in operating environment, business and policies, identified the potential risk to the Company's operation, rated the relevant risks in risk catalog according to "influence level" and "possibility of occurrence", and anticipated the risk according to the quantitative result from risk catalog rating method, as a result to identify the significant risks and their risk level in 2016. The annual risk management instructions from the management were implemented according to the Policy on Risk Management and Company's risk management requirement. This included the formulation of relevant risk management strategies, solution and corresponding departments and carried out interim follow-up inspection works. The negative impacts arise from the risks and risk events were controlled under the expected and acceptable range. There were no significant control failings or weaknesses that have been identified during the year.

### Monitoring and Optimisation

To ensure the effectiveness of risk management and internal control designs, the Company carried out risk evaluation on time and compared the risk points, formulated or enhanced correspondence internal control measures according to the change in business and management. At the same time, the internal control manual will be updated in time through the assessment and review on applications on internal control workflow modification submitted by professional departments, risk evaluation reports and exceptional from internal control assessment etc. Internal Control and Risk Management Department conducted inspections on effectiveness on risk management and internal control implementation in regular or irregular time interval, improved and enhanced risk management and internal control designs continuously.

According to the internal control self-assessment reports from the branches and subsidiaries, self-assessment reports from each professional departments, current year exceptional in internal

control discovered during internal audit and the Company annual risk management report, the Group's Internal Control and Risk Management Department at its headquarter formed the Company's internal control self-assessment report, which acted as supporting document for the management to issue a statement of the effectiveness of internal control. Based on different disclosure requirements on Company's internal control assessment report from different listing regulatory body, the Company prepared internal control assessment report respectively. External auditor issued and disclosed independence opinions on financial statement as at 31 December on that year and effectiveness on internal control over financial reporting.

Certain of the management personnel of the Company and/or its subsidiaries had engaged or were alleged to have engaged in unlawful conduct in the past few years (including the former chairman and chief executive officer, Mr. Chang Xiaobing). Such unlawful conduct may include the acceptance of bribes, and some of these incidents are still under investigation. The Company believes that such management personnel misconduct are isolated incidents. In response to such management personnel misconduct, the Company had taken and will continue to take various measures, including enhancing the employees' compliance education and strengthening the risk management and internal control procedure.

### Annual review

The Board oversees the Company's risk management and internal control systems on an ongoing basis and the Board conducted an annual review of the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2016, which covered all material controls including financial, operational and compliance controls. After receiving the reports from the Internal Audit Department and the Legal and Risk Management Department, as well as the confirmation from the management to the Board on the effectiveness of these systems, the Board is of the view that the Company's risk management and internal control systems is effective and adequate. The review also ensure, with respect to the Company's accounting,

## CORPORATE GOVERNANCE REPORT

internal audit and financial reporting function, the adequacy of resources, staff qualifications and experience, and training programs and budget.

### **REQUIREMENTS UNDER SECTION 404 OF THE SARBANES-OXLEY ACT**

Compliance with the requirements under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") has been an area of emphasis for the Company. The relevant sections of the Sarbanes-Oxley Act require the management of non-U.S. issuers with equity securities listed on U.S. stock exchanges to issue reports and make representations as to internal control over financial reporting.

The relevant internal control report needs to stress the management's responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company's internal control over financial reporting as at year end. Under Section 404 of the Sarbanes-Oxley Act, the Company's management is required to conduct an assessment of the effectiveness of the Company's internal control over financial reporting as at 31 December 2016. Management is currently in the process of finalising the management's report on internal control over financial reporting, which will be included in the Company's annual report on Form 20-F for the year ended 31 December 2016 to be filed with the United States Securities and Exchange Commission by 30 April 2017.

### **Information Disclosure Controls and Procedural Standards**

In order to further enhance the Company's system of information disclosure, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures (including inside information), the Company has adopted and implemented the Information Disclosure Control Policy. In an effort to standardise the principles for information disclosures, the Company established the Information Disclosure Review Committee under the management and formulated the procedures in connection with the compilation and reporting of the Company's financial and operational statistics and other information, as

well as the procedures in connection with the preparation and review of the periodic reports. Moreover, the Company established detailed implementation rules with respect to the contents and requirements of financial data verification, in particular, the upward undertakings by the individual responsible officers at the levels of subsidiaries, branches and major departments.

### **CORPORATE TRANSPARENCY AND INVESTOR RELATIONS**

In addition to publishing annual reports and interim reports, the Company discloses major unaudited financial information (including revenue, operating expenses, EBITDA, net profit) and other key performance indicators on a quarterly basis and announces operational statistics on a monthly basis in order to enhance the Company's transparency and improve investors' understanding of the business operations of the Company. In addition, the Company submits annual reports and regular reports to the United States Securities and Exchange Commission pursuant to the requirements under the U.S. federal securities laws.

Upon the announcement of interim and annual results or major transactions, the Company will generally hold analyst briefings, press conferences, and global conference calls with investors. During such conferences, the management of the Company would interact directly with analysts, fund managers, investors and journalists to provide them with relevant information and data of the Company. The Company's management would accurately and thoroughly respond to questions raised by analysts, fund managers, investors and journalists. Archived webcast of the investor presentation is also available on the Company's website to ensure wide dissemination of information and data.

The Company's investor relations department is responsible for providing information and services requested by investors, maintaining timely communications with investors and fund managers, including responding to investors' inquiries and meeting with company-visit investors, as well as gathering market information and passing views from shareholders to the Directors

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and management to ensure such views are properly communicated. The Company also arranges from time to time road shows and actively attends investor conferences arranged by investment banks, through which the Company's management meets and communicates with investors to provide them with opportunities to understand more accurately the Company's latest development and performance in various aspects, including business operations and management.

In 2016, the Company participated in the following investor conferences:

Date	Conferences
January 2016	UBS Greater China Conference 2016
January 2016	Deutsche Bank China Conference 2016
January 2016	Jefferies China TMT Summit & Tour 2016
March 2016	Morgan Stanley Hong Kong Investor Summit
April 2016	Bernstein Asia Pacific Tech Tour
April 2016	Credit Suisse 19th Annual Asian Investment Conference
April 2016	DBS Pulse of Asia Conference
May 2016	Macquarie Greater China Conference
May 2016	BNP Paribas 7th Asia Pacific TMT Conference
May 2016	HSBC China Conference
May 2016	Goldman Sachs TechNet Conference – Asia Pacific 2016
May 2016	dbAccess Asia Conference 2016
May 2016	Morgan Stanley 2nd China Summit
June 2016	UBS Pan-Asian Telco Conference 2016
June 2016	Nomura Investment Forum Asia 2016
June 2016	J.P. Morgan 12th Annual Global China Summit
June 2016	CICC Investment Strategy Conference 2H16
August 2016	Citi Hong Kong and China TMT Corporate Day
August 2016	Morgan Stanley China Internet & E-Commerce Conference
September 2016	Daiwa Pan-Asia Innovative Companies Conference 2016
September 2016	CICC Annual London Conference
September 2016	CLSA Investors' Forum 2016
October 2016	Macquarie China Investment Conference
October 2016	Jefferies 6th Annual Greater China Summit
November 2016	Credit Suisse China Investment Conference 2016
November 2016	Bank of America Merrill Lynch China Conference 2016
November 2016	CICC Investment Forum 2016
November 2016	Citi China Investor Conference 2016
November 2016	Daiwa Investment Conference (Hong Kong) 2016
November 2016	J.P. Morgan 4th Global TMT Conference
November 2016	Morgan Stanley 15th Asia Pacific Summit
November 2016	Daiwa Pan-Asian Communication Conference

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In addition, through announcements, press releases and the Company website (www.chinaunicom.com.hk), the Company disseminates the latest information regarding any significant business development in a timely and accurate manner. In 2016, our Company website had been revamped and further reflects to enhanced functions and higher level of transparency in information disclosure, striving for achieving international best practices. Meanwhile, the Company website is updated on an ongoing basis, providing investors and the public with updated information and news of the Company. Our revamped website was accredited Gold Award in the category of "Website Redesign – Investor Relations" in "iNova Awards 2016".

Furthermore, the Company has adopted a Shareholders' Communication Policy to ensure that the shareholders of the Company are provided with readily, equal and timely access to balanced and understandable information about the Company, to enable shareholders to exercise their rights in an informed manner, and to enhance the shareholders' and the investment community's communication with the Company.

## SHAREHOLDERS' RIGHTS

### Annual General Meeting

The Board endeavors to maintain an on-going dialogue with shareholders, and in particular, to communicate with shareholders through annual general meetings. Notices of annual general meeting are sent to shareholders at least 20 clear business days before the meeting. The Directors and representatives of the Board committees usually attend the meetings and treasure the opportunities to communicate with shareholders at such meetings. At general meetings, the chairman of the meeting proposes individual resolutions in respect of each substantially separate matter. All matters at the Company's general meetings are resolved by poll and the relevant procedures are explained at the meeting. The Company also appoints external scrutineers to ensure that all votes are counted and recorded appropriately, and publishes the poll results in a timely manner.

The last annual general meeting of the Company was held on 12 May 2016, at which the following resolutions were passed:

- to receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2015
- to declare a final dividend for the year ended 31 December 2015
- to re-elect Mr. Wang Xiaochu, Mr. Lu Yimin, Mr. Li Fushen and Mrs. Law Fan Chiu Fun Fanny as Directors, and to authorise the Board to fix remuneration of the Directors for the year ending 31 December 2016
- to re-appoint auditor and authorise the Board to fix their remuneration for the year ending 31 December 2016
- to grant a general mandate for share buy-back
- to grant a general mandate to issue new shares
- to extend the general mandate to issue new shares

The next annual general meeting will be held on 10 May 2017. Please refer to the circular, which sets out the details, that has been sent together with this Annual Report.

### Putting Forward Resolutions at Annual General Meetings

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the following persons may put forward a resolution at the next annual general meeting of the Company: (a) any number of shareholders, together holding not less than 2.5% of the total voting rights of all shareholders which have, as at the date of the requisition, a right to vote at the next annual general meeting, or (b) not less than 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

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The resolution must be one which may be properly moved and is intended to be moved at the next annual general meeting. The requisition must be signed by the requisitionists and deposited at the registered office of the Company at least six weeks or if later, the time at which notice is given of the annual general meeting before the annual general meeting, the Company has a duty to give notice of such proposed resolution to all shareholders who are entitled to receive notice of the next annual general meeting.

In addition, requisitionists may require the Company to circulate to shareholders entitled to receive notice of the annual general meeting a statement of not more than 1,000 words with respect to the resolution to be proposed. However, the Company is not required to circulate any statement if the court is satisfied that this right is being abused to secure needless publicity for defamatory matters. In such event, the requisitionists may be ordered to pay for the Company's expenses for application to the court.

If the requisition signed by the requisitionists does not require the Company to give shareholders notice of a resolution, such requisition may be deposited at the registered office of the Company not less than one week before the next annual general meeting.

### **Extraordinary General Meeting**

Notices of extraordinary general meeting are required to be sent to shareholders at least 10 clear business days before the meeting.

### **Convening Extraordinary General Meetings**

Pursuant to Section 566 of the Companies Ordinance, shareholder(s) holding not less than 5% of the total voting rights of all shareholders having a right to vote at general meetings of the Company

as at the date of deposit of the requisition, may request the Directors of the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company.

If the Directors do not, within 21 days from the date of deposit of the requisition, proceed duly to convene a meeting to be held not more than 28 days after the notice of the meeting, shareholder(s) requisitioning the meeting, or any of them representing more than half of their total voting rights, may themselves convene a meeting to be held within three months of such date.

Meetings convened by the requisitionists must be convened in the same manner, as nearly as possible, as meetings to be convened by Directors of the Company. Any reasonable expenses incurred by the requisitionists will be reimbursed by the Company due to the failure of the Directors duly to convene a meeting.

### **Putting Forward Resolutions at Extraordinary General Meetings**

Shareholders may not put forward resolutions to be considered at any general meetings other than annual general meetings. However, shareholders may request an extraordinary general meeting to consider any such resolution as described in "Convening Extraordinary General Meetings" above.

Any queries relating to shareholders' rights on putting forward resolutions at general meetings and convening extraordinary general meetings should be directed to the Company Secretary of the Company. Requisitions should be deposited at the Company's registered office and marked for the attention of the Company Secretary.

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### **SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE PRACTICES OF THE COMPANY AND THE CORPORATE GOVERNANCE PRACTICES REQUIRED TO BE FOLLOWED BY U.S. COMPANIES UNDER THE LISTING STANDARDS OF THE NEW YORK STOCK EXCHANGE**

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the Companies Ordinance, as well as applicable U.S. federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act. In addition, the Company is subject to the listing standards of the New York Stock Exchange to the extent applicable to non-U.S. issuers. As a non-U.S. issuer, the Company is not required to comply with all of the corporate governance listing standards of the New York Stock Exchange.

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its

website ([www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)) a summary of the significant differences between corporate governance practices of the Company and those required to be followed by U.S. companies under the listing standards of the New York Stock Exchange.

### **ENQUIRY ON THE COMPANY**

Shareholders may raise any enquiry on the Company at any time through the following channels:

China Unicom (Hong Kong) Limited

Address: 75th Floor, The Center, 99 Queen's Road Central, Hong Kong

Tel : (852) 2126 2018  
Fax : (852) 2126 2016  
Website : [www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)  
Email : [ir@chinaunicom.com.hk](mailto:ir@chinaunicom.com.hk)

These contact details are also available in the "Contact Us" section on the Company's website ([www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)) designated to enable shareholders to send enquiries to the Company on a timely and effective manner.

