

## Welcome to China Unicom

China Unicom (Hong Kong) Limited (“China Unicom”) is the red-chip company of China United Network Communications Group Company Limited (“China Unicom Group”) listed in Hong Kong. The major shareholders of China Unicom include China Unicom Group Corporation (BVI) Limited (“China Unicom Group BVI”) and China Unicom (BVI) Limited (“China Unicom BVI”), which together hold 79.9% of the total number of shares in issue, while the remaining 20.1% are held by the public. China Unicom Group BVI is a wholly-owned subsidiary of China Unicom Group, while the 100% equity interests in China Unicom BVI is jointly held by China Unicom Group and China United Network Communications Limited (“A Share Company”), a subsidiary in which China Unicom Group holds controlling interests.

China Unicom is engaged in the provision of comprehensive telecommunication services, including mobile broadband (WCDMA, LTE FDD and TD-LTE), fixed-line broadband, GSM, fixed-line local access, ICT services, data communication services and other related value-added services. As at the end of 2017, China Unicom had 59.997 million local access users, 76.539 million fixed-line broadband users and 284 million mobile billing subscribers.

## FEATURE STORY I: SPEARHEADING CENTRAL STATE-OWNED ENTERPRISES MIXED-OWNERSHIP REFORM

As the first pilot unit to adopt entire group-based mixed-ownership reform and the first central state-owned enterprise in the telecommunication industry to introduce private capital, China Unicom was resolved to implement the significant plan of 19th CPC Congress to “intensify SOE reforms, develop mixed-ownership economy and foster world-class enterprises with global competitive strengths” and sees as its mission to start a new journey in SOE reform in the new era. In accordance with the directives for mixed-ownership reform given by General Secretary Xi Jinping, namely to “improve governance, enhance incentive, highlight principal businesses and increase efficiency”, we will direct mixed-ownership reforms with the guidance of Party establishment in an unequivocal manner while adhering to market-oriented principles, as we actively advance the progress of various work to build ourselves into a model enterprise for mixed-ownership reform.

### Embarking on a new journey with mixed-ownership reform

China Unicom has introduced 14 strategic investors who are closely associated with the Company’s principal business, formidable in strengths, highly complementary with the Company, capable of generating synergies and driving growth, and conducive to the enhancement of the Company’s innovative ability. We have pioneered in a capital and business innovation model of “Telecom Operator + Internet” in the global telecommunication sector, striving to forge with the strategic investors a partnership of “complementary benefits and strengths with mutual growth”, with a special emphasis on solving imbalances and inadequacies in the development of information communications and providing more quality information communications services, in order to satisfy the people’s growing demand for congenial living and render strong support for the development of China into network superpower, digital China and smart society.

#### Large Internet Companies



#### Leading Companies in Industry Verticals



#### Financial Institutions and Industry Groups

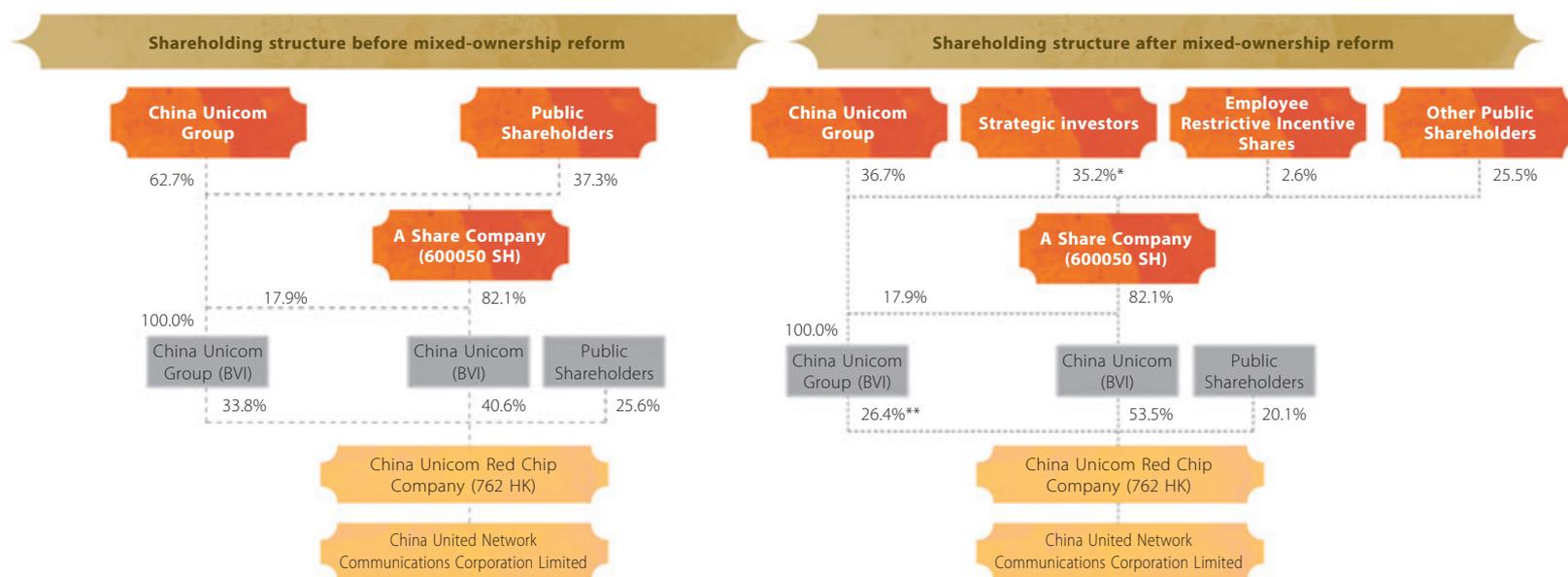


#### Specialised Funds



Strategic investors introduced by China Unicom in the mixed-ownership reform

China Unicom has pioneered in the new model for mixed-ownership reform by “diversifying state-owned equity interests and non-state-owned equity interests at the same time”. In persistent adherence to the principle of maintaining a natural balance between equity diversification and retaining control, we have completed the simultaneous introduction of state-owned capital and non-state-owned capital. Upon the completion of the mixed-ownership reform, Unicom Group’s shareholdings in the A Share Company has reduced from 62.7% to 36.7%, and its absolute control has been changed to relative control to end the status of having a single controlling shareholder. State-owned capital in aggregate holds 53% of the A Share Company to ensure telecommunications networks and information security. A restrictive share incentive scheme was established to facilitate the sharing of risks as well as return with employees, subject to unlocking conditions closely associated with business performance and differentiated share allocation based on contributions to business results.



Changes in Shareholding Structure of China Unicom Before and After the Mixed-ownership Reform (As at 10 April 2018)

\* The shares of China United Network Communications Limited held by strategic investors represented the shares acquired by the strategic investors introduced by the mixed ownership reform from non public share issuance and transfer of existing shares.

\*\* Excluded the interest in 225,722,791 shares of the Company held by China Unicom Group Corporation (BVI) Limited as trustee on behalf of a PRC shareholder.

## Collaborating to open new paradigm

China Unicom achieved positive progress in its business cooperation with strategic investors following the establishment of an initial mechanism for cooperation through the consolidation of resources and the application of innovative models. In accordance with the aims of strategic cooperation and leveraging the respective advantageous resources of the parties, the Company deepened cooperation in key areas such as channel touchpoints, retail system, video contents, home Internet, Cloud Computing, Big Data, IoT and basic telecommunications, in a bid to improve corporate efficiency as well as innovative capability. Currently, revenue contributions derived from joint cooperation in areas such as channel touchpoints and basic telecommunications exceeded the RMB10 billion mark.

## Streamlining corporate structure to enhance efficiency

In 2017, China Unicom made vigorous efforts in the development of a streamlined and effective organisation structure to address issues such as excessive and inefficient administrative institutions at various levels, in diligent implementation of the SASAC requirement for central state-owned enterprises to trim their organisation. The Company also introduced fixed-term employment and contract-based management for newly appointed management personnel, with the aim of advancing a market-oriented staff management system requiring merit-based appointments at all levels. Managerial staff were encouraged to move to the front-line, resulting in a new normal where officers could be demoted as well promoted and sacked as well as appointed. It worked towards the formation of a staff appointment mechanism characterised by promotion for the capable, demotion for the mediocre and dismissal for the underperformers to reinvigorate the enterprise through trimming and downsizing.

- The number of departments at the headquarters was reduced from 27 to 18. The number of entities at provincial branches was reduced by 205. The number of entities at municipal branches was reduced by 2013. The number of entities at subsidiaries was reduced by approximately 4%.
- Number of managers at provincial branches nationwide slashed by 9.82%.
- A mechanism was established for headquarters staff to take on positions at subordinate units. 49 department/office managers and key staff members took the initiative to move to local/municipal front-line positions in 3 batches.

Departments at the headquarters reduced by	Entities at provincial branches reduced by	Entities at municipal branches reduced by	Entities at subsidiaries reduced by approximately
<b>33.3</b> %	<b>20.5</b> %	<b>26.7</b> %	<b>4</b> %

### Stimulating vibrancy through sub-division performance unit reform

To drive the implementation of the mixed-ownership reform and facilitate the Company's sustainable development, China Unicom comprehensively rolled out sub-division performance unit reforms in production scenarios. By internally dividing the enterprise into various units and establishing micro-organisations, the Company revitalised the incentive and allocation mechanism to facilitate stronger motivation on the part of staff and officers. In 2017, China Unicom devised a blueprint for reform through the collaborated effort of various specialised business lines, with input from colleagues at all levels from the headquarters, provincial branches to the front-line. Horizontally, sub-divided units with commensurate duties, powers and rights were established on the back of a rectified accountability system with clarified responsibility division and designated officers-in-charge. Vertically, management and supporting departments at various levels were turned into resource providers and service supporters, forming a top-down service support regime that responds to demands of the sub-divided units in a swift and effective manner, so that the front-line units can focus on customer servicing. China Unicom completed reform-related propagation and training and selected trial reforms at the local/municipal companies. The reform effort won wide approval and achieved positive results with profound hope for future development by colleagues at all levels.

Based on the service areas of installation and maintenance agents, China Unicom Chizhou carries out integrated installation, maintenance and marketing services contracting, reduced the area served by city district agency outlets, enhanced professional quality of after-sale broadband services and shortened turnover time for installation and maintenance, so that subscribers can enjoy quality, convenient services provided from the nearest source.

### Introduction of competition for installation appointment orders in broadband service

China Unicom introduced a model of competition for installation service appointment orders in relation to broadband services of the sub-division units, with a view to rewarding efforts and enhancing staff motivation. A system for making installation appointment was implemented in business outlets in 27 provinces, while competition for service orders was introduced in 22 provinces, resulting in significantly enhanced customer experience. In the meantime, China Unicom launched "Smart Services-to-Home", a high-end service package including home network design, Wi-Fi coverage and signal quality optimisation, equipment installation and testing, and daily maintenance, etc., aiming to extend services to all broadband subscribers of China Unicom. Since its launch, "Smart Services-to-Home" had been signed up by over 10,000 home subscribers in pilot provinces and municipalities such as Beijing, Liaoning and Shandong, who can enjoy faster and more stable Internet connection.

Following the introduction of competition for pre-appointed installation service orders with a pledge for "fast connection speed, sound service and compensation for slow speed", China Unicom Liaoning reported improvements in the contract performance rate by 6%, decrease in complaint cases for fixed-line communication by 89%, and decrease in complaints against visiting service personnel by 93%. China Unicom Liaoning started promoting "Smart Services-to-Home" extended service in May 2017 and, as at December 2017, more than 10,000 "Smart Services-to-Home" orders had been completed with the provision of more than 15,000 service items. Cases of breakdown of subscribers' owned equipment as a percentage of total broadband breakdown cases decreased by more than 50%, while the subscriber complaint ratio decreased by 70%.

### Building internal platforms for innovation and venture

China Unicom continued to implement the "WO Innovation" program for its employees. Under the programme, staff may submit innovative incubation project proposals on a solo or team basis. Approved projects will receive funding, resource support and incubation services to help transform staff creativity into products. Under the first round of "WO Innovation", 35 incubation projects were launched and 30 of them completed. As at the end of 2017, 5 projects secured third-party Series A funds amounting to RMB21.55 million, while 11 projects were converted into companies established with their private funding, reporting a return of 157%. Currently, the second round of "WO Innovation" received 249 proposals and accepted 22 projects for incubation.

China Unicom's mixed-ownership reforms showed initial results: cooperation with strategic investors and innovation in business models powerfully drove a "Double V" turnaround in the Company's revenue and profit. Through deleveraging and debt reduction, the Company's gearing ratio reduced to a safe level, while officers and staff showed greater confidence and stronger motivation.