

CHINA UNICOM (HONG KONG) Ltd

Form 20-F

April 17, 2014

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number 1-15028

CHINA UNICOM (HONG KONG) LIMITED

(Exact Name of Registrant as Specified in Its Charter)

N/A

Hong Kong

(Translation of Registrant's Name Into English)

(Jurisdiction of Incorporation or Organization)

75th Floor, The Center

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Hong Kong

(Address of Principal Executive Offices)

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75th Floor, The Center

99 Queen's Road Central

Hong Kong

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
Ordinary shares	The New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on The New York Stock Exchange, Inc. of American depository shares, or ADSs, each representing 10 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2013, 23,781,775,000 ordinary shares were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Note Regarding Forward-Looking Statements

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to (i) our plans and strategies, including those in connection with our mergers and acquisitions and capital expenditures; (ii) our plans for network expansion, including those in connection with the build-out of third generation mobile telecommunications, or 3G, and fourth generation mobile telecommunications, or 4G, digital cellular businesses and network infrastructure; (iii) our competitive position, including our ability to upgrade and expand existing networks and increase network efficiency, to improve existing services and offer new services, to develop new technological applications and to leverage our position as an integrated telecommunications operator and expand into new businesses and markets; (iv) our future business condition, including our future financial results, cash flows, financing plans and dividends; (v) the future growth of market demand of, and opportunities for, our new and existing products and services, in particular, 3G and 4G services; and (vi) future regulatory and other developments in the PRC telecommunications industry.

The words anticipate, believe, could, estimate, intend, may, seek, will and similar expressions, as they relate to us, are intended to indicate that certain of these forward-looking statements. We do not intend to update any of these forward-looking statements and are under no obligation to do so.

The forward-looking statements contained in this annual report are, by their nature, subject to significant risks and uncertainties. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of our future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements as a result of a number of factors, including, without limitation:

changes in the regulatory regime and policies for the PRC telecommunications industry, including without limitation changes in the regulatory policies of the Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, or the SASAC, and other relevant government authorities of the PRC;

changes in the PRC telecommunications industry resulting from the issuance of 3G and 4G licenses by the central government of the PRC;

effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;

changes in telecommunications and related technologies and applications based on such technologies;

the level of demand for telecommunications services, in particular, 3G and 4G services;

competitive forces from more liberalized markets and our ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;

effects of competition on the demand and price of our telecommunications services;

the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

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the results of the anti-monopoly investigation by the National Development and Reform Commission of the PRC, or the NDRC, relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers;

changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans;
and

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changes in the political, economic, legal, tax and social conditions in China, including the PRC Government's policies and initiatives with respect to economic development in light of the recent global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the Chinese telecommunications market and structural changes in the PRC telecommunications industry.

Please also see D. Risk Factors under Item 3.

Certain Definitions

As used in this annual report, references to we, us, our, the Company, our company and Unicom are to China Unicom (Hong Kong) (formerly known as China Unicom Limited). Unless the context otherwise requires, these references include all of our subsidiaries. In respect of any time prior to our incorporation, references to we, us, our and Unicom are to the telecommunications businesses in which our predecessors were engaged and which were subsequently assumed by us. All references to Unicom Group are to China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation), our indirect controlling shareholder. Unless the context otherwise requires, these references include all of Unicom Group's subsidiaries, including us and our subsidiaries.

All references to China Netcom are to China Netcom Group Corporation (Hong Kong) Limited, which merged with us in October 2008, and, as the context may require, its subsidiaries. References to Netcom Group mean China Network Communications Group Corporation, which merged with, and was absorbed by, Unicom Group in January 2009 and, as the context may require, its subsidiaries, other than us and our subsidiaries.

As used in this annual report:

references to China or PRC mean the People's Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan, and references to the central government or the PRC Government mean the central government of the PRC;

references to our fixed-line northern service region mean the 10 municipalities, provinces and region where we operate fixed-line services in northern China, consisting of Beijing and Tianjin Municipalities, and Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, and Shanxi Provinces, and the Inner Mongolia Autonomous Region;

references to the 21 provinces in southern China mean Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Hubei Province, Hunan Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Hainan Province, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region; we completed the acquisitions of certain telecommunications business and assets, including the fixed-line business in those 21 provinces in southern China, from Unicom Group and Netcom Group and/or their respective subsidiaries and branches in January 2009; see A. History and Development of the Company Unicom Acquisitions and Sales Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China under Item 4;

references to Hong Kong Stock Exchange or HKSE mean The Stock Exchange of Hong Kong Limited, and references to NYSE or New York Stock Exchange mean The New York Stock Exchange, Inc; and

references to Renminbi or RMB are to the currency of the PRC, references to U.S. dollars or US\$ are to the currency of the United States of America, references to HK dollars or HK\$ are to the currency of the Hong Kong Special Administrative Region of the PRC and references to Euro are to the currency of the eurozone (17 of the 27 member states of the European Union).

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2009, 2010, 2011, 2012 and 2013. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2011, 2012 and 2013 and the selected historical consolidated balance sheet data as of December 31, 2012 and 2013 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes, included elsewhere in this annual report on Form 20-F. The selected historical consolidated income statement data for the years ended December 31, 2009 and 2010 and consolidated balance sheet data as of December 31, 2009, 2010 and 2011 set forth below are derived from our audited consolidated financial statements that are not included in this annual report on Form 20-F. Our consolidated financial statements as of and for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 have been prepared and presented in accordance with IFRS/HKFRS. The statistical information set forth in this annual report on Form 20-F relating to China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside China.

In December 2012, we completed the acquisition of the entire equity interest in Unicom New Horizon Telecommunications Company Limited, or Unicom New Horizon, through our wholly-owned subsidiary, China United Network Communications Corporation Limited, or CUCL, from Unicom Group, or the 2012 Acquisition. See A. History and Development of the Company Unicom Acquisitions and Sales 2012 Acquisition . As Unicom New Horizon did not meet the definition of a business under IFRS/HKFRS 3 (Revised) Business Combinations , we accounted for the 2012 Acquisition as an asset purchase transaction in accordance with IAS/HKAS 16 Property, Plant and Equipment .

We completed the acquisition of (i) the entire equity interest in China Unicom NewSpace Limited, or Unicom NewSpace, by China Unicom Broadband Online Limited Corporation, or Broadband Online, a wholly-owned subsidiary of CUCL, from Unicom Group, or the 2011 Acquisition, in December 2011, and (ii) the fixed-line business in 21 provinces in southern China, the local access telephone business in Tianjin Municipality, three subsidiaries (together referred to as the Target Business) and certain other telecommunications assets from Unicom Group and Netcom Group (which was later merged with Unicom Group in January 2009), or the 2009 Acquisition, in January 2009. See A. History and Development of the Company Unicom Acquisitions and Sales 2011 Acquisition and A. History and Development of the Company Unicom Acquisitions and Sales Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China under Item 4, respectively. Because (i) we and Unicom NewSpace were under common control of Unicom Group both prior to and after the 2011 Acquisition and (ii) we and the Target Business were under common control of Unicom Group both prior to and after the 2009 Acquisition, each of the acquisitions is considered as a business combination of entities and businesses under common control and has been accounted for using merger accounting in accordance with Accounting Guideline 5 Merger accounting for common control combinations , or AG 5, issued by the HKICPA in November 2005. Upon our adoption of IFRS, we adopted the accounting policy to account for business combination of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Given that the acquired entities and businesses mentioned above in this paragraph had always been under common control during all the periods presented, the assets and liabilities thereof are stated at predecessor values and are included in the consolidated financial statements included in this annual report on Form 20-F as if these entities and their businesses acquired had always been part of our company during all the periods presented.

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	As of or for the year ended December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 US\$(¹)
(in millions, except for per share data)						
Consolidated Income Statement Data:						
Revenue⁽²⁾						
Mobile services						
Service revenue	70,102	82,449	103,307	126,036	151,133	24,965
Sales of mobile telecommunications products	1,970	7,173	23,219	38,735	56,393	9,315
Total mobile telecommunications revenue	72,072	89,622	126,526	164,771	207,526	34,280
Fixed-line services						
Service revenue ⁽²⁾	81,160	79,942	81,642	83,213	86,487	14,287
Sales of fixed-line telecommunications products	193	114	63	64	78	13
Total fixed-line telecommunications revenue	81,353	80,056	81,705	83,277	86,565	14,300
Unallocated amounts						
Service revenue ⁽²⁾	601	1,692	936	878	947	156
Sales of other telecommunications products	-	-	-	-	-	-
	601	1,692	936	878	947	156
Total revenue	154,026	171,370	209,167	248,926	295,038	48,736
Total costs, expenses and others	(141,870)	(166,786)	(203,569)	(239,405)	(281,324)	(46,471)
Income before income tax	12,156	4,584	5,598	9,521	13,714	2,265
Income tax expenses	(2,692)	(883)	(1,371)	(2,425)	(3,306)	(546)
Net income	9,464	3,701	4,227	7,096	10,408	1,719
Earnings per share for income attributable to equity shareholders during the year						
-Basic earnings per share ⁽³⁾	0.40	0.16	0.18	0.30	0.44	0.07
-Diluted earnings per share ⁽³⁾	0.40	0.16	0.18	0.30	0.43	0.07
-Basic earnings per ADS ⁽⁴⁾	3.98	1.57	1.79	3.01	4.40	0.73
-Diluted earnings per ADS ⁽⁴⁾	3.96	1.56	1.78	2.96	4.31	0.71
-Number of shares outstanding for basic earnings per share ⁽³⁾	23,767	23,562	23,564	23,565	23,658	23,658
-Number of shares outstanding for diluted earnings per share ⁽³⁾	23,895	23,704	23,785	24,664	24,656	24,656
-Number of ADS outstanding for basic earnings per ADS ⁽⁴⁾	2,377	2,356	2,356	2,357	2,366	2,366
-Number of ADS outstanding for diluted earnings per ADS ⁽⁴⁾	2,389	2,370	2,379	2,466	2,466	2,466

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	As of or for the year ended December 31,					2013 US\$(¹)
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(in millions, except for per share data)						
Consolidated Balance Sheet Data:						
Assets						
Cash and cash equivalents and short-term bank deposits	8,891	22,870	15,410	18,282	21,560	3,561
Property, plant and equipment	350,976	365,654	381,859	430,997	431,625	71,299
Inventories and consumables	2,412	3,728	4,651	5,803	5,536	914
Prepayments and other current assets	4,253	5,115	6,127	9,580	9,664	1,596
Financial assets at fair value through other comprehensive income	7,977	6,214	6,951	5,567	6,497	1,073
Proceeds receivable for the disposal of the CDMA business	5,121	-	-	-	-	-
Total assets	417,008	441,269	456,233	516,124	529,171	87,413
Liabilities						
Accounts payable and accrued liabilities	104,096	97,666	95,252	108,486	102,212	16,884
Payables in relation to the disposal of the CDMA business	7	-	-	-	-	-
Short-term bank loans	63,909	36,727	32,322	69,175	94,422	15,597
Commercial papers	-	23,000	38,000	38,000	35,000	5,782
Current portion of long-term bank loans	62	58	50	850	48	8
Current portion of other obligations	2,534	2,637	2,586	2,642	2,672	442
Current portion of corporate bonds	-	-	-	5,000	-	-
Current portion of promissory notes	-	-	-	15,000	-	-
Long-term bank loans	759	1,462	1,384	536	481	79
Promissory notes	-	15,000	15,000	-	-	-
Convertible bonds	-	11,558	11,118	11,215	11,002	1,817
Corporate bonds	7,000	7,000	7,000	2,000	2,000	330
Tax payable	908	1,483	1,232	1,820	2,634	435
Total liabilities	210,571	235,608	250,335	306,619	310,272	51,253
Shareholders equity						
Share capital	2,310	2,310	2,311	2,311	2,328	385

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	As of or for the year ended December 31,					2013 US\$(¹)
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
Other Financial Data:						
CONTINUING OPERATIONS						
Net cash inflow from operating activities of continuing operations	57,732	66,376	66,491	70,620	78,482	12,965
Net cash outflow from investing activities of continuing operations	(85,310)	(76,619)	(82,970)	(99,480)	(77,110)	(12,738)
Net cash inflow from financing activities of continuing operations	30,197	19,824	8,988	32,004	1,926	318
Net cash inflow/(outflow) from continuing operations	2,619	9,581	(7,491)	3,144	3,298	545
DISCONTINUED OPERATIONS⁽⁵⁾						
Net cash inflow from operating activities of discontinued operations	-	-	-	-	-	-
Net cash (outflow)/inflow from investing activities of discontinued operations	(5,039)	5,121	-	-	-	-
Net cash outflow from financing activities of discontinued operations	-	-	-	-	-	-
Net cash (outflow)/inflow from discontinued operations	(5,039)	5,121	-	-	-	-
Net (decrease)/increase in cash and cash equivalents	(2,420)	14,702	(7,491)	3,144	3,298	545
Dividend declared per share	0.16	0.08	0.10	0.12	0.16	0.03

(1) The translation of RMB into U.S. dollars has been made at the rate of RMB6.0537 to US\$1.00, representing the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2013. The translations are solely for the convenience of the reader.

(2) Revenue and service revenue figures for the years ended December 31, 2009, 2010 and 2011 include fixed-line upfront connection fees for basic telephone access services that were eliminated by order of the former Ministry of Information Industry in July 2001. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of ten years. No upfront connection fees will be recognized after December 31, 2011.

(3) See Note 38 to our consolidated financial statements included elsewhere in this annual report on Form 20-F on how basic and diluted earnings per share are calculated under IFRS/HKFRS.

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

(5) Results of CDMA business were recorded as discontinued operations for the year ended December 31, 2008.

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. The exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board, or the daily exchange rate. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 31, 2013 (RMB6.0537 to US\$1.00 and HK\$7.7539 to US\$1.00). These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

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The daily exchange rates were RMB6.2123 = US\$1.00 and HK\$7.7527 = US\$1.00, respectively, on April 10, 2014. The following table sets forth the high and low daily exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

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	RMB per US\$1.00		HK\$ per US\$1.00	
	High	Low	High	Low
October 2013	6.1209	6.0815	7.7545	7.7524
November 2013	6.0993	6.0903	7.7535	7.7512
December 2013	6.0927	6.0537	7.7550	7.7517
January 2014	6.0600	6.0402	7.7663	7.7534
February 2014	6.1448	6.0591	7.7645	7.7547
March 2014	6.2273	6.1183	7.7669	7.7563
April 2014 (up to April 10, 2014)	6.2123	6.1966	7.7568	7.7527

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2009, 2010, 2011, 2012 and 2013, calculated by averaging the daily exchange rate on the last day of each month during the relevant years.

Average Exchange Rate

	RMB per US\$1.00	HK\$ per US\$1.00
2009	6.8295	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793
2012	6.2990	7.7556
2013	6.1412	7.7565

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors**Risks Relating to Our Business**

We face intense competition from other telecommunications operators, including China Mobile and China Telecom, and other companies that provide telecommunications or related services, which may materially adversely affect our financial condition, results of operations and growth prospects.

The telecommunications industry in China has been rapidly evolving. Following the restructuring of the PRC telecommunications industry in 2008, we, along with China Mobile Communications Corporation, or China Mobile, and China Telecommunications Corporation, or China Telecom, have become full-service telecommunications service providers that operate both fixed-line and mobile telecommunications networks in China. See A. History and Development of the Company Restructurings of the Telecommunications Industry under Item 4. We face intense competition in each of our business lines from China Mobile and China Telecom and expect that this competition will further intensify. For mobile services, we compete with China Mobile and China Telecom in both 2G and 3G services, and will compete with them in 4G services. For fixed-line services, we are a leading fixed-line operator in northern China, while China Telecom has a dominant market position in southern China and the MIIT granted to China Mobile the approval for China Mobile to authorize China Mobile Limited to operate the fixed-line

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telecommunications business in December 2013. In addition, the PRC Government is in the process of introducing new policies that may intensify competition among the three telecommunications operators, such as the policies that would allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers in certain areas in China and the removal by the State Council of the MIIT's approval requirement on the tariff standard of telecommunications services.

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We also face increasing competition from other service providers, such as cable television companies and Internet service providers, which compete against our broadband access, voice and messaging services and other services by offering telecommunications or related services. Such competition may further intensify due to recent policies of the PRC Government. For example, the PRC Government is in the process of initiating policies regarding the convergence of television broadcast, telecommunications and Internet access networks, and recently introduced a series of policies that encourage non-State-owned companies to enter the PRC telecommunications industry. In May 2013, the MIIT issued the pilot program for mobile telecommunications resale business that permit non-State-owned companies to purchase mobile services from telecommunications operators and provide mobile services to end-customers after repackaging and rebranding. The trial period is expected to end on December 31, 2015, subject to further adjustment by the MIIT. In December 2013 and January 2014, the MIIT approved 19 companies to operate such business. The MIIT plans to accept applications until July 1, 2014 and may approve additional applications which meet the requirements of the pilot program.

We also face increasing competition from other telecommunications operators for key employees. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which could result in significant increase in our operating expenses, and we may be unable to attract or retain these personnel.

Intensive competition from China Mobile and China Telecom, as well as other companies that provide telecommunications or related services, could lead to slower subscriber growth, lower usage or traffic volume of our telecommunications services, continued price pressure, higher customer acquisition and retention costs and higher labor costs, which may materially adversely affect our financial condition, results of operations and growth prospects.

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

We experienced continuing decline in the number of fixed-line local telephone subscribers and usage of our fixed-line local telephone services during the past several years due to the trend of mobile service substitution for fixed-line services. Consistent with trends in global markets in recent years, significant traffic from our fixed-line networks has been diverted to mobile networks, including mobile networks of other mobile operators. This trend has resulted in continuing decline in our revenues derived from our fixed-line local telephone services in recent years.

Similarly, as the technology of mobile services evolves, the trend of mobile services migration from old generations to new generations would generally have an adverse effect on our old generations services, including a slow-down or reduction in the number of subscribers and usage. With this trend, we cannot assure you that we will successfully retain existing mobile services subscribers or attract mobile services subscribers of other telecommunications operators. For example, our GSM mobile services have been negatively affected by the trend of migration to 3G services, which resulted in a decrease in our subscribers and revenue. Similarly, with the introduction of 4G services in China, we cannot assure you that we will be able to successfully retain existing mobile services subscribers or attract existing mobile services subscribers of other telecommunications operators. Failing to do so could materially and adversely affect our mobile services.

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We have been taking various measures to retain our subscribers and their service usage of our fixed-line local telephone services and attract mobile service subscribers from other telecommunications operators to migrate to our mobile services network. For example, we have continued to improve our products and services and promote the integrated development of our mobile services and fixed-line services in order to mitigate the adverse impact caused by the above mentioned industry trends. If these efforts are not successful, our financial condition, results of operations and growth prospects could be materially and adversely affected.

Competition from foreign-invested operators may further increase the competition for employees, exacerbate price competition and increase our operating expenses, thereby adversely affecting our financial condition, results of operations and growth prospects.

As a result of China's accession to the World Trade Organization, or WTO, in December 2001 and the adoption of the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises in January 2002, which implement China's commitments to the WTO, the PRC Government has agreed to gradually liberalize the various segments and regions of the telecommunications market in China to foreign investors. Currently, foreign investors are permitted to own up to 49% of joint ventures that offer basic telecommunications services without any geographic restrictions in China and up to 50% of joint ventures that offer value-added telecommunications services without any geographic restrictions in China. More foreign-invested operators may enter China's telecommunications market as a result of this liberalization. They may have greater financial, managerial and technical resources and more expertise in network management and sales and marketing than we do.

Increased competition from foreign-invested operators into the PRC telecommunications market may further increase the competition for skilled and experienced employees, exacerbate price competition and increase our customer acquisition costs and other operating expenses, and thereby adversely affect our financial condition, results of operations and growth prospects.

Failure to respond to technological and industry developments in a timely and effective manner or failure to continually optimize, expand and upgrade our networks and infrastructure could materially adversely affect our competitive position and hinder our growth.

The telecommunications industry in China and elsewhere in the world has been experiencing rapid and significant changes in the diversity and sophistication of the technologies and services offered. Such changes may render our existing services or technologies inadequate or obsolete. We cannot assure you that we will be able to respond to technological and industry developments in a timely and cost-effective manner, or at all. Our inability to respond successfully to technological or industry developments may adversely affect our financial condition, results of operations and growth prospects. Furthermore, if the new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth may decline and our competitive position may be adversely affected.

In addition, the growth of our business depends on whether we are able to continue to optimize the capacity, expand the coverage and improve the quality of, and upgrade our existing networks and infrastructure in a timely and effective manner. Our ability to expand and upgrade our networks and infrastructure is subject to a number of uncertainties, including our ability to achieve the following on a timely basis and on acceptable terms:

manage technology migration in an effective manner, including effectively responding to a shortage of available Internet Protocol version 4 addresses and timely developing 3GPP Long Term Evolution, or LTE;

obtain adequate financing;

obtain relevant government licenses, permits and approvals such as the license to operate FDD-LTE (Frequency Division Duplex) business;

obtain adequate network equipment and software;

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retain experienced management and technical personnel;

obtain sufficient spectrum frequencies, network numbers and other telecommunications resources controlled by the PRC Government;

gain access to the sites for network construction or upgrade; and

enter into interconnection and other arrangements with other operators.

If we are not able to timely and effectively overcome the uncertainties and difficulties we may encounter in expanding and upgrading our networks and infrastructure, our competitive position, financial condition, results of operations and growth prospects may be materially adversely affected.

The successful development of our 3G and 4G services is subject to market demand, consumer acceptance, technological challenges, competition on service fees, terminal subsidies and other marketing expenses, and other uncertainties, and expected benefits from investments in our 3G and 4G networks.

We commercially launched our 3G service in October 2009 and trial 4G services in March 2014, and we will continue to make investments in our mobile broadband networks in the future. We may experience various difficulties in the development of our 3G and 4G services, including software, network, handset and other technical issues. We cannot assure you that we will be able to do so in a timely fashion or that we will not encounter other difficulties. Moreover, we cannot assure you that:

we will be able to gain access to sufficient sites for 3G and 4G network expansion;

there will be sufficient demand for 3G and 4G services, or our 3G and 4G services will be more popular among potential subscribers than those of our competitors;

our 3G and 4G services will generate an acceptable or commercially viable rate of return; and

we will not encounter unexpected technological difficulties in implementing the LTE technology.

Any failure or delay in expanding and upgrading our 3G and 4G networks, any increase in the associated costs (including the costs and expenses that may be incurred as a result of the changes of our marketing and sales policies, including terminal subsidies, to meet the market demand), or any problem encountered in our operations of 3G and 4G services could hinder the recovery of our significant capital investment in 3G and 4G services, respectively, which could in turn have a material adverse effect on our financial condition, results of operations and growth prospects. For example, our depreciation and amortization expenses increased by 11.7% from RMB61.06 billion in 2012 to RMB68.20 billion in 2013, primarily due to our continuing expansion and upgrade of our 3G networks. Also, our selling expenses increased by 22.7% from RMB35.04 billion in 2012 to RMB42.99 billion in 2013, mainly attributable to the increased expenses on the promotion of our 3G services. If such expenses continue to increase without corresponding increase in the relevant service revenue, the profitability of our 3G services would be adversely affected.

Because we rely on arrangements with other telecommunications operators, changes to the terms or availability of these arrangements may result in disruptions to our services and operations and may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

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Our ability to provide telecommunications services depends upon arrangements with other telecommunications operators. In particular, interconnection is necessary to complete all calls between our subscribers and subscribers of other telecommunications operators. We, either through ourselves or through Unicom Group, have established interconnection and transmission line leasing arrangements with other telecommunications operators, including our parent company, as required to conduct our current business. Any disruption to our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect may affect our operations, service quality and customer satisfaction, thus adversely affecting our business. Furthermore, we are generally not entitled to collect indirect or consequential damages resulting from disruptions in the networks with which we are interconnected. Any disruption in existing interconnection arrangements and leased line arrangements or any significant change of their terms, as a result of natural events or accidents or for regulatory, technical, competitive or other reasons, may lead to temporary service interruptions and increased costs that can seriously jeopardize our operations and adversely affect our financial condition, results of operations and growth prospects. Difficulties in executing alternative arrangements with other operators on a timely basis and on acceptable terms, including the inability to promptly establish additional interconnection links or increase interconnection bandwidths as required, could also materially adversely affect our financial condition, results of operations and growth prospects.

Interruptions to our networks and operating systems or to those with which we interconnect, including those caused by natural disaster and service maintenance and upgrades, may disrupt our services and operations and may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

Our network infrastructure and the networks with which we interconnect are vulnerable to potential damages or interruptions from floods, wind, storms, fires, power loss, severed cables, acts of terrorism and similar events. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other failure of our networks or systems, or the networks to which we are interconnected, may result in consequential interruptions in services across our telecommunications infrastructure. For example, in April 2013, an earthquake registering 7.0 on the Richter scale struck Ya an region of Sichuan Province. In 2013, certain areas of China suffered from severe floods. Our network equipment, including our base stations, in the affected areas sustained extensive damage, leading to service stoppage and other disruptions in our operations in those areas. Any future natural disasters may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our services and operations. Moreover, our networks and systems and the networks with which we interconnect also require regular maintenance and upgrades. Such maintenance and upgrades may cause service disruptions. Network or system failures, as well as high traffic volumes, may also affect the quality of our services and cause temporary service interruptions. Any such future occurrence may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be materially adversely affected.

We continue to have a significant level of capital expenditure and debt service requirements necessary to implement our business strategies. We incurred RMB73.46 billion for capital expenditure in 2013. We expect to continue incurring significant capital expenditure in 2014. To the extent these capital expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. We cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms. Even if we obtain such financing, our financing cost may increase significantly as a result of additional financing or higher interest rate. See **Liquidity and Capital Resources** under Item 5. Our failure to do so may adversely affect our financial condition, results of operations and growth prospects. Our ability to obtain acceptable financing at any time may depend on a number of factors, including, among others:

our financial condition and results of operations;

our creditworthiness and relationship with lenders;

changes in credit policies, other government or banking policies that may affect credit markets in China;

conditions of the economy and the telecommunications industry in China;

conditions in relevant financial markets in China and elsewhere in the world; and

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our ability to obtain any required government approvals for our financings.

We may experience declines in ARPU for our telecommunications services.

In 2013, the ARPU for our mobile services increased by 0.6% from 2012, primarily because (i) the ARPU for our 3G services is significantly higher than that of our 2G services and (ii) the number of our 3G subscribers has increased as a percentage of the total number of our mobile subscribers. However, we have been experiencing declining ARPU for each of our GSM mobile services, 3G mobile services and fixed-lined services in the past few years, mainly due to (i) the pricing competition with other telecommunications operators in China; (ii) many new subscribers are users with lower usage of telecommunications services; and (iii) the substitution effect of mobile Internet applications on our SMSs and other services. Our current GSM mobile services, 3G mobile services and fixed-lined services may continue to experience declining ARPU in the foreseeable future, which could have a material adverse effect on our financial condition and results of operations. Although we have been making efforts to mitigate those effects by allocating more resources to diversify our service offerings, particularly the value-added services, promote our integrated mobile and fixed-lined services to encourage more usage of our services, and develop our high-end customers, we cannot assure you that these efforts will be able to achieve the anticipated results.

Our controlling shareholder, Unicom Group, can exert influence on us and cause us to make decisions that may not always be in the best interests of us or our other shareholders and may fail to provide services and facilities that we rely on to operate our business.

Unicom Group indirectly controlled an aggregate of approximately 75% of our issued share capital as of April 10, 2014 and all of our executive directors also serve as directors or executive officers of Unicom Group. As our controlling shareholder, subject to our articles of association and applicable laws and regulations, Unicom Group is effectively able to control our management, policies and business by controlling the composition of our board of directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. The interests of Unicom Group as our controlling shareholder may conflict with our interests or the interests of our other shareholders. As a result, Unicom Group may cause us to enter into transactions or take (or fail to take) other actions or make decisions that may not be in our or our other shareholders' best interests.

In addition, our operations depend on a number of services and facilities provided by Unicom Group. For example, Unicom Group provides us with international gateway services, interconnection services, sales agency and collection services and provision of premises. See "B. Related Party Transactions" under Item 7. The interests of Unicom Group as provider of these services and facilities may conflict with our interests. Failure by Unicom Group to fulfill its obligations under any of these arrangements may have a material adverse effect on our business operations. We currently have limited alternative sources of supply for these services and facilities and, as a result, may have limited ability to negotiate with Unicom Group regarding the terms for providing these services and facilities. Changes in the availability, pricing or quality of these services or facilities may have a material adverse effect on our business and profitability.

The previous internal reorganization of Unicom Group for the A Share offering created a two-step voting mechanism that requires the approval of the minority shareholders of both our Company and China United Network Communications Limited (formerly known as China United Telecommunications Corporation Limited), or the A Share Company, for significant related party transactions between us and Unicom Group.

In October 2002, Unicom Group completed an internal reorganization of its shareholding in our company and the initial public offering in China of its then newly established subsidiary, the A Share Company. As part of this restructuring, a portion of Unicom Group's indirect shareholding in our company was transferred to the A Share Company, whose business is limited to indirectly holding the equity interest of our company without any other direct business operations. A voting mechanism was established to allow public shareholders of the A Share Company to indirectly participate in our shareholders' meetings and a two-step voting mechanism was established for the approval of related party transactions. As a result, any significant related party transaction between us or our subsidiaries and Unicom Group or its other subsidiaries will require the separate approval of the independent minority shareholders of both our company and the A Share Company. Related party transactions approved by our independent minority shareholders nevertheless cannot proceed if they are not approved by the independent minority shareholders of the A Share Company. This adds another necessary step of approval process for those transactions. See "A. History and Development of the Company - Two-Step Voting Arrangements" under Item 4.

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Investor confidence and the market prices of our shares and ADSs may be materially and adversely impacted if we are or our independent registered public accounting firm is unable to conclude that our internal control over financial reporting is effective in future years as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are a public company in the United States that is subject to the Sarbanes-Oxley Act of 2002. Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we include in this annual report a report of management on our internal control over financial reporting and an attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting as of December 31, 2013 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by KPMG, an independent registered public accounting firm, as stated in their report appearing on page F-2. However, we cannot assure you that, in the future, our management will continue to conclude that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective for future periods, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our controls are documented, designed, operated, reviewed or evaluated, or if the independent registered public accounting firm interprets the relevant requirements, rules or regulations differently from us, then it may issue an adverse opinion. Any of these possible outcomes in the future could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which could materially adversely affect the market prices of our shares and ADSs.

Moreover, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including through a failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on the market prices of our shares and ADSs.

Our outstanding convertible bonds may dilute the ownership interest of existing shareholders and may adversely affect the market price of our ordinary shares.

On October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, completed the issue of the 2015 Convertible Bonds, which are exchangeable into ordinary shares of our company. Pursuant to the subscription agreement with respect to the 2015 Convertible Bonds, the holders of the 2015 Convertible Bonds may, beginning on November 28, 2010, elect to convert its bonds into our ordinary shares at an initial conversion price of HK\$15.85 per share, subject to certain adjustments. As of April 10, 2014, none of the 2015 Convertible Bonds has been converted into our ordinary shares. Assuming a full conversion of the 2015 Convertible Bonds at the current conversion price of HK\$15.05 per share, the bonds would be convertible into 947,818,928 ordinary shares, representing approximately 3.83% of our enlarged issued and outstanding share capital as of April 10, 2014.

The conversion of the 2015 Convertible Bonds, if converted in full or in part, would dilute the ownership interest of our existing shareholders and our earnings per share, and could adversely affect the market price of our shares. Even if the 2015 Convertible Bonds are not converted, their existence may encourage the short selling of our ordinary shares by the holders of the 2015 Convertible Bonds as well as other market participants, depressing the price of our ordinary shares.

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We are subject to an anti-monopoly investigation by the NDRC relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers. The outcome of this investigation may subject us to a fine, and harm our reputation, which could adversely affect the prices of our shares and ADSs.

The NDRC initiated an anti-monopoly investigation in 2011 relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers. In response to the NDRC's investigation, we (i) provided the NDRC with pricing, volume, turnover and other information relevant to our Internet access bandwidth leasing services with Internet service providers for the year 2010, (ii) conducted a comprehensive self-inspection of our operations, and (iii) submitted to the NDRC a proposal for enhancement initiatives and an application for suspension of the NDRC's investigation. Through our comprehensive self-inspection of our operations, we have identified room for improvement in pricing management and relatively wide pricing variation, in respect of our services relating to the Internet dedicated leased line access service provided by us to the Internet service providers. In addition, the quality of interconnection between us and other backbone network operators also requires further improvement. In December 2013, we submitted a report to the NDRC regarding the improvement of our price management of Internet dedicated leased line access service, and our work plan to achieve further improvements. As of the date of this annual report, the NDRC has not informed us of any results or conclusions of the investigation. If the outcome of the NDRC's investigation is not in our favor, we may be subject to a fine, and if we become the target of any negative publicity, our reputation would be harmed, which may have a material adverse effect on the prices of our shares and ADSs.

Future implementation of a value-added tax to replace business tax in China may increase our effective tax rate, and thereby decreasing our future net income and profitability.

Our business operations in China are subject to PRC business tax, which is assessed against substantially all of our operating revenue at a rate of 3%. In 2011, the Ministry of Finance, or the MOF, and the State Administration of Taxation, or the SAT, issued a pilot tax program under which the PRC business tax will be replaced with a value-added tax, or VAT, for certain pilot industries, including transportation services, postal services and certain modern services. The application of the pilot VAT program will expand to the telecommunications industry in the future. The applicable tax rate for the telecommunications industry and other details remain uncertain. If we become subject to the pilot VAT program, and, depending on the applicable tax rate and other details of the program, our effective tax rate increases, our net income as well as our profitability may decrease.

Risks Relating to the Telecommunications Industry in China

Government regulation of the telecommunications industry in China may affect our ability to respond to market conditions or competition, and may have a material adverse effect on our financial condition, results of operations and growth prospects.

As a telecommunications operator in China, we are subject to regulation by, and under the supervision of, the MIIT, which is the primary regulator of the telecommunications industry in China. The MIIT is responsible for formulating policies and regulations for the telecommunications industry, granting telecommunications licenses, allocating frequency spectrum and numbers, formulating interconnection and settlement arrangements between telecommunications operators, and enforcing industry regulations. Other PRC Governmental authorities also regulate tariff policies, capital investment and foreign investment in the telecommunications industry. See **B. Business Overview** Regulatory and Related Matters under Item 4. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our ability to respond to market conditions or to changes in our cost structure. Moreover, we operate our businesses pursuant to approvals granted by the State Council of the PRC, or the State Council, and under licenses granted by the MIIT. If these approvals or licenses were revoked or suspended, our business and operations would be materially adversely affected. In addition, we are subject to various regulatory requirements as to service quality, pricing and other actions, and failure to comply with such requirements may subject us to mandatory penalties or other punitive measures, any of which could have a material adverse effect on our financial condition, results of operations and growth prospects.

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Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially adversely affect our financial condition, results of operations and growth prospects.

The PRC Government continues to regulate many aspects of the telecommunications industry in China. Potential changes in regulations and policies and their implementation could lead to significant changes in the overall industry environment and may have a material adverse effect on our financial condition, results of operations and growth prospects. As part of the comprehensive plan to restructure the telecommunications industry in China, the PRC Government has been adjusting and improving its regulatory oversight of the telecommunications industry, including further deregulating telecommunications tariffs.

The MIIT, under the direction of the State Council, is currently preparing a telecommunications law to provide a uniform regulatory framework for the telecommunications industry in China. As of the date of this annual report, the telecommunications law has not yet been officially promulgated by the PRC Government. The promulgation of the telecommunications law and other new telecommunications regulations or rules, or future changes thereto, such as enforcement of existing regulations and policies, may materially adversely affect our financial condition, results of operations and growth prospects.

Issues may also arise regarding the interpretation and enforcement of China's WTO commitments regarding telecommunications services. Any future regulatory changes, such as those relating to the issuance of additional telecommunications licenses, tariff setting, interconnection and settlement arrangements, changes in technical and service standards, universal service obligations and spectrum and number allocations, may have a material adverse effect on our business and operations.

The PRC telecommunications industry has been extensively restructured in recent years and may be subject to further restructuring. Such further industry restructuring may materially affect the operations of all telecommunications operators in China, including us. Accordingly, we cannot predict the scope and effect of any further restructuring on our financial condition, results of operations and growth prospects.

New regulations, regulatory changes or changes in enforcement policies relating to tariffs and other aspects of telecommunications services may materially adversely affect our competitiveness, business and financial condition, results of operations and growth prospects.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to extensive government regulations on tariffs, especially those relating to our basic telecommunications services, such as mobile services, local and long distance fixed-line telephone services, data services, leased line services and interconnection agreements. In the past, we experienced significant downward adjustments on tariffs of telecommunications services as well as regulatory restrictions that have significant impacts on our tariff setting. For example: (i) in February 2008, the MIIT and the NDRC lowered the regulatory tariff cap for roaming services; and (ii) in 2009, the MIIT and the NDRC required us and other PRC telecommunications operators to offer certain fixed-line local telephone plans that are subject to a tariff cap. Our revenue was adversely affected by these changes. In January 2014, the State Council announced the removal of the MIIT's approval requirement on the tariff standard of telecommunications services, which may result in further price competition among telecommunication operators.

We cannot predict with accuracy the timing, likelihood or magnitude of tariff adjustments by the PRC Government or the extent or potential impact on our business of future tariff adjustments. If the PRC Government substantially lowers the tariffs for our services, our business and our financial condition, results of operations and growth prospects may be adversely affected. In particular, monthly fees on fixed-line services have drawn attention from customers and the PRC Government in the past few years. Revenue from some of our customers has decreased as a result of discounts on monthly fees that we offered through bundled service packages. Our revenue will be adversely affected if the PRC Government abolishes such monthly fees. In addition, the PRC Government is in the process of initiating detailed policies following the industry restructuring in 2008, including those that allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers and those relating to the convergence of telecommunications, Internet and television broadcast networks. The potential new regulatory policies and regulations may materially adversely affect our financial condition, results of operations and growth prospects.

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The PRC Government may require us, along with other telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government authorities, and the MIIT has the authority to delineate the scope of universal service obligations. The MIIT, together with the finance department and pricing authorities of the State Council, are also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. These rules have not yet been promulgated, and there are currently no specific regulatory requirements relating to the provision of universal services in China.

While specific universal services obligations are not yet clear, we believe that such services may include mandatory provision of basic telecommunications services in less economically developed areas in China and mandatory contribution by telecommunications service providers to a universal service fund. In addition, as part of the transitional measures prior to the formalization of a universal service obligation framework, the MIIT has required major telecommunications service providers in China, including Unicom Group, to participate in a project to provide telephone and broadband access services in tens of thousands of remote villages in China. See **B. Business Overview** **Regulatory and Related Matters** **Universal Services** under Item 4.

We cannot predict whether the PRC Government will specifically require us to undertake universal service obligations in the future. To the extent we are required to do so, it is currently uncertain whether we will be adequately or timely compensated by the PRC Government or by the universal service fund. We cannot assure you that we will be able to realize an adequate return on investments for expanding networks to, and providing telecommunications services in, less economically developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. We also cannot predict whether we will be required to make a contribution to the universal service fund. Any of these events may adversely affect our financial condition and results of operations.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers of our mobile services, reduce mobile service usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, mobile operators have been subject to lawsuits alleging various health consequences as a result of mobile handset usage or proximity to base stations or seeking protective or remedial measures. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with the transmission of electromagnetic signals will not impair our ability to retain customers and attract new customers, reduce mobile service usage or result in litigation.

Risks Relating to Doing Business in China

Our operations may be materially adversely affected by changes in China's economic, political and social conditions.

Substantially all of our business operations are conducted in China and substantially all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are affected to a significant degree by economic, political and social conditions in China. The PRC economy differs from the economies of most developed countries in many respects, including with respect to the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past three decades, growth has been uneven across different regions and among various economic sectors. The PRC Government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be materially adversely affected by government control over capital investments.

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In addition, if China's economic growth slows down, our subscribers' usage of our services may decrease and we may experience increased difficulties in retaining existing subscribers or acquiring new subscribers, which could materially and adversely affect our business, as well as our financial condition and results of operations.

If the PRC Government revises the current regulations that allow a foreign-invested enterprise to pay foreign exchange in current account transactions, our operating subsidiary's ability to satisfy its foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted.

The ability of our major operating subsidiary, CUCL, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future foreign exchange regulations in China. The Renminbi is currently convertible by foreign-invested enterprises in China to settle transactions under the current account, which include trade and service related foreign exchange transactions and payments of dividends. The Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which includes outbound foreign investment and payments on foreign loans. CUCL, which holds substantially all of our assets and through which we conduct substantially all of our business, is a foreign-invested enterprise in China. However, there is no assurance that in the future the relevant PRC government authorities will not impose any limitation on the ability of foreign-invested enterprises to purchase foreign exchange to satisfy their foreign exchange obligations or to pay dividends. In that event, CUCL's ability to satisfy its foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted and the interests of our shareholders may, in turn, be affected.

Fluctuations in the value of the Renminbi could adversely affect the prices of our shares and ADSs as well as our profitability.

Substantially all of our revenue and costs and expenses are denominated in Renminbi, while a portion of our borrowings, equipment purchases and other capital expenditures are denominated in foreign currencies. On July 21, 2005, the PRC Government changed its decade-old policy to permit Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies determined by the People's Bank of China, or the PBOC. On May 19, 2007, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market. With the increased floating range of the Renminbi's value against foreign currencies, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float. Increased fluctuations of the Renminbi could adversely affect the value in foreign currency terms of cash flow generated from our operations or any dividends payable on our shares and ADSs, and therefore the price of our shares and ADSs. Any future Renminbi devaluations could also increase our equipment importation costs or lead to significant fluctuations in the exposure of our foreign-currency-denominated liabilities, thereby adversely affecting our profitability.

Uncertainties in the PRC legal system could limit the legal protections available to us and to foreign investors and materially adversely affect our financial condition, results of operations and growth prospects.

Our wholly-owned operating subsidiary, CUCL, is organized under the laws of PRC and is generally subject to laws and regulations applicable to foreign-invested enterprises in China. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases may be cited for reference but have limited precedential value. Since 1979, the PRC Government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, property, taxation and trade. However, because these laws and regulations are relatively new, and because of the relatively limited volume of published cases and their non-binding nature, interpretation and/or enforcement of these laws and regulations involves uncertainties, which may limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties. In addition, any litigation in China may be protracted and result in costs and diversion of resources and management attention. Therefore, the protection provided by the PRC legal system may not be the same as the legal protection available to investors in the United States or elsewhere. Furthermore, various uncertainties involved in the rulemaking, interpretation and enforcement process of the laws, regulations and rules in China that are related to our business operations, in particular, those in respect of telecommunications and enterprise income tax, may also materially and adversely affect our financial condition, results of operations and growth prospects.

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Since we are a Hong Kong company, you will not have certain investor rights as our shareholder, such as the right to bring legal action against other shareholders on behalf of the company.

We were incorporated in Hong Kong. The Hong Kong Companies Ordinance (Chapter 662 of the Laws of Hong Kong), or the Companies Ordinance, does not provide for any right for our shareholders, including our significant shareholders, to bring legal action against any other shareholder on our behalf to enforce any claim against such party or parties if we fail to enforce such claim ourselves.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Most of our current operations are conducted in China and most of our assets are located in China. In addition, five out of eleven of our current directors and all of our current executive officers reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court judgments. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in China of judgments of a court of the United States or any other jurisdiction, including judgments against us or our directors, executive officers, underwriters or experts, may be difficult or impossible.

Natural disasters and health hazards in China may severely disrupt our business and operations and may severely restrict the level of economic activities in affected areas which in turn may have a material adverse effect on our financial condition and results of operations.

In 2008, we experienced severe sleet and snowstorms in southern China and a devastating earthquake in Sichuan province. Those natural disasters resulted in significant and extensive damage to our base stations and network equipment. Moreover, certain countries and regions, including China, have encountered incidents of the H5N1 strain of bird flu, or avian flu, as well as severe acute respiratory syndrome, or SARS, over the past several years and, more recently in 2009, the outbreak of influenza A (H1N1). In 2010, an earthquake registering 7.1 on the Richter scale struck Qinghai Province. In April 2013, another major earthquake registering 7.0 on the Richter scale struck Ya an region of Sichuan Province. In 2013, certain areas of China suffered from severe floods. We are unable to predict the effect, if any, that any other future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, natural disasters and health hazards may severely restrict the level of economic activities in affected areas, which may in turn materially adversely affect our business and prospects. As a result, any natural disasters or health hazards in China may have a material adverse effect on our financial condition and results of operations.

Our investors do not have the benefit to rely on the Public Company Accounting Oversight Board inspection of our independent registered public accounting firm.

As a company registered with the U.S. Securities and Exchange Commission, or the SEC, and traded publicly in the United States, our independent registered public accounting firm is required by the laws of the United States to be registered with the Public Company Accounting Oversight Board, or the PCAOB, and undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. The PCAOB, however, is currently unable to inspect a registered public accounting firm's audit work relating to a company's operations in China where the documentation of such audit work is located in China. Accordingly, our independent registered public accounting firm's audit of our operations in China is not subject to the PCAOB inspection. As a result, our investors do not have the benefit of the PCAOB inspection of our independent registered public accounting firm's audit works and quality control procedures.

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KPMG, our independent registered public accounting firm, relies on the Chinese member firm of the KPMG network for assistance in completing the audit work on us. If a recent initial decision rendered by the SEC Administrative Law Judge against the Chinese member firm of the KPMG network becomes effective, KPMG's audit work may be delayed and, as a result, we may be unable to timely file future financial statements in compliance with the requirements of the Exchange Act of 1934, as amended.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the Big Four accounting firms, including KPMG network, from, among other things, practicing before the SEC for six months. In February 2014, the initial decision was appealed. The decision is not yet effective and will only become effective when and if the SEC endorses it. Our independent registered public accounting firm currently relies on the Chinese member firm of the KPMG network for assistance in completing the audit work associated with our operations in China. If the decision becomes effective, KPMG's audit work could be delayed, which could in turn delay the timely filing of our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent auditor to replace KPMG. A delinquency in our filings with the SEC may result in NYSE initiating delisting procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospect.

Risk Relating to our ADSs

Holders of our ADSs will not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise their right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares represented by our ADSs on an individual basis. Holders of our ADSs will receive proxy materials with respect to matters to be voted on at a meeting of shareholders through the depositary and may only exercise voting rights by appointing the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. Consequently, if the materials to be forwarded to holders of ADSs by the depositary are delayed or if the depositary sets deadlines by which holders of ADSs must give their instructions regarding how to vote that fall too soon after mailing of the proxy materials, the holders of our ADSs may not receive voting materials in time to instruct the depositary to vote. Thus, it is possible that such holders, or persons who hold their ADSs through brokers, dealers or other third parties, may not have the opportunity to exercise a right to vote.

Item 4. Information on the Company

A. History and Development of the Company

We were incorporated under the laws of Hong Kong on February 8, 2000 under the predecessor of the Companies Ordinance as a company limited by shares under the name China Unicom Limited. In connection with the telecommunications industry restructuring initiated by the MIIT, the NDRC and the MOF in 2008 as discussed below, we merged with China Netcom and changed our name to China Unicom (Hong Kong) Limited with effect from October 15, 2008. Following our merger with China Netcom, we became an operator providing a full range of telecommunications services, including mobile and fixed-line services, in China.

Our registered office and principal executive offices are located at 75th Floor, The Center, 99 Queen's Road Central, Hong Kong (telephone number: 852-2126-2018).

Restructurings of the Telecommunications Industry

Since 1993, the PRC Government has implemented a number of measures to restructure and introduce competition in the telecommunications industry. Prior to July 1994, China Telecom was the sole provider of telecommunications services in China. In July 1994, Unicom Group was established in accordance with the State Council's approval to introduce orderly competition in the telecommunications industry. Since then, the PRC Government has approved Jitong Network Communications Company Limited, or Jitong, and China Netcom Corporation Ltd., or CNCL, to provide Internet protocol, or IP, telephony, Internet and data services. It has also approved China Tietong to provide most telecommunications services other than mobile services.

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In 1999, the State Council approved a plan to restructure the former China Telecom along four business lines: fixed-line, mobile, paging and satellite communications. As a result of the restructuring, China Telecom retained the fixed-line, data and Internet businesses, while China Mobile assumed the mobile business previously operated by China Telecom. In 2002, the PRC Government further separated China Telecom into two companies, with the southern company retaining the name of China Telecom and assets and businesses in 21 provinces in southern China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with CNCL and Jitong to form China Netcom. As a result of the PRC Government's efforts to introduce competition in the telecommunications industry, there are currently more than one service providers in most of the sectors within the telecommunications industry.

On May 24, 2008, the MIIT, the NDRC and the MOF issued a joint announcement relating to the further reform of the PRC telecommunications industry. According to the joint announcement, the principal objectives of such further reform included, among others: (i) supporting the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications services providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom of the CDMA network (including both assets and subscriber base) then owned by Unicom Group; (b) the merger between China Unicom and China Netcom; (c) the transfer of the basic telecommunications services business operated by China Satellite into China Telecom; and (d) the consolidation of China Tietong into China Mobile. The detailed implementation plans relating to these restructuring transactions were subsequently formulated by the relevant parties and, as a result, China Mobile, China Telecom and we became the current three major telecommunications operators in China, each providing a full range of telecommunications services nationwide.

Sale of CDMA Business, Merger with China Netcom and Related Transactions

Disposal of CDMA Business and Related Transactions

Pursuant to the 2008 telecommunications industry restructuring announcement, on June 2, 2008, we, CUCL and China Telecom entered into a CDMA business disposal framework agreement, under which CUCL agreed to sell, and China Telecom agreed to purchase, the CDMA business of CUCL, including (i) the entire CDMA business, which is owned and operated by CUCL, together with the assets of CUCL that are relevant to the CDMA operations and the rights and liabilities of CUCL relating to its CDMA subscribers; (ii) the entire equity interest in China Unicom (Macau) Company Limited, our wholly-owned subsidiary; and (iii) all of the 99.5% equity interest in Unicom Huasheng Telecommunications Technology Company Limited, a limited liability company incorporated under the laws of the PRC, held by CUCL.

On July 27, 2008, we, CUCL and China Telecom further entered into a CDMA business disposal agreement which set out the detailed terms and conditions of the CDMA business disposal. The consideration for the CDMA business disposal was RMB43.8 billion in cash, payable in three installments. While the consideration was subject to a price adjustment mechanism based on the CDMA service revenue generated by us for the six months ended June 30, 2007 and June 30, 2008, as agreed with China Telecom, there was no subsequent adjustment to the consideration as a result of the price adjustment mechanism.

On July 27, 2008, in connection with the CDMA business disposal, CUCL agreed (i) to waive its right to exercise its option to purchase the CDMA network from Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, and (ii) to terminate the CDMA lease pursuant to which CUCL leased capacity on the CDMA network from Unicom New Horizon, in each case with effect upon the completion of the CDMA business disposal.

At our shareholders' meeting held on September 16, 2008, our shareholders approved the CDMA business disposal and our independent shareholders approved the waiver by CUCL of the option to purchase the CDMA network and the termination of the CDMA lease. As all of the conditions of the CDMA business disposal as specified in the CDMA business disposal agreement had been satisfied or deemed to have been satisfied, the CDMA business disposal was completed on October 1, 2008. On that date, China Telecom became the legal owner of the CDMA business and all the rights, interests, obligations and liabilities in relation to the CDMA business have been borne by China Telecom with effect from October 1, 2008. We recognized in our statements of income for the year ended December 31, 2008 a gain on disposal of the CDMA business of approximately RMB26.1 billion, net of corresponding income tax of approximately RMB9.0 billion.

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In connection with the CDMA business disposal, we had been notified by Unicom Group that on June 2, 2008 and July 27, 2008, Unicom Group, Unicom New Horizon and China Telecom entered into a CDMA network framework agreement and a CDMA network disposal agreement, respectively, which set out the terms and conditions, under which Unicom Group and Unicom New Horizon agreed to sell, and China Telecom agreed to purchase, the CDMA network at a consideration of RMB66.2 billion. The disposal of the CDMA network was completed concurrently with our CDMA business disposal, on October 1, 2008.

Merger with China Netcom and Related Transactions

Merger with China Netcom

On October 15, 2008, following the approval of the merger by our shareholders and the shareholders of China Netcom at shareholders' meetings held on September 16, 2008 and September 17, 2008, respectively, and the satisfaction of all other conditions, the merger between China Unicom and China Netcom by way of a scheme of arrangement of China Netcom under Section 166 of the predecessor of the Companies Ordinance became effective. Upon the merger becoming effective, all ordinary shares of China Netcom outstanding at 5:00 p.m., Hong Kong time, on October 14, 2008 and all outstanding options to acquire China Netcom shares granted under the share option scheme of China Netcom were cancelled and new China Netcom shares were issued to us. As a result, China Netcom became our wholly-owned subsidiary and the listings of China Netcom's ordinary shares and ADSs on the HKSE and the NYSE, respectively, were withdrawn.

In connection with our merger with China Netcom, each holder of China Netcom shares was entitled to receive 1.508 of our new ordinary shares for every cancelled China Netcom share and each holder of Netcom ADSs was entitled to receive 3.016 of our new ADSs for every cancelled China Netcom ADS. A total of 10,102,389,377 of our new ordinary shares (including ordinary shares underlying our newly issued ADSs) were issued to China Netcom's shareholders as consideration for the cancellation of the China Netcom shares held by China Netcom shareholders.

Furthermore, we adopted a special purpose share option scheme, pursuant to which we have granted new Unicom options to the holders of China Netcom options in consideration for the cancellation of their outstanding Netcom options (whether vested or not). The number of Unicom options granted and the exercise price of such options were determined in accordance with a formula which ensures that the value of the Unicom options received by a holder of Netcom options is equivalent to the value determined by deducting the exercise price of the relevant Netcom option from the value of HK\$27.87 per Netcom share. See E. Share Ownership - Stock Incentive Schemes - Special Purpose Share Option Scheme under Item 6 for further details.

As a result of our merger with China Netcom, we have become an operator providing a full range of telecommunications services to our customers, including mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services. Following the merger, we have taken measures to combine the respective experience and technologies of Unicom and China Netcom and develop business strategies, taking into account current market developments, to promote business innovation and competitiveness and to improve operating and financial performance. By combining the resources and business strengths of Unicom and China Netcom in different areas, we seek to become a world-class provider of telecommunications services, in particular in fixed-line broadband communications and information services, establish competitive advantages in our technologies, products and services and provide professional and multi-tiered information services to satisfy the changing and diverse needs of the telecommunications market in China.

Change of Company Name

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

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Related Transactions

As part of our integration with China Netcom, our wholly-owned subsidiary, CUCL, merged with China Netcom (Group) Company Limited, or CNC China, a wholly-owned subsidiary of China Netcom, in January 2009, and upon that merger becoming effective, CUCL assumed all the rights and obligations of CNC China, and all the assets, liabilities and business of CNC China were vested in CUCL. In addition, in January 2009, Unicom Group, our parent company, merged with and absorbed Netcom Group, the parent company of China Netcom. Upon completion of the merger between Unicom Group and Netcom Group, Unicom Group assumed all the rights and obligations of Netcom Group, and all the assets, liabilities and business of Netcom Group have vested in Unicom Group.

History and Corporate Development of China Netcom

China Netcom was incorporated in Hong Kong on October 22, 1999, under the predecessor of the Companies Ordinance as a company limited by shares under the name Target Strong Limited. The company changed its name to China Netcom (Hong Kong) Corporation Limited on December 9, 1999, to China Netcom Corporation (Hong Kong) Limited on August 4, 2000, and to China Netcom Group Corporation (Hong Kong) Limited on July 23, 2004 (the last name change in anticipation of its IPO in 2004).

China Netcom's principal operating subsidiary, CNC China, which merged with, and was absorbed by, CUCL in January 2009, was incorporated as a PRC limited liability company in August 1999 by its four founders and shareholders, the Academy of Sciences, INC-SARFT, CRTC and Shanghai Alliance, as a facilities-based telecommunications operator in China. China Netcom was established in October 1999 to facilitate investments by foreign investors, including CNC Fund, L.P., in CNC China. Shortly thereafter, the four founders, using their respective equity interests in CNC China as capital contributions, established China Netcom (Holdings) Company Limited which in turn contributed its entire interests in CNC China through CNC BVI to China Netcom. China Netcom, through China Netcom Corporation International Limited, established Asia Netcom in 2002. Asia Netcom remained inactive until it acquired substantially all the assets, including cash, and most of the subsidiaries, of the former Asia Global Crossing Ltd. by the end of 2003.

China Netcom successfully completed its IPO in November 2004 with the listing of its ordinary shares on the HKSE and ADSs, each representing 20 of its ordinary shares, on the NYSE.

In October 2005, China Netcom acquired from CNC BVI the entire equity interests of China Netcom Group New Horizon Communications Corporation (BVI) Limited, or CNC New Horizon BVI, which merged into CNC China in November 2006. As a result of the merger, China Netcom acquired the fixed-line telecommunications assets and related liabilities in Heilongjiang Province, Jilin Province, the Inner Mongolia Autonomous Region and Shanxi Province. In August 2006, China Netcom sold the entire equity interest in Asia Netcom, which then provided international telecommunications services in the Asia-Pacific region, to Connect Holdings Limited. In February 2007, China Netcom sold its telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality to Netcom Group. In December 2007, China Netcom's wholly-owned subsidiary, China Netcom Group System Integration Limited Corporation, or China Netcom System Integration, acquired the entire equity interest in Design Institute from China Netcom Group Beijing Communications Corporation, a wholly-owned subsidiary of Netcom Group, in order to develop two of its key information and communication technologies, or ICT, services.

Our Parent Company and Our Initial Public Offering

Our ultimate controlling shareholder is Unicom Group, a company incorporated under the laws of the PRC and majority-owned by the PRC Government. Unicom Group was established in accordance with the State Council's approval to introduce orderly competition in the telecommunications industry in 1994.

Unicom Group transferred certain of its telecommunications assets, rights and liabilities to CUCL (which became our wholly-owned subsidiary in China) in April 2000 in preparation for our IPO. In June 2000, we successfully completed our IPO. Our ordinary shares are listed on the HKSE and our ADSs, each representing ten of our ordinary shares, are listed on the NYSE.

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Unicom Acquisitions and Sales

In December 2002 and December 2003, respectively, we completed our acquisitions from Unicom Group of 100% of the equity interests in Unicom New Century and Unicom New World, both of which held mobile telecommunications operations (including GSM assets and business and CDMA business) in various provinces and autonomous regions in China. Subsequent to the completion of those acquisitions, Unicom New Century and Unicom New World merged into CUCL in July 2004 and September 2005, respectively.

In March 2003, we completed the sale to Unicom Group of the entire equity interest of Guoxin Paging Corporation Ltd., which at the time of transfer was engaged in paging business.

In September 2004, we acquired from Unicom Group of 100% of the equity interest in China Unicom International Limited, or Unicom International, a limited liability company established in Hong Kong and engaged in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services. In September 2009, the name of China Unicom International Limited was changed to China Unicom (Hong Kong) Operations Limited. Unicom International's wholly-owned U.S. subsidiary, China Unicom USA Corporation, is engaged in the wholesale business of voice traffic between the United States and PRC. In August 2009, the name of China Unicom USA Corporation changed into China Unicom (Americas) Operations Limited upon the completion of its merger with China Netcom (USA) Operations Limited, a subsidiary of China Netcom.

In October 2004, we established China Unicom (Macau) Company Limited, or Unicom Macau, in Macau, which then provided CDMA mobile services to local CDMA users in Macau. In connection with the disposal of our CDMA business in October 2008, we sold the entire equity interest in Unicom Macau to China Telecom along with our other CDMA business and certain related assets.

In July 2005, CUCL and Unicom Xingye Science and Technology Trade Co., Ltd., or Unicom Xingye, a subsidiary of Unicom Group, incorporated Unicom Huasheng. Unicom Huasheng was principally engaged in the sales of CDMA handsets and telecommunications equipment and the provision of technical services for us. In connection with the disposal of our CDMA business in October 2008, CUCL sold all of the 99.5% equity interest it held in Unicom Huasheng to China Telecom.

In December 2007, we completed the acquisition from Unicom Group of the mobile telecommunications operations (including GSM assets and business and CDMA business) of its Guizhou Province branch. As a result of the acquisitions of Unicom New Century, Unicom New World and Unicom Guizhou, we extended our GSM and CDMA mobile businesses to all provinces, autonomous regions and municipalities across China.

On August 19, 2008, CUCL established a wholly-owned subsidiary, Unicom Huakai Telecommunications Company Limited, or Unicom Huakai, as a limited liability company under the laws of the PRC. Unicom Huakai is principally engaged in the sales of handsets and telecommunications equipment and the provision of technical services. The paid-in capital of Unicom Huakai is RMB500 million. On December 26, 2008, the name of Unicom Huakai was changed to Unicom Vsens Telecommunications Company Limited.

Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China

Following the approval by our independent shareholders and the shareholders of the A Share Company and upon the satisfaction of all other conditions, in January 2009, we completed our acquisitions, through CUCL, of certain telecommunications business and assets from Unicom Group and Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009), including:

the fixed-line business across 21 provinces in southern China operated by Unicom Group and Netcom Group and/or their respective subsidiaries and branches (but not the underlying fixed assets) and the local access telephone business in Tianjin Municipality operated by Unicom Group and related fixed assets (other than land and buildings) necessary for the operation of such local access telephone business and/or respective subsidiaries and branches;

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the backbone transmission assets in 10 provinces in northern China owned by Netcom Group and/or its subsidiaries;

100% of the equity interest in Unicom Xingye, a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Unicom Group;

100% of the equity interest in China Information Technology Designing & Consulting Institute Company Limited, or CITC, a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Unicom Group; and

100% of the equity interest in New Guoxin Telecom Corporation of China Unicom, or New Guoxin, a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Unicom Group.

The total consideration for the above acquisitions is approximately RMB4.43 billion, payable in cash. Following the completion of these acquisitions, the coverage of our fixed-line services expanded to all 31 provinces, autonomous regions and municipalities across China. We believe that these acquisitions will help integrate and optimize our business and resources and enhance our overall competitive position.

In addition, in order to operate the fixed-line business in the 21 provinces in southern China, on December 16, 2008, CUCL entered into a network lease agreement, or the initial network lease agreement, with Unicom Group, Netcom Group and Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, to lease on an exclusive basis the telecommunications networks in those provinces, which are held by Unicom New Horizon and are necessary for the operation of the fixed-line business in southern China. The initial network lease agreement became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China and was for an initial term of two years effective from January 2009. On October 29, 2010, CUCL entered into a network leasing agreement, or the 2011-2012 network lease agreement, with Unicom New Horizon, which was for an initial term of two years effective from January 1, 2011 and was renewable at the option of CUCL with at least two months' prior notice on the same terms and conditions, except for the future lease fee which will remain subject to further negotiations between the parties. The annual lease fee paid by CUCL under the 2011-2012 network lease agreement for the years ending December 31, 2011 and 2012 was RMB2.4 billion and RMB2.6 billion, respectively. In December 2012, CUCL acquired the entire equity interest in Unicom New Horizon. See 2012 Acquisition.

Mutual Investment with Telefónica, S.A.

On September 6, 2009, we entered into a share subscription agreement with Telefónica, S.A., or Telefónica, one of our shareholders, to strengthen our cooperation. Pursuant to this agreement, we and Telefónica agreed to make a mutual investment in the amount of the equivalent of US\$1 billion in each other through acquisitions of shares in the other party. On October 21, 2009, we and Telefónica completed such mutual investments which were implemented by way of the subscription by Telefónica of 693,912,264 new ordinary shares in the capital of our company at a price of HK\$11.17 each and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica at a price of Euro17.24 each to us. In addition, on September 6, 2009, we entered into a strategic alliance agreement with Telefónica, pursuant to which Telefónica and we agreed to establish a strategic alliance to strengthen the business of each party and achieve synergies by cooperation in various fields based on our respective networks, business model and experience.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares in the capital of Telefónica for aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica, through its wholly-owned subsidiary, Telefónica International, acquired 282,063,000 ordinary shares in the capital of our company for aggregate consideration of approximately US\$500,000,000 in several transactions executed in the period between January 25, 2011 and September 7, 2011. In addition, Chang Xiaobing, our Chairman and Chief Executive Officer, as our designated representative, was appointed in May 2011 as a director on the board of directors of Telefónica.

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On June 10, 2012, China Unicom Group Corporation (BVI) Limited (formerly known as China Netcom Group Corporation (BVI) Limited), or Unicom Group BVI, a wholly-owned subsidiary of Unicom Group, entered into the Share Purchase Agreement for the Sale and Purchase of Shares in China Unicom (Hong Kong) Limited, as amended, pursuant to which it had agreed to acquire from Telefónica an aggregate of 1,073,777,121 ordinary shares in the capital of our company at a price of HK\$10.02 per share and for an aggregate consideration of HK\$10,759,246,752.42. Pursuant to the agreement, Telefónica also undertook that for a period of 12 months from the date of the agreement, it shall not, directly or indirectly, sell, transfer or dispose of any of our ordinary shares held, directly or indirectly, by it as at the date of the agreement, except for any transfer of ordinary shares pursuant to the agreement or to any of its affiliates. The acquisition was completed on July 30, 2012.

2011 Acquisition

In December 2011, we completed our acquisitions through Broadband Online, a wholly-owned subsidiary of CUCL, of the entire equity interest in Unicom NewSpace from Unicom Group for a total cash consideration of RMB158 million. Unicom NewSpace primarily engages in mobile value-added business in China.

2012 Acquisition

In December 2012, we completed our acquisition through CUCL of the entire equity interest in Unicom New Horizon from Unicom Group for a total cash consideration of RMB12,165,750,000. The assets of Unicom New Horizon consist of fixed-line telecommunications network assets located in 21 provinces in southern China and the rights and liabilities of Unicom New Horizon relating to its business operations.

Our Relationship with Unicom Group

Unicom Group holds the licenses required for our telecommunications businesses and we derive our rights to operate our businesses from our status as a subsidiary of Unicom Group. Unicom Group undertook to hold and maintain all licenses received from the MIIT in connection with our businesses solely for our benefit during the term of such licenses and at no cost to us. In addition, Unicom Group undertook to take all actions necessary to obtain and maintain for our benefit such governmental licenses or approvals as we shall require to continue to operate our businesses. Unicom Group also agreed not to engage in any business which competes with our businesses other than the then-existing competing businesses of Unicom Group and to grant us a right of first refusal in relation to any government authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service. Finally, Unicom Group also gave us an undertaking not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future, except through us.

In connection with the restructuring of Unicom Group and the acquisitions of Unicom New Century, Unicom New World and Unicom International, we entered into a number of agreements with Unicom Group pursuant to the two-step process described in **A. Development and History of the Company** **Two-Step Voting Arrangements** below. These agreements expired on December 31, 2010. On October 29, 2010, CUCL and Unicom Group entered into a new integrated services agreement, or the 2010 integrated services agreement, to provide certain services and facilities to each other for a term of three years commencing on January 1, 2011. The 2010 integrated services agreement expired on December 31, 2013, and was renewed on October 24, 2013 through a new integrated services agreement, or the 2013 integrated services agreement, for a term of three years commencing on January 1, 2014 and expiring on December 31, 2016. See **B. Related Party Transactions** under Item 7 for a detailed description of our agreements with Unicom Group.

Set forth below is our shareholding structure as of April 10, 2014.

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Two-Step Voting Arrangements

As a result of a series of internal restructurings of Unicom Group's shareholding in us following our IPO, Unicom BVI became our direct controlling shareholder, which in turn is directly controlled by the A Share Company and indirectly controlled by the Unicom Group. The A Share Company's business is limited to indirectly holding the equity interest in Unicom without any other direct business operations. The A Share Company was listed on the Shanghai Stock Exchange in 2002. In order to allow public shareholders of the A Share Company to indirectly participate in our shareholders' meeting, a voting mechanism was designed in accordance with the articles of association of Unicom BVI and the A Share Company. Under this voting mechanism, before Unicom BVI votes on certain proposals at our shareholders' meeting, the A Share Company must first convene a shareholders' meeting to consider the same proposals in order to direct Unicom BVI to vote the shares in our company indirectly held by the A Share Company through Unicom BVI. Unicom Group can similarly direct the voting in respect of its direct equity interest in Unicom BVI.

The voting mechanism described above, however, will not apply to the approval process for any related party transaction between us or our subsidiaries and Unicom Group or its subsidiaries, on which Unicom BVI will not be permitted to vote under the Rules Governing the Listing of Securities on HKSE, or the HKSE Listing Rules. Those related party transactions would require the separate approvals of the public shareholders of each of our company and the A Share Company. We and the A Share Company therefore created the two-step voting arrangements, pursuant to which each related party transaction between us or our subsidiaries and Unicom Group or its subsidiaries will consist of an initial agreement and a further agreement. The initial agreement would be entered into by Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) on the one hand and the A Share Company or Unicom BVI on the other hand. The initial agreement would contain the following terms:

the closing of the initial agreement would be subject to (i) the successful transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries, and (ii) the approval of the further agreement by our independent shareholders; and

Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) would agree and acknowledge that all rights and obligations under the initial agreement can be transferred to us or our subsidiaries without any further consent requirements.

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The initial agreement will constitute a related party transaction of the A Share Company and, if certain thresholds are met, will require the approval of the public or independent shareholders of the A Share Company under the rules of the Shanghai Stock Exchange. The further agreement would be entered into by the A Share Company or Unicom BVI, on the one hand, and us or our subsidiaries, on the other hand, and will provide for the transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries. The further agreement will constitute a related party transaction of our company and, if certain thresholds are met, will require the approval of our public or independent shareholders under the HKSE Listing Rules. We expect, to the extent the nature of a particular related party transaction allows, the two-step voting arrangements to apply as described above. However, when we or our subsidiaries are the providers, rather than recipients, of certain services, the two-step voting arrangements will need to be adjusted so that the process as described above is effectively reversed, such that the initial agreement is entered into by us or our subsidiaries rather than Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) with the A Share Company or Unicom BVI. Accordingly, Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries), rather than us or our subsidiaries, will be a party to the further agreement. The arrangements (including the conditions) will apply correspondingly. This two-step structure will be applied in all related party transactions between us or our subsidiaries and Unicom Group or its subsidiaries and will effectively require the separate approvals of the public or independent shareholders of each of Unicom and the A Share Company for such related party transactions.

Capital Expenditures and Divestitures

See *Liquidity and Capital Resources* *Capital Expenditures* under Item 5 for information concerning our principal capital expenditures for the previous two years and those planned for 2014. We currently do not have any significant divestiture in progress.

B. Business Overview
General

We are an integrated telecommunications operator in China providing mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services to our customers. We, China Mobile and China Telecom are the three major telecommunications operators in China. See *A. History and Development of the Company* *Restructurings of the Telecommunications Industry*.

In 2013, 3G services continued to be the largest driver of our revenue growth. The total number of our 3G subscribers increased by 60.3% from 76.46 million as of December 31, 2012 to 122.60 million as of December 31, 2013, and service revenue from our 3G services increased by 50.2% from RMB59.80 billion in 2012 to RMB89.80 billion in 2013. As a percentage of our total service revenue from mobile services, service revenue from 3G services increased from 47.4% in 2012 to 59.4% in 2013. In addition, our fixed-line broadband services continued to grow. Service revenue from fixed-line broadband services increased by 10.6% compared with 2012, accounting for 53.2% of total service revenue from the fixed-line services. We adjusted the basis for the classification of fixed-line broadband subscribers in 2013 by including Internet leased line users and excluding LAN user account conversion in order to be comparable to our main competitors in China. The number of fixed-line broadband subscribers and amount of service revenue from fixed-line broadband services in 2011 and 2012 was restated on the same basis.

Mobile Services

Our mobile services consist of GSM and 3G mobile services. Our revenue from mobile services, number of mobile services subscribers and usage of mobile services continued to grow in 2013, primarily driven by the growth of our 3G mobile services. Revenue from our mobile services was RMB207.53 billion in 2013, of which, service revenue from our mobile services increased by 19.9% from RMB126.04 billion in 2012 to RMB151.13 billion in 2013, accounting for 60.0% and 63.4% of our total service revenue in 2012 and 2013, respectively.

The following table sets forth selected historical information for our mobile operations and our subscriber base for the periods indicated.

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	As of or for		
	the year ended December 31,		
	2011	2012	2013
Number of subscribers (in thousands)	199,660	239,312	280,983
Estimated market share in our service areas ⁽¹⁾	20.5%	21.6%	22.8%
Average minutes of usage per subscriber per month (MOU) ⁽²⁾	303.8	306.4	296.1
Average revenue per subscriber per month (ARPU) (in RMB) ⁽³⁾	47.3	47.9	48.2

(1) Market share in a given area is determined by dividing the number of our mobile subscribers in the area by the total number of mobile subscribers in the area.
Source: Data publicly disclosed by the mobile operators.

(2) MOU is calculated by dividing the total minutes of usage during the period by the average number of our mobile services subscribers during the period, and dividing the result by the number of months in the relevant period.

(3) ARPU is calculated by dividing the sum of revenue from mobile services during the relevant period by the average number of our mobile services subscribers during the period, and dividing the result by the number of months in the period.

Our total number of mobile subscribers increased by 17.4% from 239.31 million as of December 31, 2012 to 280.98 million as of December 31, 2013, which was mainly due to the increase in our 3G subscribers. The MOU of our mobile services decreased from 306.4 minutes in 2012 to 296.1 minutes in 2013. This was mainly due to an increase in 3G subscribers who are users with relatively lower usage of telecommunications services, despite the increase in the subscribers of our 3G services, which has significantly higher MOU than our GSM services. The overall ARPU of our mobile services increased by 0.6% from RMB47.9 in 2012 to RMB48.2 in 2013 despite the ARPU of each of our GSM and 3G services continued to decrease in 2013 compared to 2012. This was mainly due to the continuing change of revenue mix between our GSM services and 3G services. 3G services have a significantly higher ARPU than GSM services. As the service revenue from 3G services increased as a percentage of total service revenue from the mobile services from 47.4% in 2012 to 59.4% in 2013, the overall ARPU of our mobile services increased.

3G Mobile Services

Our 3G mobile services primarily consist of 3G voice services and 3G non-voice services. Our 3G voice services enable our subscribers to make and receive phone calls with a mobile handset at any point within the coverage area of our mobile telecommunications networks. Our 3G non-voice services primarily include wireless Internet, mobile reading, mobile music, WO App Store and other wireless information services.

Subscriber. Our total number of 3G subscribers increased by 60.3% from 76.46 million as of December 31, 2012 to 122.60 million as of December 31, 2013 (which includes 6.53 million wireless data card subscribers). The increase was primarily due to our efforts in developing our 3G services, including expanding and enhancing the sales capabilities of distribution channels, improving 3G tariff package offerings, optimizing 3G contract plans and promoting integrated 2G and 3G services.

MOU and ARPU. With respect to our 3G mobile services, MOU decreased by 17.5% from 492.3 minutes in 2012 to 406.0 minutes in 2013 and ARPU decreased by 12.8% from RMB86.1 in 2012 to RMB75.1 in 2013. The decrease in our MOU and ARPU is mainly attributed to our business strategy to increase the number of our 3G subscribers, which resulted in an increased proportion of new subscribers who are users with relatively lower usage of telecommunications services and lower contribution to our revenue.

3G Voice Services. The total 3G voice usage increased from 313.1 billion minutes in 2012 to 457.2 billion minutes in 2013, primarily as a result of the increase in our 3G subscribers.

3G Non-Voice Services. In 2013, the data usage of 3G handset users reached 208.97 billion MB, representing an increase by 122.3% from 93.99 billion MB in 2012, which was largely due to the further promotion of subscribers' data usage, as well as the increasing exploration of cooperation opportunities with Internet companies. The average data usage per 3G handset user per month was 185.6 MB in 2013. As of December 31, 2013, we had 110 million registered subscribers of WO App Store and 25.47 million registered subscribers of mobile music.

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GSM Mobile Services

Our GSM mobile services primarily consist of GSM voice services and non-voice services. Our GSM voice services enables our subscribers to make and receive phone calls with a mobile handset at any point within the coverage area of our mobile telecommunications networks and includes local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. Our GSM non-voice services include mobile Internet, SMS, Cool Ringtone (a personalized ring-back tone service) and other wireless information services.

Subscriber. Our total number of GSM mobile subscribers decreased by 2.8% from 162.86 million as of December 31, 2012 to 158.38 million as of December 31, 2013. The decrease was primarily attributable to our business strategy to accelerate the migration of our GSM subscribers to our 3G services and the intensified competition among the telecommunications operators in China.

MOU and ARPU. With respect to our GSM mobile services, MOU decreased by 5.3% from 245.4 minutes in 2012 to 232.3 minutes in 2013, and ARPU decreased by 7.6% from RMB34.2 in 2012 to RMB31.6 in 2013. The decrease in our MOU and ARPU was primarily attributable to (i) the migration of certain mid- and high-end 2G subscribers to 3G network, (ii) the intensified competition among the telecommunications operators in China and (iii) the fact that a significant portion of our new users consists of users from rural areas, many of whom tend to have less usage of telecommunications services and to be more cost-sensitive than users from urban areas.

GSM Voice Services. The total voice usage of our GSM mobile services decreased by 5.2% from 475.7 billion minutes in 2012 to 450.9 billion minutes in 2013, which was primarily due to the decreases in the total number of our GSM mobile subscribers and the MOU of our GSM mobile services.

GSM Non-Voice Services. Our GSM mobile Internet subscribers decreased by 24.7% from 75.07 million as of December 31, 2012 to 56.56 million as of December 31, 2013, representing a decrease in the penetration rate from 46.1% to 35.7%. The data usage volume of our GSM subscribers increased by 113.5% from 28.49 billion MB in 2012 to 60.83 billion MB in 2013, which was mainly attributable to our efforts in enhancing GPRS data volume management and bundled sales and marketing. A total of 48.37 billion SMSs were transmitted by our GSM mobile subscribers in 2013, representing a decrease of 21.0% compared to 2012, which was principally due to the migration of certain mid- and high-end GSM subscribers to 3G network, as well as the substitution of mobile Internet applications, such as QQ, micro message and micro blog, which were widely accepted, for our SMS service.

Fixed-Line Services

We are a leading fixed-line broadband and communications operator in northern China. Following our merger with China Netcom in October 2008, which previously provided mainly fixed-line services in 10 provinces in northern China, and our acquisition of the fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we offer a wide range of fixed-line services nationwide in China, including (i) fixed-line broadband services and data communications services, (ii) fixed-line voice services, include local and long distance fixed-line voice services and value-added services and (iii) other services.

Our revenue from fixed-line services was RMB86.57 billion in 2013, of which service revenue from our fixed-line services increased by 3.9% from RMB83.21 billion in 2012 to RMB86.49 billion in 2013, accounting for 39.6% and 36.3% of our total service revenue in 2012 and 2013, respectively. In 2013, we achieved stable increase in revenue from our fixed-line services, mainly attributable to the proactive implementation of broadband network upgrades and the promotion of the development of integrated mobile and fixed-line services.

Fixed-Line Broadband Services and Data Communications Services

Fixed-Line Broadband Services

Fixed-line broadband services are one of our emphases as part of our strategy to focus on high growth services and also the foundation for the mobile broadband network and services. The growth in fixed-line broadband services has been driven by the increasing affordability and rising use of personal computers and other Internet access devices, gradual recognition by businesses of the importance of information and the proliferation of content and applications, such as online games and video-on-demand. We are a leading provider of fixed-line broadband services in our fixed-line northern service region and we seek to maintain this leading position by capitalizing on our extensive fixed-line network, large customer base, experienced sales force, established brand and strategy of multi-service bundling.

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In 2013, we continued to upgrade our fiber optic transmission network and improved access speed. As of December 31, 2013, our fixed-line broadband subscribers increased by 10.4% to 64.65 million, of which subscribers with 4M-and-above bandwidth accounted for 78.8% of all fixed-line broadband subscribers, representing an increase of 18.3 percentage points from the end of 2012. Through strengthening the marketing of integrated mobile and fixed-line services, we promoted IPTV/Internet TV business, which effectively developed fixed-line broadband subscribers. The total number of our subscribers of fixed-line broadband content and applications reached 20.73 million, accounting for 32.1% of all fixed-line broadband subscribers. Our fixed-line broadband ARPU decreased by 1.6% from RMB62.4 in 2012 to RMB61.4 in 2013, primarily due to intensified competition from other PRC telecommunications operators and broadband network providers. The number of fixed-line broadband subscribers, the amount of service revenue from fixed-line broadband services and the corresponding ARPU in 2011 and 2012 were restated due to the adjustment of the basis for the classification of fixed-line broadband subscribers.

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

	As of December 31,		
	2011	2012	2013
Number of fixed-line broadband subscribers (in thousands) ⁽¹⁾	50,685	58,540	64,647

- (1) We adjusted the basis for the classification of fixed-line broadband subscribers in 2013 by including Internet leased line users and excluding LAN user account conversion in order to be comparable to our main competitors in China. The number of fixed-line broadband subscribers in 2011 and 2012 was restated on the same basis.

Data Communications Services

We are a leading provider of data communications services in our fixed-line northern service region. We offer data products, such as those based on digital data networks, or DDN, frame relay, asynchronous transfer mode, or ATM, and Internet protocol-virtual private network, or IP-VPN. We also offer leased line products, including domestic and international leased circuits. Our customers for these services include government entities, large financial institutions and other domestic and multinational businesses, Internet service providers and other telecommunications operators. As of the end of 2013, we have established business cooperation relationships with 574 overseas operators in 250 countries and regions and multinational corporate customers to provide various international data communications products and services, such as international voice and data services. In 2013, we continued to offer full-scale data communications services to international operators and domestic and international corporate customers. We have also improved our capabilities to offer cross-border data communications and integrated information services.

Fixed-line Voice Services

Our fixed-line voice services consist of local voice, domestic long distance, international long distance, interconnection and PHS services. As domestic mobile operators launched service packages at competitive prices, mobile roaming tariffs were lowered, and the migration of voice usage from fixed-line to mobile continued. In 2013, leveraging on our company's full-service advantage, we enhanced market development in areas of customer premises network, or CPN, and rural markets, as well as strengthened the marketing of integrated services. For example, we actively promoted bundled products and services marketed under the brand WO Family. As of December 31, 2013, the number of our WO Family subscribers increased by 4.58 million to 19.46 million.

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As of December 31, 2013, the number of our fixed-line subscribers (including PHS subscribers) decreased by 4.7% to 87.64 million from 91.96 million as of December 31, 2012. The decrease was primarily due to a decrease in the number of our PHS subscribers and fixed-line telephone service subscribers. The following table sets forth the information of our fixed-line subscribers as of the dates indicated:

	2011	As of December 31, 2012 (in thousands)	2013
Number of fixed-line subscribers⁽¹⁾			
Fixed-line telephone service Residential	85,064	86,535	83,764
PHS	7,787	5,422	3,879
Total	92,851	91,957	87,643

(1) Fixed-line subscribers consist of all fixed-line in service as well as PHS subscribers. We calculate PHS subscribers based on the number of active telephone numbers for our PHS services. In cases where a PHS subscriber uses the same telephone number as an access line in service, the designation as a PHS subscriber or access line in service depends on which service is first activated. We increase our total number of fixed-line subscribers as soon as practicable after activation of the service. We remove a fixed-line subscriber from the total number of fixed-line subscribers as soon as practicable after the fixed-line subscriber deactivates the service voluntarily or three months after the date on which the fixed-line subscriber's bill becomes overdue.

We are in the process of encouraging our PHS subscribers to upgrade their PHS plans to our mobile plans. As a result of these efforts, the number of our PHS subscribers significantly decreased over the past few years.

Local Voice Services

As a result of mobile substitution, our fixed-line local voice traffic has continued to decrease in recent years. As fixed-line broadband services further develop, our Internet dial-up usage has also continued to decrease. The following table sets forth information regarding usage of our local voice services for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
Usage of local calls (pulse in millions)⁽¹⁾			
Total usage	125,944	81,820	64,793
Internet dial-up usage	668	324	162
Total usage excluding Internet dial-up usage	125,275	81,496	64,631

(1) Pulses are the billing units for calculating local telephone usage fees.

Long Distance Voice Services

We offer traditional long distance services and VoIP long distance services. In recent years, due to the general decline of our fixed-line services and competition from software applications that allow users to make long distance calls over the Internet, our long distance services has been adversely affected.

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The following table shows the total minutes of domestic long distance calls carried through our long distance networks for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
Total minutes of domestic long distance calls (minutes in millions)⁽¹⁾			
Traditional	14,033	12,170	11,143
VoIP	7,036	5,520	4,447
Total	21,069	17,690	15,590

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our long distance networks.

The following table sets forth certain information related to the usage of our international long distance services for the periods indicated:

	For the Year Ended December 31,		
	2011	2012	2013
International long distance outbound call minutes (minutes in millions)⁽¹⁾⁽²⁾			
Traditional	214	282	197
VoIP	270	229	199
Total	484	511	396

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our international long distance networks.

(2) Includes long distance outbound calls made to Hong Kong, Macau and Taiwan.

Fixed-Line Value-Added Services

In addition to fixed-line telephone voice services, we offer a wide range of value-added services on our fixed-line networks. Our value-added services generate additional usage on our networks and increase our average revenue per fixed-line subscriber. Our major fixed-line value-added services include Personalized Ring and caller identification services. Personalized Ring services enable our fixed-line subscribers to personalize the ring-back tone for incoming calls.

Interconnection and Roaming Arrangements**Interconnection**

Interconnection refers to the arrangements that permit the connection of our telecommunications networks with other networks. Our mobile and fixed-line networks interconnect with Unicom Group's networks. Under current arrangements, settlement between Unicom Group and us is based on an internal settlement standard that takes into account either the internal costs of the relevant networks or the government standard applicable between third-party operators, whichever is the more favorable to us.

We earn interconnection fees for terminating or transiting calls that originate from other domestic telecommunications operators' networks and pay interconnection fees to other operators for calls originating from our networks that are terminated on their networks. We earn and pay such fees in respect of mobile calls, local and domestic and international long distance calls and Internet services. We are required to pay the

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interconnection fees regardless of our ability or inability to collect the tariff from our subscribers. Interconnection charges are accrued on a monthly basis based on the actual call volume and applicable tariff rates.

All interconnection and settlement arrangements among domestic telecommunications operators in China are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MIIT. Some of the agreements pursuant to which we interconnect with other domestic operators were entered into by Unicom Group. We have entered into an agreement with Unicom Group pursuant to which we have agreed with Unicom Group that the costs and benefits arising under these agreements, as they relate to our operations, will be incurred to our account.

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For additional information about our domestic and international interconnection arrangements, see B. Business Overview Regulatory and Related Matters under Item 4 and B. Related Party Transactions under Item 7.

Roaming

We provide roaming services, which allow our subscribers to access our mobile services while they are physically outside of their registered service area or in the coverage areas of other mobile networks in other countries and regions with which we have roaming arrangements. As of March 31, 2014, we had roaming arrangements for (i) GSM international voice and SMS services with 575 operators in 250 countries and regions, (ii) GPRS international inbound data services with 492 operators in 206 countries and regions and for international GPRS outbound data services with 444 operators in 189 countries and regions, and (iii) 3G services with 343 WCDMA operators in 133 countries and regions.

A mobile subscriber using roaming services is charged at our roaming usage rate for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming charges with international operators in accordance with roaming agreements between Unicom Group and each of the international operators.

Networks

We operate an advanced network system to support our integrated operations. The backbone of the system is a nationwide fiber optic transmission network, which serves as the common platform for our mobile, fixed-line telephone, broadband and data services. We generally utilize a centralized network planning and equipment selection process, which ensures uniform nationwide design and network compatibility. After our merger with China Netcom in October 2008, we have actively integrated our network resources to improve our network quality and capacity.

Mobile Networks

Our mobile network generally consists of:

cell sites, which are physical locations, each equipped with a base station that houses transmitters, receivers and other equipment used to communicate through radio channels with subscribers' mobile handsets within the range of a cell;

base station controllers, which connect to, and control, the base stations;

mobile switching centers, which control the base station controllers and the routing of telephone calls; and

a transmission network, which links the mobile switching centers, base station controllers, base stations and the public switched telephone network.

We have deployed GSM and WCDMA mobile networks. Our GSM mobile network mainly operates at 900 MHz. We have also deployed GSM technology that operates at 1800 MHz in major metropolitan areas to supplement the capacity of our existing mobile network. We use 2x6 MHz of spectrum in the 900 frequency band and 2x20 MHz of spectrum in the 1800 frequency band for our GSM network in most of our service areas. We use 2x15 MHz of spectrum in the 2100 frequency band for our WCDMA mobile network. On December 4, 2013, we were granted the license to operate LTE/4G digital cellular mobile service (TD-LTE) by the MIIT. We have started to deploy TD-LTE networks using 2300-2320 MHz and 2555-2575 MHz of spectrum, with 40 MHz frequency resources in total. The 2300-2320 MHz of spectrum only applies to indoor networks.

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As of December 31, 2013, we had approximately 422,000 GSM base stations, representing an increase by 2.7% from December 31, 2012. As of December 31, 2013, our GSM network coverage reached substantially all villages and towns in China, except for certain areas in western China.

We have devoted significant resources in developing our 3G networks and have established one of the biggest WCDMA networks in the world. As of December 31, 2013, we had approximately 407,000 3G base stations, representing an increase of 23.0% from December 31, 2012. As of December 31, 2013, our 3G network coverage reached cities at county level and above throughout China as well as villages and towns in eastern and central China and developed areas of western China. In addition, we have completed the upgrade of our whole 3G networks to HSPA+ (i.e., evolved high-speed packet access) in China, and have also upgraded 3G base stations installed with multi-carrier sectors to DC-HSPA+, which can offer higher downlink speed of 42Mbps.

Fixed-Line Networks

We operate fixed-line networks which provide extensive coverage in China. These networks are technologically advanced and conducive to the introduction of the next generation fixed-line network and 3G technologies. These networks support a wide range of end-to-end fixed-line telecommunications services and enable customized products to be delivered to meet a variety of telecommunications needs in real-time.

Our fixed-line networks consist of fixed-line telephone networks, broadband Internet and data networks, transmission networks, value-added service platforms, IT support systems and related infrastructures. Our transmission networks consist primarily of fiber-optic based networks, which cover our major service regions, supplemented by satellite transmission and digital microwave links.

We have integrated our resources to optimize and improve the transport capabilities of our IP networks and improved our long-distance soft-switch network capability. In addition, we have fully implemented the upgrade of broadband connection speed and our broadband network capacity was substantially enhanced. By the end of 2013, the number of fixed-line broadband access ports increased by 12.61 million to 119.07 million, up by 11.8% from the end of 2012, of which the number of access ports with FTTH/B accounted for 71% of total broadband access ports. Our international Internet outbound bandwidth reached 960G, our submarine cable capacity reached 2,086G, and our international cross-continental cable capacity reached 2,561G.

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide sales and distribution network. We implement our marketing and sales strategies under a single unified brand WO and distribute our services through a variety of distribution channels, consisting of (i) self-owned channels, including proprietary sales outlets and direct sales forces targeting retail and corporate customers, (ii) social channels, including cooperative sales outlets, exclusive sales outlets and agency sales outlets, and (iii) electronic distribution channels, including self-owned and third-party channels online e-stores. In recent years, we have continued developing our self-owned sales channels and strategically expanding our social channels. In particular, for our 3G services, in addition to the full use of our self-owned channels, we have also focused on using high-quality social channels, such as large brand name electronics retail chains and electronics outlets in China, to achieve better sales results. Furthermore, we continued promoting and optimizing our nationwide e-sales system, which has effectively supplemented our traditional sales channels and improved our service quality. Meanwhile, we commenced 4G promotion at year-end 2013, so as to further enhance WO brand value and corporate brand value.

Customer Service

We provide customer services through our nationwide sales outlets, hotline number 10010, VIP hotline number 10018, online sales outlets, handset online stores, SMSs, official micro blog and other channels. Our customer services typically include inquiries, service initiation and termination, sales and response to customer complaints and suggestions. Since 2009, we have provided 3G-dedicated customer service and have established over 300 WO brand stores to enhance our customers' experience. In recent years, we continued to improve our customer service quality and created 3G Customer Service Centers + VIP Customer Managers, a 3G-dedicated customer service model for our 3G subscribers. In 2013, we initiated the Smart Customer Care Project, and began to take broadband service pre-orders through 10010 Hotline.

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Information Systems

We have established multiple information technology support systems at the headquarters level and comprehensive information systems in each province, autonomous region and municipality to support our business and management. For business support, we have established core systems composed of a customer relationship management system and a comprehensive billing and accounting system to support our business operations. In addition, we have established integrated systems, such as integrated ECS, integrated electronic sales management system featuring full services, integrated business support system for corporate group customers, integrated channels management system, integrated account settlement system and integrated partnership management system to achieve integrated and centralized management of our businesses and enhance our sales and services capabilities through electronic channels. For our management support, we focused on the construction and optimization of a comprehensive enterprise resource planning system to optimize our resource allocations and enhance our operational efficiency. For our internal data service capabilities, we have established an integrated data analysis system and launched the construction of a large data platform to support our appraisal management and operational analysis with data. For the application of new technologies, we have launched the construction of our private cloud and tried to enhance the performance of the systems with new technologies to lower the overall cost of information technology.

Research and Development

We focus on technology innovation in coordination with our various business departments in order to provide technical support to the development of our various businesses. Our research and development activities are focused primarily on 3G and 4G technologies and their further development, cloud computing, big data, Internet of things, intelligent channels, SDN, next generation Internet technologies and businesses, operational planning and development of value-added services. In addition, part of our research and development requirements is fulfilled by our parent company, Unicom Group, in return for a service fee. See **B. Related Party Transactions** under Item 7 below. With respect to research and development for our fixed-line broadband services, we mainly rely on Unicom Group's National Laboratory of Next Generation Network in Broadband Application, which is China's first national level engineering laboratory in the information and telecommunications industry, focusing on the research of next generation Internet IPv6, Triple-Play and 3G operating and supporting systems. We also participate in the national research project on LTE, closely follow the development of LTE technologies and standards, carry out LTE technology related researches and experiments and engage in the formulation of LTE enterprise standards. In 2013, we completed the lab test and outdoor experiment of 4G LTE network and terminals. We have applied for a number of patents and software copyrights in China.

Competition

As a result of the telecommunications industry restructuring in 2008, the Chinese telecommunications market now has three key providers of basic telecommunications service—China Telecom, China Mobile and us—in addition to thousands of value-added service providers and other companies that provide telecommunications or related services. We compete with China Mobile and China Telecom in virtually all aspects of our services, including mobile services, fixed-line voice services, broadband services and data communications services. We believe that the telecommunications industry restructuring in 2008 has provided an opportunity for us to integrate our various resources with those of China Netcom to create business synergies for the post-merger Unicom. However, we also believe that the restructuring may cause the competition in the telecommunications industry in China to be more intensified and complex in the future. In particular, as 3G services in China has experienced rapid growth since 2009 and has become a main growth driver for us and our major competitors, the competition in 3G services has intensified in recent years. In addition, as Unicom Group, China Mobile and China Telecom have been granted the license to operate LTE/4G digital cellular mobile service (TD-LTE) by the PRC Government in December 2013, we are also expected to face intensive competition in the next generation telecommunications services when the relevant technologies become mature and commercialized. In addition, the PRC Government recently published a series of regulations to encourage non-State-owned companies to enter PRC telecommunications industry, including the proposals to permit companies engaged in the resale of mobile communications services to acquire mobile communications services from China Mobile, China Telecom or us and repackaging and rebranding such services for resale to end users, and we may face competition from these non-State-owned companies. We also face increasing competition from other service providers, such as cable television companies and Internet service providers, which compete against our broadband access, voice and messaging services and other services by offering telecommunications or related services. See **D. Risk Factors—Risks Relating to Our Business**. We face intense competition from other telecommunications operators, including China Mobile and China Telecom, and other companies that provide telecommunications or related services, which may materially adversely affect our financial condition, results of operations and growth prospects. and **D. Risk Factors—Risks Relating to Our Business—Competition from foreign-invested operators** may further increase the competition for employees, exacerbate price competition and increase our operating expenses, thereby adversely affecting our financial condition, results of operations and growth prospects. under Item 3, respectively.

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Strategic Alliances with Telefónica

On January 30, 2009, we entered into a business co-operation framework agreement with Telefónica. Pursuant to the framework agreement, Telefónica and we agreed to share business experience and strengthen cooperation in the areas of mobile communications, broadband applications, international business, marketing and sales and telecommunications services to corporate clients. On September 6, 2009, we entered into a strategic alliance agreement with Telefónica, pursuant to which Telefónica and we agreed to establish a strategic alliance to strengthen the business of each party and achieve synergies by cooperation in various fields based on our respective networks, business models and experience. On October 21, 2009, we and Telefónica completed a mutual investment in the amount of the equivalent of US\$1 billion in each other, which was implemented by way of the subscription by Telefónica of 693,912,264 new shares in our Company and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica to us.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares in the capital of Telefónica for aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica, through its wholly-owned subsidiary, Telefónica International, acquired 282,063,000 ordinary shares in the capital of our company for aggregate consideration of approximately US\$500,000,000 in several transactions executed in the period between January 25, 2011 and September 7, 2011. In addition, Chang Xiaobing, our Chairman and Chief Executive Officer, as our designated representative, was appointed in May 2011 as a director on the board of directors of Telefónica.

On June 10, 2012, Unicom Group BVI, a wholly-owned subsidiary of Unicom Group, entered into the Share Purchase Agreement for the Sale and Purchase of Shares in China Unicom (Hong Kong) Limited, as amended, pursuant to which it had agreed to acquire from Telefónica an aggregate of 1,073,777,121 ordinary shares in the capital of our company at a price of HK\$10.02 per share and for an aggregate consideration of HK\$10,759,246,752.42. Pursuant to the agreement, Telefónica also undertook that for a period of 12 months from the date of the agreement, it shall not, directly or indirectly, sell, transfer or dispose of any of our ordinary shares held, directly or indirectly, by it as at the date of the agreement, except for any transfer of ordinary shares pursuant to the agreement or to any of its affiliates. The acquisition was completed on July 30, 2012.

Trademarks

We conduct our businesses under the Unicom name and logo. Unicom Group is the registered proprietor in China of the Unicom trademark in English and the trademark bearing the Unicom logo. Unicom Group is also the registered proprietor of the trademark of the word Unicom in Chinese (). Unicom Group has granted us the right to use these trademarks on a royalty-free basis with periodic renewals, and licensed us any trademark that it registers in China in the future which incorporates the word Unicom.

Regulatory and Related Matters

The telecommunications industry in China is subject to a high degree of government regulation. The primary regulatory authority of the Chinese telecommunications industry is the MIIT, established in 2008 as a new ministry under the PRC State Council and the successor of the former Ministry of Information Industry. The NDRC, the Ministry of Commerce and other governmental authorities also maintain regulatory responsibilities over certain aspects of the Chinese telecommunications industry.

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The MIIT, under the supervision of the State Council, is responsible for, among other things:

formulating and enforcing industry policies and regulations, as well as technical standards;

granting telecommunications service licenses;

supervising the operations and quality of services of telecommunications service providers;

allocating and administering telecommunications resources such as spectrum and number resources;

together with other relevant regulatory authorities, formulating tariff standards for telecommunications services;

formulating interconnection and settlement policies between telecommunications networks; and

maintaining fair and orderly market competition among service providers.

The MIIT has established a Telecommunications Administration in each province, autonomous region and municipality, which is mainly responsible for overseeing the implementation of the MIIT's policies and regulations and exercising regulatory authority delegated by the MIIT within that province, autonomous region or municipality.

The NDRC, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. See *Tariff Setting and Price Controls* below.

The MIIT is in the process of drafting a telecommunications law that, once adopted by the National People's Congress of the PRC, will become the basic telecommunications statute and provide the principal legal framework for telecommunications regulations in China. It is currently uncertain when the law will be adopted and become effective. See *D. Risk Factors - Risks Relating to the Telecommunications Industry in China*. Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially adversely affect our financial condition, results of operations and growth prospects. See *Item 3*.

Telecommunications Regulations

On September 25, 2000, the PRC State Council promulgated the Telecommunications Regulations of the People's Republic of China, which came into effect on the same date. All telecommunications activities and related activities within China are subject to the Telecommunications Regulations.

According to the PRC Government, its administration and regulation of the Chinese telecommunications industry is based on the principles of the separation of governmental regulation from enterprise management, the elimination of monopolistic behavior, the encouragement of competition and the promotion of the development of the Chinese telecommunications industry, while also taking into account the principles of openness, equality and fairness. The Telecommunications Regulations regulate all major aspects of the telecommunications industry, including licensing, interconnection, tariffs, resources, services, security, facility construction and access to networks.

Licensing

The PRC Government licenses telecommunications businesses in accordance with their classification. Telecommunications businesses are currently classified into two broad categories of basic services and value-added services. An appendix to the Telecommunications Regulations divides each of the two categories into further sub-categories. On March 21, 2003, the former Ministry of Information Industry amended the categorization in this appendix and the amendments took effect on April 1, 2003. According to the amended appendix:

basic telecommunications services are classified into Category I basic telecommunications services and Category II basic telecommunications services. Category I basic telecommunications services include fixed-line telecommunications services (including fixed-line local, domestic long distance, international long distance and IP telephone services and services related to maintaining international telecommunications facilities), mobile telecommunications services (including 900/1800MHz GSM 2G, 800MHz CDMA 2G and 3G digital cellular mobile telecommunications services), Category I satellite telecommunications services (including satellite mobile telecommunications and international satellite private-line services) and Category I data communications services (including Internet data transmission, international data telecommunications, public telegraph and telex services). Category II basic telecommunications services include trunking telecommunications services (including analogue trunking telecommunications and digital trunking telecommunications services), wireless paging services, Category II satellite telecommunications services (including lease and sales of satellite transponders and very-small-aperture-terminal, or VSAT, telecommunications services), Category II data telecommunications services (including fixed-line domestic and wireless data transmission services), network access services (including wireless network access services and network services from customer premises), services related to maintaining domestic telecommunications facilities and network hosting services.

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value-added telecommunications services are classified into Category I value-added telecommunications services and Category II value-added telecommunications services. Category I value-added telecommunications services include on-line data processing and interchange, domestic multi-party telecommunications, IP-VPN and Internet data center, or IDC, services. Category II value-added telecommunications services include store-and-forward, call center, Internet access and information services.

On March 1, 2009, the MIIT promulgated the Measures on the Administration of Telecommunications Business Licenses, which took effect on April 10, 2009 and superseded the previous measures promulgated by the former Ministry of Information Industry on December 26, 2001.

The measures govern the application for, approval of and regulation of telecommunications business licenses in China. The operation of any basic telecommunications business is subject to the MIIT's approval and grant of License for Operation of Basic Telecommunications Businesses. The operation of any value-added business in two or more provinces, autonomous regions or municipalities is subject to the MIIT's approval and grant of License for Inter-Provincial Operation of Value-Added Telecommunications Businesses. The operation of value-added businesses within a single province, autonomous region or municipality is subject to the approval of the telecommunications authority of the relevant province, autonomous region or municipality and the grant of the License for Operation of Value-Added Telecommunications Businesses. The measures, among other things, lowered the minimum amount of registered capital required for an applicant to enter the basic telecommunications business in China.

After the PRC's accession to the WTO, on December 11, 2001, the PRC State Council promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investments, which took effect on January 1, 2002, and were amended on September 10, 2008, to implement China's commitments to the WTO. Those commitments include the gradual reduction of restrictions on foreign ownership in telecommunications enterprises in China and the step-by-step opening up of the Chinese telecommunications market to foreign enterprises. In recent years, China gradually lifted restrictions for foreign investors in telecommunications enterprises in China and fulfilled its commitment to open up the Chinese telecommunications market. However, the following restrictions on investments in mobile, value-added telecommunications and fixed-line services remain:

for fixed-line services, there is no longer any geographic restriction and foreign ownership may be no more than 49%;

for mobile voice and data services, there is no longer any geographic restriction and foreign ownership may be no more than 49%; and

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for value-added telecommunications services, there is no longer any geographic restriction and foreign ownership may be no more than 50%.

Spectrum and Network Number Resources

The MIIT is responsible for the management of the wireless radio frequency spectrum and the allocation of frequencies within the spectrum. The frequency assigned to a telecommunications operator may not be leased or transferred without the MIIT's approval. Standard fees for usage of the frequencies assigned to cellular telecommunications are charged to telecommunications operators: (i) for the nationwide GSM network frequency, an annual rate of RMB17 million per MHz is charged for the 900 MHz band and an annual rate of RMB14 million per MHz is charged for the 1800 MHz band; (ii) for the nationwide WCDMA network frequency, a standard fee at an annual rate of RMB3.75 million per MHz in 2011, RMB7.5 million per MHz in 2012, RMB11.25 million per MHz in 2013 and RMB15 million per MHz in 2014 and onwards will be charged for the 2100 MHz band; (iii) for any local telecommunications network frequency, an annual rate of RMB1.7 million per MHz is charged for each province for the 900 MHz band, an annual rate of RMB1.4 million per MHz is charged for each province for the 1800 MHz band and an annual rate of RMB1.5 million will be charged for each province for the 2100 MHz band. The standard tariffs for TD-LTE network frequency have not been announced by the PRC Government.

The MIIT is also responsible for the administration of China's telecommunications network number resources. The telecommunications network number resources are owned by the State, which shall charge fees for the use of such resources. Application for the use of number resources by any telecommunications operator is subject to the approval of the MIIT or the relevant provincial telecommunications authority and the payment of certain usage fees. The measures also provide for the procedures for the application, usage and record keeping for the telecommunications operators' use of number resources.

Tariff Setting and Price Controls

The levels and categories of our current tariffs are subject to regulation by various government authorities, including the MIIT, the NDRC, and, at the local level, the relevant provincial Telecommunications Administration Bureaus and price regulatory authorities. Under the Telecommunications Regulations, telecommunications tariffs are categorized into State-fixed tariffs, State-guidance tariffs and market-based tariffs.

The monthly fee and local usage fee for mobile services are regulated as State-fixed tariffs. Leased line and data services (other than ATM service) are charged at State-guidance tariffs, which are determined jointly by the MIIT and the NDRC. Pursuant to the Notice on Adjustment to Tariff Management for Local Fixed-Line Telephone Services issued by the MIIT in 2009, the monthly fee and usage fee for local fixed-line telephone services (including PHS) as well as the long-term leasing fees for circuits leasing are subject to certain tariff ceiling. Domestic long distance services, international long distance services and Hong Kong, Macau and Taiwan long distance services are also currently subject to tariff ceiling.

The Notice on Implementation of Market-Based Tariffs for Certain Telecommunications Services, promulgated jointly by the former Ministry of Information Industry and the NDRC in 2002, specifies the telecommunications businesses to which market-based tariffs are applicable, including VoIP, Internet access services, and certain value-added services provided over fixed-line telephone networks, such as telephone information, caller identification and voice mail. Market-based tariffs shall be applicable to those telecommunications services for which effective competition exists in the market. The tariffs of such telecommunications services are determined at the sole discretion of the operators, and will be implemented after filing with the MIIT or provincial Telecommunications Administration Bureaus, as applicable. There is uncertainty regarding how the MIIT determines the existence of effective competition, as the MIIT has not publicly disclosed the criteria it uses for determining whether a certain type of service should be subject to market-based tariffs. Under the Telecommunications Regulations, cost is the primary basis for tariff setting, but the tariff levels also take into account social and economic development, the development of the telecommunications industry and the purchasing power of the customers. The MIIT has not provided a timetable for tariff deregulation or indicated that operators will eventually be permitted to freely set all tariffs. We expect that increased flexibility in setting certain tariffs will allow us to better respond to changes in market demand and competitive conditions.

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The PRC Government retains the ultimate authority to adopt changes to tariffs. However, the Telecommunications Regulations require the government to hold public hearings before setting or changing important State-tariff rates, which are attended by telecommunications operators, consumers and others. Operators are required to provide complete and adequate cost data and other materials for those hearings.

In January 2014, the State Council announced the removal of the MIIT's approval requirement on the tariff standard of telecommunications services. Furthermore, in November 2013, the MIIT and the NDRC issued The Notice on the Implementation of Market-Based Tariffs for Mobile Telecommunications Resale Business during the Trial Period, according to which licensed mobile telecommunications resale business may purchase mobile services from telecommunications operators and provide mobile services to end-customers after repackaging and rebranding. In addition, during the trial period, market-based tariffs apply to local service, long distance service, roaming service, SMS, MMS and data service of licensed mobile telecommunications resale business and the restrictions on differentiated tariffs for customers within and outside networks of licensed mobile telecommunications resale business are removed.

The following tables set forth the tariff rates of certain services provided by us, where government fixed tariffs or government guidance tariffs are applicable:

Mobile Services

Generally the categories of tariffs we charge our mobile subscribers include, among others, basic monthly fees and local usage charges, roaming charges, long-distance call charges and charges for value-added services. Mobile tariffs are set forth by the MIIT and tariff adjustments are subject to regulation by various government authorities, including the MIIT, the NDRC and the relevant provincial price regulatory authorities. The following table summarizes the current tariffs for post-paid and pre-paid mobile services:

	Post-paid Services (RMB)	Pre-paid Services (RMB)
Basic monthly fee	45-50	0
Local usage charge (per minute)	0.36-0.40	0.54-0.6
Domestic roaming charge (per minute)	0.6 for caller	0.6 for caller
	0.4 for receiver	0.4 for receiver

Intensified competition in our mobile service areas has resulted in tariff discounts and service promotions offered by us and our main competitors from time to time, which may reduce the effective tariffs. These discounts and promotions have taken many forms, including promotional tariff rates, free call minutes, reduced roaming charges, off-peak discounts or discounts for high-usage subscribers and package service plans with fixed monthly fees.

We have introduced a number of package service plans. Under these plans, subscribers typically pay a fixed monthly fee for a specified number of call minutes. The plans vary at the levels of fixed monthly fee, number of specified call minutes and tariff rates for call minutes in excess of the specified call minutes. The terms of these plans also vary depending on the local markets.

In 1997, the PRC Government granted us preferential treatment by allowing us to reduce our tariffs by up to 10% below the State-guidance tariff rates. In the past, this preferential treatment has helped us capture a significant number of mobile subscribers by allowing us to market our mobile services at discounted rates. As we and our main competitors introduced various package service plans and other promotional programs, the tariff structure has become more complex, which, to some extent, has made our price advantages less obvious to subscribers compared to previous tariffs that were largely based on simple per-minute charges.

Fixed-Line Voice Services

For our local voice services, we charge an installation and testing fee that varies depending on whether the subscriber is a residential or a business customer, a fixed monthly fee, local call usage fees based on call duration and fees for certain value-added services. For our domestic long distance services, our revenue from domestic long distance services consist of charges based on the duration, time of day and day of the week a call is placed. In addition, we currently charge RMB0.30 per minute in addition to a long distance fee for our VoIP domestic long distance services. For our international long distance services, our charges are subject to the maximum tariffs regulated by the MIIT.

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The following table sets forth our current tariffs for (i) local voice services provided on our traditional and PHS network, (ii) domestic long distance telephone services using our traditional network and (iii) our international long distance telephone services using our traditional network:

	Tariff (RMB)
Local Voice Services	
Monthly fee:	
Residential subscribers in:	
Provincial capitals	20.00 to 25.00
Other cities and counties	12.00 to 18.00
Rural areas	10.00 to 15.00
Business subscribers	25.00 to 35.00
Usage fee:	
Intra-district	0.18 to 0.22 for the first two pulses (first three minutes or less) and 0.09 to 0.11 for each additional pulse (one minute intervals)
Inter-district	up to 0.30 per pulse (one minute intervals)
Communication fee:	
Internet dial-up	0.02 per pulse (one minute intervals)
Domestic long distance services on our traditional network⁽¹⁾	0.07 per six seconds
International long distance services on our traditional network⁽¹⁾:	
To Hong Kong, Macau and Taiwan	0.20 per six seconds
To all international destinations	0.80 per six seconds

(1) Subject to filing with the provincial telecommunications administrations, our provincial level headquarters may apply a 10% to 50% discount rate to calls made during off-peak hours.

Data Services

The PRC Government publishes guidance tariffs for certain data services, including DDN and frame relay services, provided by operators in China. Tariffs for our ATM services are determined at our discretion, subject to approval by the MIIT. An installation and testing fee is generally charged for installation and testing for our data services, as well as a fixed monthly fee for each of the services.

DDN services. The following table sets forth the monthly fees for DDN services at the bandwidths of 64kbps, 128kbps, 512kbps and 1Mbps:

	Monthly Fee			
	64kbps	128kbps	512kbps	1Mbps
	(RMB)			
Intra-district	1,500	2,000	3,800	5,000
Inter-district	2,000	2,500	5,200	7,500
Domestic long distance	3,500	5,000	7,000	9,000

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Frame relay services. The following tables set forth the monthly fees for frame relay services, which include monthly fees for port access and permanent virtual circuits, or PVCs⁽¹⁾:

	64kbps	256kbps	Monthly Fee 512kbps (RMB)	1Mbps
Port access				
Monthly fees	260	400	500	750
PVC				
Intra-district	550	800	1,000	1,250
Inter-district	800	1,150	1,450	2,000
Domestic long distance	1,700	2,200	2,500	3,000

(1) One-way tariff for PVCs frame relay services.
Leased Line Services

We charge monthly fees for subscribers to our leased line services based on guidance tariffs set by the PRC Government, which vary based on bandwidth and whether the leased line is local or long distance. Leased line tariffs have generally decreased in recent years.

The following table sets forth the tariffs for 2Mbps, 8Mbps, 34Mbps and 155Mbps digital circuits:

	2Mbps	8Mbps	Monthly Fee 34Mbps (RMB)	155Mbps
Intra-district	2,000	6,000	16,000	44,000
Inter-district	4,000	11,000	31,000	88,000
Domestic long distance ⁽¹⁾	6,000	17,000	47,000	132,000

(1) Does not include the tariffs for local digital circuits and access lines.
Interconnection Arrangements

In October 2003, the former Ministry of Information Industry issued Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees, which superseded the Measures on the Settlement of Call Charges between Telecommunications Networks issued by the former Ministry of Information Industry in 2001. These regulations contain specific provisions regarding, among other things, revenue sharing methods and settlement mechanisms and interconnection agreements among telecommunications service providers. Since November 2005, the former Ministry of Information Industry (or the MIIT after March 2008) has issued a number of administrative measures to adjust the settlement arrangement standards with respect to interconnection fees for certain network interconnections between telecommunications operators. In accordance with various administrative measures, Unicom Group or we, as the case may be, have entered into agreements on interconnection with other telecommunications operators, including China Telecom and China Mobile.

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The following table sets forth selected interconnection revenue sharing and settlement arrangements for local calls:

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Mobile operator	Local fixed-line operator	<p>(1) Mobile operator collects the usage fees from its subscribers;</p> <p>(2) Mobile operator pays RMB0.06 per minute to local fixed-line operator. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2010 to December 31, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to fixed-line operator. From January 1, 2011, for calls originated from 157 or 188 prefix phone numbers (TD users), mobile operator (China Mobile) continues to pay RMB0.012 per minute to fixed-line operator.</p>
Local fixed-line operator	Mobile operator	<p>(1) Local fixed-line operator collects the usage charge from its subscribers;</p> <p>(2) No revenue sharing or settlement prior to June 1, 2010. Local fixed-line operator pays RMB0.001 per minute to mobile operator after June 1, 2010.</p>
Mobile operator A	Mobile operator B	<p>(1) Mobile operator A collects the cellular usage charge from its subscribers;</p> <p>(2) Mobile operator A pays RMB0.06 per minute to mobile operator B. For calls originated from a mobile user of China Telecom or Unicom to a mobile user of China Mobile (not including 157 or 188 prefix phone numbers (TD users)) during the period from January 1, 2014, Mobile operator A (China Telecom or Unicom) pays RMB0.04 per minute to mobile operator B (China Mobile). For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B (China Telecom or Unicom).</p>
Local fixed-line operator A	Local fixed-line operator B	<p>(1) Operator A collects the usage fees from its subscribers;</p> <p>(2) In the case of intra-district calls, operator A pays operator B 50% of the intra-district usage fees;</p>

(3) (i) In the case of local inter-district calls from operator A using operator B's local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays RMB0.06 per minute to operator B; (ii) In the case of local inter-district calls from operator A not using operator B's local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays operator B 50% of the intra-district usage fees.

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

Operator at Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Local fixed-line or mobile operator A (through the long distance network of operator A) Fixed-line or mobile operator A	Local fixed-line or mobile operator B Domestic long distance calls made without using the carrier identity code of operator B (through the long distance network of operator B)	Operator A pays RMB0.06 per minute to operator B (1) Operator A collects the tariff from the subscribers; (2) If Operator A is a fixed-line operator, operator A retains RMB0.06 per minute; if operator A is a mobile operator, operator A retains local usage fee and RMB0.06 per minute; and (3) Operator A pays operator B the rest of the domestic long distance tariff. Note: Domestic long distance calls shall be charged at the domestic long distance call tariff of operator B.
Local fixed-line or mobile operator A	Domestic long distance calls made by using the carrier identity code of operator B (through the long distance network of operator B)	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

The following table sets forth selected current major main interconnection revenue sharing and settlement arrangements for public switched telephone network international long distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

Operator at Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Local fixed-line or mobile operator A	International long distance calls (including to Hong Kong, Macau and Taiwan) made without using the carrier identity code of operator B and directed by operator A from the originating network to operator B.	(1) Operator A collects the tariff from the subscribers; (2) If operator A is a fixed-line operator, operator A retains no more than RMB0.54 per minute with the remaining paid to operator B; and (3) If operator A is a mobile operator, operator A retains local usage fees and no more than RMB0.54 per minute with the remaining paid to operator B. Note: International long distance calls shall be charged at the international long distance call tariff of operator B.

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Local fixed-line or mobile operator A

International long distance calls made by using the carrier identity code of operator B and through the domestic and international long distance networks of operator B.

(1) Operator B collects the tariff from the subscribers; and

(2) Operator B pays operator A RMB0.06 per minute.

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

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B through the VoIP network of operator C	<p>(1) Operator A collects local usage fees;</p> <p>(2) Operator C collects the VoIP long distance usage fees from its subscribers;</p> <p>(3) Operator C pays RMB0.06 per minute to operator B on the terminating end;</p> <p>(4) No settlement between operator C and operator A on the originating end.</p>

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for SMS:

Network from Which SMS Originated	Network at Which SMS Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B	<p>(1) Operator A collects the tariff from its subscribers;</p> <p>(2) Operator A pays RMB0.01 (RMB0.03 during the period from January 1, 2010 to December 31, 2013; RMB0.05 prior to January 1, 2010) per SMS to Operator B</p>

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for MMS:

Network from Which MMS Originated	Network at Which MMS Terminated	Current Main Settlement Arrangement
Mobile operator A	Mobile operator B	<p>(1) Operator A collects the tariff from its subscribers;</p> <p>(2) Operator A pays RMB0.05 (RMB0.10 during the period from January 1, 2010 to December 31, 2013; RMB0.15 prior to January 1, 2010) per MMS to Operator B</p>

Technical Standards

The MIIT is responsible for promulgating the technical standards for China's telecommunications industry and establishing the technical requirements and testing parameters for telecommunications equipment (including network and end user equipment). The MIIT is also responsible for designating qualified institutes to test telecommunications equipment, which would grant network access licenses (or product standard certificates) for the equipment that has successfully passed the relevant tests. Only telecommunications equipment for which a network access license (or a product standard certificate) has been granted may be sold and used in China.

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Most of the standards used in the Chinese telecommunications industry are generally based on the standards issued by the International Telecommunication Union, or ITU, 3rd Generation Partnership Project, Open Mobile Alliance, World Wide Web Consortium, and other international organizations for telecommunications standards, with more specific requirements made in light of China's particular telecommunications industry. On the basis of the technical standards used in China's telecommunications industry, we may formulate our own technical standards based on our own needs and issue additional requirements for telecommunications equipment in order to meet our operational needs. All telecommunications equipment purchased by China's telecommunications operators must have been granted a network access license issued by the MIIT and must meet the standards set forth by the relevant operators.

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Quality of Service

Under the Telecommunications Regulations, the MIIT and the relevant provincial telecommunications administrations are responsible for supervising and monitoring the quality of services provided by telecommunications operators in China. Under the Telecommunications Regulations, customers of telecommunications operators have the right to submit their complaints to the MIIT and the relevant provincial telecommunications administrations or other relevant government authorities. In addition, the MIIT, together with other governmental authorities, has taken measures to prompt telecommunications operators to screen indecent contents carried through their networks.

Universal Services

Telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government, and the MIIT has the authority to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with the finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and we expect to perform our duties thereunder accordingly.

The MIIT has required major Chinese telecommunications service providers, including Unicom Group and former Netcom Group, to participate in a project to provide telecommunications services in tens of thousands of remote villages in certain designated provinces in China as transitional measures prior to the formalization of a universal service obligation framework. In participating in this project, Unicom Group has undertaken the universal service obligation to extend telecommunications service coverage to all administrative-level villages primarily through its transmission networks. Currently, with our assistance, Unicom Group is further extending telecommunications service coverage to natural villages in remote areas in China as designated by the MIIT. We have been assisting Unicom Group in providing mobile telecommunications services to these remote villages and are responsible for the operation and maintenance of the relevant network facilities in our service areas. See

D. Risk Factors Risks Relating to the Telecommunications Industry in China The PRC Government may require us, along with other telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services. under Item 3.

Convergence Policy of Telecom, Broadcasting and Internet Networks

In January 2010, the PRC Government announced its decision to accelerate the advancement of convergence of television broadcast, telecommunications and Internet access networks to realize interconnection and resource sharing among the three networks and further develop the provision of voice, data, television and other services. After the implementation of the three-network convergence policy on a trial basis in selective geographic locations during the period from 2010 to 2012, the PRC Government has started to fully implement such policy across-the-board starting from 2013. The PRC Government may amend relevant policies or promulgate new regulations corresponding to the implementation of the three-network convergence policy in the future.

Mobile Telecommunications Resale Business

In May 2013, the MIIT issued the pilot program for mobile telecommunications resale business that permit non-State-owned companies to purchase mobile services from telecommunications operators and provide mobile services to end-customers after repackaging and rebranding. The trial period is expected to end on December 31, 2015, subject to further adjustment by the MIIT.

Table of Contents**Others**

As a company with substantially all of our operations in China, we, along with our controlling shareholder, Unicom Group, are subject to various regulations of the PRC Government in addition to those regulating the telecommunications industry. PRC regulatory authorities, such as the State Bureau of Taxation, National Audit Office, SAIC and local price bureaus, exercise extensive control over various aspects of our businesses and conduct various regular inspections, examinations and/or audits on us and Unicom Group. As required by the relevant PRC laws and regulations, Unicom Group, as one of the key State-owned enterprises under the direct supervision of the SASAC, is also subject to routine audits by the National Audit Office, or the NAO, including the senior management departure audit which involves a mandatory review by the NAO of the economic responsibilities of a departing senior management member of Unicom Group.

In addition, SASAC has an indirect influence over us as our controlling shareholder, Unicom Group, is under the direct supervision of SASAC. In particular, SASAC may designate certain nominees and request Unicom Group to propose the appointment of such nominees as our directors and senior management. SASAC may also request Unicom Group to remove our directors and senior management in accordance with relevant procedures provided by applicable law and our articles of association.

C. Organizational Structure

We are incorporated in Hong Kong and as of April 10, 2014, we were 40.89% owned by Unicom BVI, which was 17.90% owned by Unicom Group and 82.10% owned by the A Share Company, which in turn was 63.09% owned by Unicom Group, 33.98% owned by Unicom Group BVI, which in turn was 100% owned by Unicom Group, 20.12% owned by public shareholders and 5.01% owned by Telefónica. See A. History and Development of the Company above. Set forth below are details of our wholly owned significant subsidiaries:

Name of Subsidiary	Country of Incorporation	Ownership Interest
China United Network Communications Corporation Limited	China	100%
Unicom Vsens Telecommunications Company Limited	China	100%
Unicom New Horizon Telecommunications Corporation Limited	China	100%
China Unicom (Hong Kong) Operations Limited	Hong Kong	100%
China Unicom (Americas) Operations Limited	United States	100%
China Unicom (Singapore) Operations Pte. Ltd.	Singapore	100%
China Unicom (Europe) Operations Limited	United Kingdom	100%
China Unicom (Japan) Operations Corporation	Japan	100%
Billion Express Investments Limited	British Virgin Islands	100%
China Unicom (South Africa) Operations (Pty) Limited	South Africa	100%
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar	100%

D. Properties

Our principal executive offices are located in Hong Kong. We also maintain executive offices in Beijing. We own and lease a large number of offices, retail outlets, equipment rooms and base stations throughout China. In some cases, we have not entered into formal lease agreements with the lessors or the lessors may not possess requisite title certificates. We believe that it is unlikely that we would be denied our right to use a large number of these properties at any given time.

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Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis in conjunction with the selected financial data set forth in Item 3 and our consolidated financial statements, together with the related notes, included elsewhere in this annual report on Form 20-F.

Acquisitions of Unicom New Horizon and Unicom NewSpace

We completed the 2012 Acquisition in respect of Unicom New Horizon in December 2012. See A. History and Development of the Company Unicom Acquisition and Sales 2012 Acquisition under Item 4. As Unicom New Horizon did not meet the definition of a business under IFRS/HKFRS 3 (Revised) Business Combinations, we accounted for the 2012 Acquisition as an asset purchase transaction in accordance with IAS/HKAS 16 Property, Plant and Equipment.

We completed the 2011 Acquisition in respect of Unicom NewSpace in December 2011. See A. History and Development of the Company Unicom Acquisitions and Sales 2011 Acquisition under Item 4. Because we and Unicom NewSpace were under common control of Unicom Group both prior to and after the 2011 Acquisition, the 2011 Acquisition is considered as a business combination of entities and businesses under common control and has been accounted for using merger accounting in accordance with AG 5 issued by the HKICPA in November 2005. Upon our adoption of IFRS, we adopted the accounting policy to account for business combination of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Given that all the acquired entities and businesses mentioned above in this paragraph had always been under common control during all the periods presented, the assets and liabilities thereof are stated at predecessor values and are included in the consolidated financial statements included in this annual report on Form 20-F as if these entities and their businesses acquired had always been part of our company during all the periods presented.

Overview

We are an integrated telecommunications operator in China providing mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services to our customers. Following our acquisition of fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we have extended the coverage of all of our services nationwide. We, China Mobile and China Telecom are the three major telecommunications operators in China. See A. History and Development of the Company Restructurings of the Telecommunications Industry under Item 4.

Prior to January 1, 2012, we had two major operating segments, the mobile business and the fixed-line business, and our chief operating decision-maker, or the CODM, evaluated the results of operating segments based on revenue and costs that were directly attributable to them. However, with the continuing integration of our mobile and fixed-line business and the sharing of resources by the two business lines, there have been increasingly significant common costs and expenses that are not attributable directly to any of these two business lines. Therefore, we changed our management structure by centralized functions instead of business lines in 2012. Since January 1, 2012, as a result of the integration of our business lines and new management structure based on function lines, the CODM has no longer assessed our business performance based on the results of operations of each of the mobile services and fixed-line services, i.e., revenue and costs that are directly attributable to each of the two business lines. Instead, the CODM has been making resources allocation decisions based on internal management functions and assessed our business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, we have had only one operating segment since January 1, 2012. The prior period operating segment information set forth herein has been recast to conform to the current year presentation.

The table below sets forth revenue from our major services and their respective percentage of our total revenue in 2011, 2012 and 2013 (excluding fixed-line upfront connection fees of RMB15 million in 2011).

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	For the Year Ended December 31,					
	2011		2012		2013	
	RMB in millions	As % of Total	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue (excluding fixed-line upfront connection fees) ⁽¹⁾	209,152	100.0	248,926	100.0	295,038	100.0
Total service revenue (excluding fixed-line upfront connection fees) ⁽¹⁾	185,870	88.9	210,127	84.4	238,567	80.9
Include: Mobile services	103,307	49.4	126,036	50.6	151,133	51.2
Fixed-line services	81,627	39.0	83,213	33.4	86,487	29.3
Out of which:						
Broadband service ⁽²⁾	36,828	17.6	41,570	16.7	45,991	15.6
Total sales of telecommunications products	23,282	11.1	38,799	15.6	56,471	19.1

(1) Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. Therefore, we consider that analyses of our operating results excluding upfront connection fees are more relevant to the readers of this report. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to the fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of ten years. No upfront connection fees will be recognized after December 31, 2011.

(2) We adjusted the basis for the classification of fixed-line broadband subscribers in 2013 by including Internet leased line users and excluding LAN user account conversion in order to be comparable to our main competitors in China. The amount of service revenue from fixed-line broadband services in 2011 and 2012 was restated on the same basis.

Our service revenue primarily consists of the following:

usage fees and monthly fees for our mobile and fixed-line telephone services, which are recognized when we render the service to our customers;

revenue from the provision of value-added services, which is recognized when we render the services to our customers;

revenue from the provision of broadband, data and other Internet-related services are recognized when the services are provided to customers;

revenue from interconnection with other telecommunications operators for calls made from their networks to our networks. We recognize interconnection revenue when the relevant calls are made by subscribers;

revenue for offerings which include the bundled sale of mobile handsets and provision of services. The total contract consideration of such bundled sale is allocated to service revenue and sales of handsets based on their relative fair values. We recognize revenue allocated to the sale of handset when the title of the handset is passed to the customer and recognize revenue allocated to the service element based upon the actual usage of telecommunications services. The cost of the mobile handset sold is expensed immediately to the statement of income;

revenue from information communications technology services are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of

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completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided is recoverable, service revenue should be recognized only to the extent of reasonable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred, or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and service revenue should not be recognized;

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revenue from sales of telecommunications products (which mainly represent handsets and accessories) that are not bundled with mobile services are recognized when title of such products has been passed to the buyers; and

rental income from leases of customer-end equipment and transmission lines on our networks to business customers and other telecommunications carriers in China. We recognize leased line rental revenue on a straight-line basis over the relevant lease term.

The following table sets forth our major costs and expenses items and income before income tax, both in terms of amount and as a percentage of total revenue in 2011, 2012 and 2013 (excluding fixed-line upfront connection fees of RMB15 million in 2011).

	2011		For the Year Ended December 31, 2012		2013	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue (excluding fixed-line upfront connection fees) ⁽¹⁾	209,152	100.0	248,926	100.0	295,038	100.0
Costs, expenses and others	203,569	97.3	239,405	96.2	281,324	95.4
Interconnection charges	16,380	7.8	18,681	7.5	20,208	6.8
Depreciation and amortization	58,021	27.7	61,057	24.5	68,196	23.1
Network, operation and support expenses	29,449	14.1	32,516	13.1	33,704	11.4
Employee benefit expenses	26,601	12.7	28,778	11.6	31,783	10.8
Selling and marketing	28,750	13.8	35,037	14.1	42,991	14.6
General, administrative and other expenses	14,836	7.1	16,215	6.5	18,973	6.4
Cost of telecommunications products sold	29,739	14.2	45,040	18.1	63,416	21.5
Finance costs, net of interest income	1,244	0.6	3,424	1.4	2,940	1.0
Other income-net	(1,451)	(0.7)	(1,343)	(0.5)	(887)	(0.3)

⁽¹⁾ Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. Therefore, we consider that analyses of our operating results excluding upfront connection fees are more relevant to the readers of this report. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to the fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of ten years. No upfront connection fees will be recognized after December 31, 2011.

Our major costs and expenses include the following:

interconnection expenses, representing amounts paid to other operators for calls from our networks to their networks and for calls made by our subscribers roaming in their networks;

depreciation and amortization expenses, mainly relating to our property, plant and equipment and other assets;

network, operation and support expenses, mainly relating to repair, maintenance and operations of our networks;

leasing fee for telecommunications networks in southern China;

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employee benefit expenses, representing staff salaries and wages, bonuses and medical benefits, contributions to defined contribution pension schemes, housing benefits and share-based compensation costs amortized over the vesting period of options;

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selling and marketing expenses, including commissions, promotion and advertising expenses, direct incremental costs for activating subscriber services and customer retention costs;

general, administrative and other expenses, primarily including provision for doubtful debts, utilities, general office expenses and travel expenses;

cost of telecommunications products sold; and

finance costs, net of interest income, primarily including interest expenses, net of interest income.

Critical Accounting Policies

The preparation of our financial statements and this annual report on Form 20-F requires us to make estimates and judgments that affect the reported and disclosed amounts of assets and liabilities, including contingent assets and liabilities, as of the relevant dates and revenue and expenses for the relevant periods. We have identified below the areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the accounting policies and estimates, as critical to our business operations and an understanding of our results of operations and financial position. The impact and any associated risks related to these policies on our business operations are discussed throughout this Item 5 where such policies affect our reported and expected financial results. For a discussion of the application of these and other accounting policies, see Note 4 to our consolidated financial statements included elsewhere in this annual report on Form 20-F. There can be no assurance that actual results will not differ from those estimates and assumptions.

Significant Accounting Policies

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the services and sales of goods or telecommunications products in the ordinary course of our business activities. Revenue is shown net of business tax, government surcharges, returns and discounts and after eliminating sales within our company.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. We base our estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services and goods

Usage fees and monthly fees are recognized when the services are rendered;

Revenue from the provision of broadband, data and other Internet-related services is recognized when the services are provided to customers;

Lease income from leasing of lines and customer-end equipment are treated as operating leases with rental income recognized on a straight-line basis over the lease term;

Interconnection fees, which represent revenue received or receivables from other domestic and foreign telecommunications operators for the use of our telecommunications network, are recognized when service is rendered;

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Value-added services revenue, which mainly represents revenue from the provision of services such as SMSs, Cool Ringtone, personalized ring, caller number display and secretarial services to subscribers, is recognized when service is rendered;

Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognized when title has been passed to the buyers;

For offerings of preferential packages to the customers, which include the bundled sale of mobile handsets and provision of services, the total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognized when the title is passed to the customer whereas service revenue is recognized based upon the actual usage of telecommunications services. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition; and

Revenue from information communications technology services is recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognized only to the extent of recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and services revenue should not be recognized.

Interest income

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

Dividend income

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

Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

Deferred revenue

Deferred revenue mainly represents upfront non-refundable fees, including installation fees of fixed-line business, which are deferred and recognized over the expected customer service period. Deferred revenue expected to be recognized in one year or less is classified as current liabilities. If not, they are presented as non-current liabilities.

Advances from customers

Advances from customers are amounts paid by customers for prepaid cards, other calling cards and prepaid service fees, which cover future telecommunications services. Advances from customers are stated at the amount of proceeds received less the amount already recognized as revenue upon the rendering of services.

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Subscriber points reward program

The fair value of providing telecommunications services and the subscriber points reward is allocated based on their relative fair values. The allocated portion of fair value for the subscriber points reward is recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expired.

Critical Accounting Estimates and Judgments

Depreciation on Property, Plant and Equipment

Depreciation on our property, plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. We review the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. We estimate the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

Impairment of Non-Financial Assets

We test whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.11 to the audited consolidated financial statements contained elsewhere in this annual report on Form 20-F. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and our results would be significantly affected. Such impairment losses are recognized in the statement of income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

No significant impairment loss on property, plant and equipment was recognized for the years ended December 31, 2011, 2012 and 2013.

Write-Down of Inventories

The net realizable value of inventories is under management's regular review, and as a result, write-down of inventories is recognized for the excess of inventories' carrying amounts over their net realizable value. When making estimates of net realizable value, we take into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and our historical operating costs. The actual selling price of inventories, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product salability, manufacturing technology and the actual use of inventories, resulting in the changes in write-down of inventories. The net profit or loss may then be affected in the period when the write-down of inventories is adjusted.

Provision for Doubtful Debts

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

Subscriber Points Reward Program

The fair value of subscriber points reward is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each balance sheet date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

Table of Contents*Income Tax and Deferred Taxation*

We estimate our income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which we are entitled in each location or jurisdiction in which we operate. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, we have assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to unrecognized revaluation surplus on prepayments for the leasehold land determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, changes in fair value on financial assets through other comprehensive income and provision for doubtful debts. Due to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to approximately RMB6,734 million as of December 31, 2013 (2012: approximately RMB6,534 million). Deferred tax assets are recognized based on our estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

We believe we have recorded adequate income tax provision and deferred taxes based on the prevailing tax rules and regulations and our current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to income tax and deferred taxation may be necessary which would impact our results or financial position.

Recently Issued International Financial Reporting Standards/Hong Kong Financial Reporting Standards

The IASB has issued a number of new and revised IFRSs and interpretations that are first effective for the current accounting period commencing January 1, 2013 or are available for early adoption. The equivalent new and revised HKFRSs and interpretations consequently issued by the HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. There have been no other material changes to HKFRSs. See Note 2.2(e) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Up to the date of issue of our 2013 financial statements, the following new standard and amendment or revision to existing standard has been issued but not yet effective for the annual accounting period ended December 31, 2013 and has not been adopted by us:

	Effective for annual accounting period beginning on or after
Amendments to IFRS/HKFRS 10, IFRS/HKFRS 12 and IAS/HKAS 27, Investment entities	January 1, 2014
Amendments to IAS/HKAS 36, Recoverable amount disclosures for non-financial assets	January 1, 2014
Amendments to IAS/HKAS 32, Financial instruments: Presentation Offsetting financial assets and financial liabilities	January 1, 2014
IFRIC/HK(IFRIC) 21, Levies	January 1, 2014

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In the 2009 Acquisition, we did not purchase the underlying fixed-line network assets in southern China, but subsequently leased such assets from Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, to operate the acquired fixed-line services. Following the completion of this transaction, as we started to lease the fixed-line network assets in southern China, which were retained by the lessor, the assets and liabilities associated with these network assets were treated as a distribution by us to Unicom Group from other reserve using the merger accounting under HKFRS and predecessor values method under IFRS. Accordingly, we did not include any assets, liabilities, depreciation, finance costs or other costs relating to such assets, but record only revenue generated from the acquired fixed-line services in southern China and the leasing fee for the relevant network assets in our consolidated financial statements, for the subsequent periods until the completion of the 2012 Acquisition in December 2012 when we acquired the entire equity interest in Unicom New Horizon. Following the 2012 Acquisition, we have included the assets, liabilities, depreciation, finance costs and other costs relating to such assets, and no longer bear any leasing fee for such assets.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**Revenue**

In 2013, we continued to actively develop full-service operation with a focus on 3G mobile services and fixed-line broadband services. Revenue for 2013 was RMB295.04 billion, representing an increase of 18.5% from RMB248.93 billion for 2012, of which our service revenue was RMB238.57 billion in 2013, representing an increase of 13.5% from 2012.

Mobile Services Revenue

Revenue from our mobile services increased by 26.0% from RMB164.77 billion in 2012 to RMB207.53 billion in 2013. Of the revenue from our mobile services in 2012 and 2013, RMB126.04 billion and RMB151.13 billion, respectively, was from service revenue. Service revenue from our mobile services as a percentage of our total service revenue increased from 60.0% in 2012 to 63.4% in 2013. The growth in revenue from our mobile services was primarily driven by the growth of our 3G services in terms of number of subscribers. Our overall ARPU also increased in 2013 compared to 2012, primarily due to the change in revenue mix between our GSM services and 3G services, partially offset by the decrease in ARPU for each of GSM services and 3G services. 3G services have a significantly higher ARPU than GSM services. As the revenue from 3G services increased as a percentage of total service revenue from mobile services, from 47.4% in 2012 to 59.4% in 2013, the overall ARPU for our mobile subscribers increased from RMB47.9 in 2012 to RMB48.2 in 2013.

The total number of our mobile subscribers was 280.98 million as of December 31, 2013, with a net addition of 41.67 million subscribers (including a net addition of 46.14 million 3G subscribers) from the end of 2012. ARPU of our 3G services was RMB75.1 in 2013, representing a decrease of 12.8% from RMB86.1 in 2012, primarily due to our business strategy to increase the number of our 3G subscribers, which resulted in an increased proportion of new subscribers who are users with relatively lower usage of telecommunications. ARPU of our GSM mobile services was RMB31.6 in 2013, representing a decrease of 7.6% from RMB34.2 in 2012, primarily due to (i) the migration of certain mid- and high-end 2G subscribers to 3G network, (ii) the intensified competition among the telecommunications operators in China and (iii) the fact that a significant portion of our new users consists of users from rural areas, many of whom tend to have less usage of telecommunications services and to be more cost-sensitive than users from urban areas.

The table below sets forth the revenue composition of our mobile services and each revenue item's respective share of total revenue for the years ended December 31, 2012 and 2013.

	2012		2013	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile services	164,771	100.0	207,526	100.0
Service revenue	126,036	76.5	151,133	72.8
Usage fees and monthly fees	61,019	37.0	68,626	33.1
Value-added services revenue	52,102	31.6	67,975	32.8
Interconnection fees	12,469	7.6	13,635	6.6
Other service revenue	446	0.3	897	0.4
Sales of mobile telecommunications products	38,735	23.5	56,393	27.2

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Usage Fees and Monthly Fees. Primarily as a result of an increase in mobile subscribers, usage fees and monthly fees for our mobile services were RMB68.63 billion in 2013, representing an increase of 12.5% from RMB61.02 billion in 2012.

Value-Added Services Revenue. Value-added services revenue consists primarily of revenue from our 3G value-added services and GSM value-added services. Due to our active promotion of mobile data services of our 3G services as well as the increase in the number of our mobile subscribers, revenue from our mobile value-added services was RMB67.98 billion in 2013, representing an increase of 30.5% from RMB52.10 billion in 2012. As a percentage of total mobile revenue, revenue from our mobile value-added services increased from 31.6% in 2012 to 32.8% in 2013. Of the total revenue from mobile value-added services, revenue from mobile Internet services increased by 53.2% from RMB25.03 billion in 2012 to RMB38.35 billion in 2013, revenue from our SMS services decreased by 6.3% from RMB8.22 billion in 2012 to RMB7.71 billion in 2013, and revenue from Cool Ringtone services decreased by 7.6% from RMB3.02 billion in 2012 to RMB2.79 billion in 2013.

Interconnection Fees. Our interconnection fees increased by 9.4% from RMB12.47 billion in 2012 to RMB13.64 billion in 2013, and represented 6.6% of total mobile revenue in 2013 as compared with 7.6% in 2012. The increase in our interconnection fees was primarily as a result of the increased total usage of our mobile services, which was mainly driven by the increased total number of our mobile subscribers.

Sales of Telecommunications Products. Revenue from our sale of mobile telecommunications products increased from RMB38.74 billion in 2012 to RMB56.39 billion in 2013, mainly due to our continuing efforts in promoting a broad range of new bundled packages of mid- to high-end 3G handsets and 3G services in 2013.

Fixed-Line Services Revenue

In 2013, we continued to develop our fixed-line broadband services and promoted our mobile and fixed-line bundled services. The trend of mobile substitution continued to have a negative impact on the revenue from our fixed-line voice services. Our revenue from fixed-line services increased by 4.0% from RMB83.28 billion in 2012 to RMB86.57 billion in 2013, of which service revenue increased by 3.9% from RMB83.21 billion in 2012 to RMB86.49 billion in 2013. See *D. Risk Factors* The industry trends of mobile service substitution and mobile service migration from old generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and mobile services, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

The table below sets forth the revenue composition of our fixed-line services and each revenue item's respective share of total revenue from our fixed-line services for the years ended December 31, 2012 and 2013.

	For the Year Ended December 31,			
	2012		2013	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line services	83,277	100.0	86,565	100.0
Service revenue	83,213	99.9	86,487	99.9
Usage fee and monthly fee	20,151	24.2	17,698	20.4
Broadband, data and other Internet-related services revenue ⁽¹⁾	43,132	51.8	48,278	55.8
Interconnection fees	4,224	5.1	4,146	4.8
Value-added services revenue	4,367	5.2	3,996	4.6
Leased line income	8,086	9.7	8,389	9.7
Information communication technology services revenue	2,240	2.7	2,991	3.5
Other service revenue	1,013	1.2	989	1.1
Sales of fixed-line telecommunications products	64	0.1	78	0.1

⁽¹⁾ We adjusted the basis for the classification of fixed-line broadband subscribers in 2013 by including Internet leased line users and excluding LAN user account conversion in order to be comparable to our main competitors in China. The amount of service revenue from fixed-line broadband services in 2012 was restated on the same basis.

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Usage Fees and Monthly Fees. Usage fees include local usage fees charged for local telephone calls and VoIP long distance calls, long distance usage fees for domestic and international long distance calls originated by our fixed-line subscribers, users of our pre-paid phone cards and certain other customers. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

In 2013, we experienced continuing decline in the number of fixed-line local telephone subscribers and revenue due to the continuing effect of mobile substitution. Our local telephone subscribers decreased in 2013 by 4.7% from 91.96 million at the end of 2012 to 87.64 million at the end of 2013. ARPU of the local telephone services decreased by 9.3% from RMB22.6 in 2012 to RMB20.5 in 2013. Total usage of local calls decreased by 20.7% from 2012 to 64.63 billion pulses in 2013 (excluding Internet dial-up usage) and total usage of long distance calls decreased by 12.1% from 18.20 billion minutes in 2012 to 15.99 billion minutes in 2013. As a result, revenue from our usage fees and monthly fees in 2013 decreased by 12.2% from RMB20.15 billion in 2012 to RMB17.70 billion in 2013.

Broadband, Data and Other Internet-related Services Revenue. Revenue from our broadband, data and other Internet-related services include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our broadband, data and other Internet-related services increased by 11.9% from RMB43.13 billion in 2012 to RMB48.28 billion in 2013, primarily as a result of the increase in revenue from fixed-line broadband services.

In light of the continuing effect of mobile substitution, fixed-line broadband service has become the main growth driver of our revenue from fixed-line services. In 2013, our fixed-line broadband services continued to maintain growth as a result of our efforts in improving broadband access speed, adopting multi-service bundling strategy, enriching application contents and implementing diversified sales strategies. The number of our fixed-line broadband subscribers increased by 10.4% from 58.54 million in 2012 to 64.65 million in 2013. ARPU of our fixed-line broadband services decreased by 1.6% from RMB62.4 in 2012 to RMB61.4 in 2013. Revenue from our fixed-line broadband services increased by 10.6% from RMB41.57 billion in 2012 to RMB45.99 billion in 2013, and as a percentage of the total fixed-line revenue increased from 49.9% in 2012 to 53.1% in 2013. Revenue from our data and other Internet-related services increased by 46.8% from RMB1.56 billion in 2012 to RMB2.29 billion in 2013.

Interconnection Fees. Our interconnection fees consist of interconnection fees charged to other domestic telecommunications operators, principally China Mobile and China Telecom, for both local and long distance calls. Our interconnection fees decreased by 1.8% from RMB4.22 billion in 2012 to RMB4.15 billion in 2013. The decrease in interconnection revenue was mainly due to a decrease in voice traffic from other telecommunications operators as a result of the mobile substitution effect.

Value-Added Services Revenue. Revenue from our value-added services consists of fees that we charge our customers for the provision of caller identification, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services decreased by 8.5% from RMB4.37 billion in 2012 to RMB4.00 billion in 2013, mainly due to the decrease in the usage of our caller identification, Personalized Ring, and PHS SMS services as a result of the reduction of our fixed-line telephone subscribers, including PHS subscribers.

Leased Line Income. Our leased line income consists of fees that we receive from our government, corporate and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers. Our leased line income increased by 3.7% from RMB8.09 billion in 2012 to RMB8.39 billion in 2013, which was primarily due to the increased demand of leased line services from our local government and corporate customers.

Information Communication Technology Services Revenue. Information communication technology services revenue increased by 33.5% from RMB2.24 billion in 2012 to RMB2.99 billion in 2013, mainly as a result of our new system integration projects in 2013 for government and large corporate customers.

Other Service Revenue. Other service revenue mainly consists of miscellaneous revenue items. Other service revenue decreased by 2.4% from RMB1.01 billion in 2012 to RMB0.99 billion in 2013.

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Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products increased by 21.9% from RMB64 million in 2012 to RMB78 million in 2013, mainly due to the increase in sales of telecommunications terminal products such as telephone sets associated with local voice services in 2013.

Costs, Expenses and Others

Total costs, expenses and others in 2013 were RMB281.32 billion, representing an increase of 17.5% from RMB239.41 billion in 2012.

The table below sets forth the major items of costs, expenses and others and their respective percentage of the total telecommunications services revenue for the years 2012 and 2013:

	For the Year Ended December 31,			
	2012		2013	
	RMB in millions	% of Total	RMB in millions	% of Total
Total telecommunications services revenue	210,127	100.0	238,567	100.0
Costs, expenses and others	239,405	113.9	281,324	117.9
Interconnection charges	18,681	8.9	20,208	8.5
Depreciation and amortization	61,057	29.1	68,196	28.6
Network, operation and support expenses	32,516	15.5	33,704	14.1
Employee benefit expenses	28,778	13.7	31,783	13.3
Selling and marketing	35,037	16.7	42,991	18.0
General, administrative and other expenses	16,215	7.7	18,973	8.0
Cost of telecommunications products sold	45,040	21.4	63,416	26.6
Finance costs, net of interest income	3,424	1.6	2,940	1.2
Other income-net	(1,343)	(0.6)	(887)	(0.4)

Interconnection Charges. Interconnection charges were RMB20.21 billion in 2013, up by 8.2% from 2012, primarily due to an increase in interconnection traffic volume resulting from the increase in the number of our subscribers. Interconnection charges as a percentage of telecommunications service revenue decreased from 8.9% in 2012 to 8.5% in 2013.

Depreciation and Amortization. Our depreciation and amortization expenses were RMB68.20 billion in 2013, up by 11.7% from 2012. The increase was primarily due to the increase in our capital expenditures in connection with the expansion of our 3G and fixed-line broadband network coverage and improvement of our network quality in 2013. These capital expenditures increased the relevant fixed assets that are subject to depreciation. As a percentage of telecommunications service revenue, our depreciation and amortization expenses decreased from 29.1% in 2012 to 28.6% in 2013.

Network, Operation and Support Expenses. Due to various factors, including the expansion of networks, facilities and base stations and the increases in utilities charges and rental expenses, we incurred network, operation and support expenses of RMB33.70 billion in 2013, up by 3.7% from 2012. Network, operation and support expenses, as a percentage of telecommunications service revenue, decreased from 15.5% in 2012 to 14.1% in 2013. As a result of a decrease in the lease of underlying telecommunications networks from other telecommunications operators, the related line leasing fees was RMB2.39 billion, down by 50.2% from 2012.

Employee Benefit Expenses. Due to the increases in salaries and wages as well as contributions to defined contribution pension schemes, medical insurance and housing benefits, our employee benefit expenses increased by 10.4% from RMB28.78 billion in 2012 to RMB31.78 billion in 2013, and as a percentage of telecommunications service revenue, decreased from 13.7% in 2012 to 13.3% in 2013.

Selling and Marketing Expenses. Primarily due to the increased promotion of our key services such as 3G and fixed-line broadband services, and the increased costs of customer retention and channel subsidies, our selling and marketing expenses were RMB42.99 billion in 2013, up by 22.7% from 2012, and as a percentage of telecommunications service revenue, increased from 16.7% in 2012 to 18.0% in 2013.

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General, Administrative and Other Expenses. Our general, administrative and other expenses were RMB18.97 billion in 2013, up by 17.0% from 2012, and as a percentage of telecommunications service revenue, slightly increased from 7.7% in 2012 to 8.0% in 2013.

Cost of Telecommunications Products Sold. In 2013, we continued to proactively promote 3G handsets subsidy policies and launched a number of newly defined 3G handsets models. As a result, the cost of telecommunications products sold amounted to RMB63.42 billion, up by 40.8% from 2012. Correspondingly, revenue from sale of telecommunications products in 2013 amounted to RMB56.47 billion, up by 45.5% from 2012.

Finance Costs, Net of Interest Income. Our finance costs, net of interest income, decreased from RMB3.42 billion in 2012 to RMB2.94 billion in 2013, which was primarily due to an increase in interest expense, which was partially offset by an increase in foreign exchange gains.

Other Income-Net. In 2013, other income-net was RMB0.89 billion, down by 34.0% from 2012. The decrease was primarily as a result of a decrease in dividend income received from our investment in Telefónica and others.

Income Before Income Tax

In 2013, our income before income tax was RMB13.71 billion, up by 44.0% from 2012, mainly due to the rapid development of business volume and revenue growth.

Income Tax

Our income tax was RMB3.31 billion in 2013, up by 36.3% from 2012, and our effective tax rate in 2013 was 24.1%, down by 1.4 percentage point from 2012. The increase in our income tax was largely due to the increase in our income before income tax.

Net Income for the Year

In 2013, our net income reached RMB10.41 billion, up by 46.7% from 2012. Our basic earnings per share was RMB0.44 in 2013, up by 46.2% from 2012.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenue

In 2012, we continued to actively develop full-service operation with a focus on 3G mobile services and fixed-line broadband services. Revenue for 2012 was RMB248.93 billion, representing an increase of 19.0% from RMB209.15 billion for 2011(excluding fixed-line upfront connection fees of RMB15 million in 2011), of which our service revenue was RMB210.13 billion in 2012, representing an increase of 13.1% from 2011.

Mobile Services Revenue

Revenue from our mobile services increased by 30.2% from RMB126.53 billion in 2011 to RMB164.77 billion in 2012. Of the revenue from our mobile services in 2011 and 2012, RMB103.31 billion and RMB126.04 billion, respectively, was from service revenue. Service revenue from our mobile services as a percentage of our total service revenue (excluding fixed-line upfront connection fees of RMB15 million in 2011) increased from 55.6% in 2011 to 60.0% in 2012. The growth in revenue from our mobile services was primarily driven by the growth of our 3G services in terms of number of subscribers. Our overall ARPU also increased in 2012 compared to 2011, primarily due to the change in revenue mix between our GSM services and 3G services, partially offset by the decrease in ARPU for each of GSM services and 3G services. 3G services have a significantly higher ARPU than GSM services. As the revenue from 3G services increased as a percentage of total service revenue from mobile services from 31.7% in 2011 to 47.4% in 2012, the overall ARPU for our mobile subscribers increased from RMB47.3 in 2011 to RMB47.9 in 2012.

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The total number of our mobile subscribers was 239.31 million as of December 31, 2012, with a net addition of 39.65 million subscribers (including a net addition of 36.43 million 3G subscribers) from the end of 2011. ARPU of our 3G services was RMB86.1 in 2012, representing a decrease of 21.7% from RMB110.0 in 2011, primarily due to our business strategy to increase the number of our subscribers, which resulted in an increased proportion of new subscribers who are users with relatively lower usage of telecommunications. ARPU of our GSM mobile services was RMB34.2 in 2012, representing a decrease of 8.6% from RMB37.4 in 2011, primarily due to (i) the migration of certain mid- and high-end 2G subscribers to 3G network, (ii) the intensified competition among the telecommunications operators in China and (iii) the fact that a significant portion of our new users consists of users from rural areas, many of whom tend to have less usage of telecommunications services and to be more cost-sensitive than users from urban areas.

The table below sets forth the revenue composition of our mobile services and each revenue item's respective share of total revenue for the years ended December 31, 2011 and 2012.

	2011		2012	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile services	126,526	100.0	164,771	100.0
Service revenue	103,307	81.6	126,036	76.5
Usage fees and monthly fees	54,186	42.8	61,019	37.0
Value-added services revenue	37,880	29.9	52,102	31.6
Interconnection fees	10,726	8.5	12,469	7.6
Other service revenue	515	0.4	446	0.3
Sales of mobile telecommunications products	23,219	18.4	38,735	23.5

Usage Fees and Monthly Fees. Primarily as a result of an increase in mobile subscribers, usage fees and monthly fees for our mobile services were RMB61.02 billion in 2012, representing an increase of 12.6% from RMB54.19 billion in 2011.

Value-Added Services Revenue. Value-added services revenue consists primarily of revenue from our 3G value-added services and GSM value-added services. Due to our active promotion of mobile data services of our 3G services as well as the increase in the number of our mobile subscribers, revenue from our mobile value-added services was RMB52.10 billion in 2012, representing an increase of 37.5% from RMB37.88 billion in 2011. As a percentage of total mobile revenue, revenue from our mobile value-added services increased from 29.9% in 2011 to 31.6% in 2012. Of the total revenue from mobile value-added services, revenue from mobile Internet services increased by 70.9% from RMB14.65 billion in 2011 to RMB25.03 billion in 2012, revenue from our SMS services decreased by 3.4% from RMB8.51 billion in 2011 to RMB8.22 billion in 2012, and revenue from Cool Ringtone services decreased by 7.9% from RMB3.28 billion in 2011 to RMB3.02 billion in 2012.

Interconnection Fees. Our interconnection fees increased by 16.2% from RMB10.73 billion in 2011 to RMB12.47 billion in 2012, and represented 7.6% of total mobile revenue in 2012 as compared with 8.5% in 2011. The increase in our interconnection fees was primarily as a result of the increased total usage of our mobile services, which was mainly driven by the increased total number of our mobile subscribers.

Sales of Telecommunications Products. Revenue from our sale of mobile telecommunications products increased from RMB23.22 billion in 2011 to RMB38.74 billion in 2012, mainly due to our continuing efforts in promoting a broad range of new bundled packages of mid- to high-end 3G handsets and 3G services in 2012.

Fixed-Line Services Revenue

In 2012, we continued to develop our fixed-line broadband services and promoted our mobile and fixed-line bundled services. The trend of mobile substitution continued to have a negative impact on the revenue from our fixed-line voice services. Excluding fixed-line upfront connection fees of RMB15 million in 2011, our revenue from fixed-line services would have increased by 1.9% from RMB81.69 billion in 2011 to RMB83.28 billion in 2012, of which service revenue would have increased by 1.9% from RMB81.63 billion in 2011 to RMB83.21 billion in 2012. See *D. Risk Factors*. The industry trends of mobile service substitution and mobile service migration from old generations to new generations may continue to have a material adverse effect on our fixed-line local telephone services and mobile services, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

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The table below sets forth the revenue composition of our fixed-line services and each revenue item's respective share of total revenue from our fixed-line services for the years ended December 31, 2011 and 2012.

	For the Year Ended December 31,			
	2011		2012	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line services ⁽¹⁾	81,690	100.0	83,277	100.0
Service revenue ⁽¹⁾	81,627	99.9	83,213	99.9
Usage fee and monthly fee	24,116	29.5	20,151	24.2
Broadband, data and other Internet-related services revenue ⁽²⁾	38,500	47.1	43,132	51.8
Interconnection fees	4,579	5.6	4,224	5.1
Value-added services revenue	4,562	5.6	4,367	5.2
Leased line income	6,859	8.4	8,086	9.7
Information communication technology services revenue	1,634	2.0	2,240	2.7
Other service revenue	1,377	1.7	1,013	1.2
Sales of fixed-line telecommunications products	63	0.1	64	0.1

(1) Excluding fixed-line upfront connection fees of RMB15 million in 2011. Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. Therefore, we consider that analyses of our operating results excluding upfront connection fees are more relevant to the readers of this report. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to the fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of ten years. No upfront connection fees will be recognized after December 31, 2011.

(2) We adjusted the basis for the classification of fixed-line broadband subscribers in 2013 by including Internet leased line users and excluding LAN user account conversion in order to be comparable to our main competitors in China. The amount of service revenue from fixed-line broadband services in 2012 was restated on the same basis.

Usage Fees and Monthly Fees. Usage fees include local usage fees charged for local telephone calls and VoIP long distance calls, long distance usage fees for domestic and international long distance calls originated by our fixed-line subscribers, users of our pre-paid phone cards and certain other customers. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

In 2012, we experienced continuing decline in the number of fixed-line local telephone subscribers and revenue due to the continuing effect of mobile substitution. Our local telephone subscribers decreased in 2012 by 1.0% from 92.85 million at the end of 2011 to 91.96 million at the end of 2012. ARPU of the local telephone services decreased by 12.1% from 2011 to RMB22.6 in 2012. Total usage of local calls decreased by 35.0% from 2011 to 81.50 billion pulses in 2012 (excluding Internet dial-up usage) and total usage of long distance calls decreased by 15.6% from 21.55 billion minutes in 2011 to 18.20 billion minutes in 2012. As a result, revenue from our usage fees and monthly fees in 2012 decreased by 16.4% from RMB24.12 billion in 2011 to RMB20.15 billion in 2012.

Broadband, Data and Other Internet-related Services Revenue. Revenue from our broadband, data and other Internet-related services include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our broadband, data and other Internet-related services increased by 12.0% from RMB38.50 billion in 2011 to RMB43.13 billion in 2012, primarily as a result of the increase in revenue from fixed-line broadband services.

In light of the continuing effect of mobile substitution, fixed-line broadband service has become the main growth driver of our revenue from fixed-line services. In 2012, our fixed-line broadband services continued to maintain a growth as a result of our efforts in improving broadband access speed, adopting multi-service bundling strategy, enriching application contents and implementing diversified sales strategies. The number of our fixed-line broadband subscribers increased by 15.5% from 50.69 million in 2011 to 58.54 million in 2012. ARPU of our fixed-line broadband services decreased by 3.9% from RMB65.0 in 2011 to RMB62.4 in 2012. Revenue from our fixed-line broadband service increased by 12.9% from RMB36.83 billion in 2011 to RMB41.57 billion in 2012, and as a percentage of the total fixed-line revenue increased from 45.1% in 2011 to 49.9% in 2012. Revenue from our data and other Internet-related services decreased by 6.6% from RMB1.67 billion in 2011 to RMB1.56 billion in 2012.

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Interconnection Fees. Our interconnection fees consists of interconnection fees charged to other domestic telecommunications operators, principally China Mobile and China Telecom, for both local and long distance calls. Our interconnection fees decreased by 7.9% from RMB4.58 billion in 2011 to RMB4.22 billion in 2012. The decrease in interconnection revenue was mainly due to a decrease in voice traffic from other telecommunications operators as a result of the mobile substitution effect.

Value-Added Services Revenue. Revenue from our value-added services consists of fees that we charge our customers for the provision of caller identification, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services decreased by 4.2% from RMB4.56 billion in 2011 to RMB4.37 billion in 2012, mainly due to the decrease in the usage of our caller identification, Personalized Ring, and PHS SMS services as a result of the reduction of our fixed-line telephone subscribers, including PHS subscribers.

Leased Line Income. Our leased line income consists of fees that we receive from our government, corporate and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers. Our leased line income increased by 17.9% from RMB6.86 billion in 2011 to RMB8.09 billion in 2012, which was primarily due to the increased demand of leased line services from our local government and corporate customers.

Information Communication Technology Services Revenue. Information communication technology services revenue increased by 37.4% from RMB1.63 billion in 2011 to RMB2.24 billion in 2012, mainly as a result of our new system integration projects in 2012 for government and large corporate customers.

Other Service Revenue. Other service revenue mainly consists of miscellaneous revenue items. Other service revenue decreased by 26.4% from RMB1.38 billion in 2011 to RMB1.01 billion in 2012.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products increased by 1.6% from RMB63 million in 2011 to RMB64 million in 2012, mainly due to the increase in sales of telecommunications terminal products such as telephone sets associated with local voice services in 2012.

Costs, Expenses and Others

Total costs, expenses and others in 2012 were RMB239.41 billion, representing an increase of 17.6% from RMB203.57 billion in 2011.

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The table below sets forth the major items of costs, expenses and others and their respective percentage of the total telecommunications services revenue for the years 2011 and 2012:

	For the Year Ended December 31,			
	2011		2012	
	RMB in millions	% of Total	RMB in millions	% of Total
Total telecommunications services revenue ⁽¹⁾	185,870	100.0	210,127	100.0
Costs, expenses and others	203,569	109.5	239,405	113.9
Interconnection charges	16,380	8.8	18,681	8.9
Depreciation and amortization	58,021	31.2	61,057	29.1
Network, operation and support expenses	29,449	15.8	32,516	15.5
Employee benefit expenses	26,601	14.3	28,778	13.7
Selling and marketing	28,750	15.5	35,037	16.7
General, administrative and other expenses	14,836	8.0	16,215	7.7
Cost of telecommunications products sold	29,739	16.0	45,040	21.4
Finance costs, net of interest income	1,244	0.7	3,424	1.6
Other income-net	(1,451)	(0.8)	(1,343)	(0.6)

⁽¹⁾ Excludes fixed-line upfront connection fees of RMB15 million in 2011. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to the fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of ten years. No upfront connection fees will be recognized after December 31, 2011.

Interconnection Charges. Interconnection charges were RMB18.68 billion in 2012, up by 14.1% from 2011, primarily due to an increase in interconnection traffic volume resulting from the increase of the number of our subscribers. Interconnection charges as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees in 2011) was 8.8% and 8.9% in 2011 and 2012, respectively.

Depreciation and Amortization. Our depreciation and amortization expenses were RMB61.06 billion in 2012, up by 5.2% from 2011. The increase was primarily due to the increase in our capital expenditure in connection with the expansion of our 3G and fixed-line broadband network coverage and improvement of our network quality in 2012. These capital expenditures increased the relevant fixed assets that are subject to depreciation. As a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees in 2011), our depreciation and amortization expenses decreased from 31.2% in 2011 to 29.1% in 2012.

Network, Operation and Support Expenses. Due to various factors, including the expansion of networks, facilities and base stations and the increases in utilities charges and rental expenses, we incurred network, operation and support expenses of RMB32.52 billion in 2012, up by 10.4% from 2011. Network, operation and support expenses, as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees in 2011), decreased from 15.8% in 2011 to 15.5% in 2012. As a result of an increase in the lease of underlying telecommunications networks from other telecommunications operators, the related line leasing fees was RMB4.80 billion, up by 15.4% from 2011.

Employee Benefit Expenses. Due to the increases in salaries and wages as well as contributions to defined contribution pension schemes, medical insurance and housing benefits, our employee benefit expenses increased by 8.2% from RMB26.60 billion in 2011 to RMB28.78 billion in 2012, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees in 2011), decreased from 14.3% in 2011 to 13.7% in 2012.

Selling and Marketing Expenses. Primarily due to the increased promotion of our key services, such as 3G and fixed-line broadband services, and the increased costs of customer retention and channel subsidies, our selling and marketing expenses were RMB35.04 billion in 2012, up by 21.9% from 2011, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees in 2011), increased from 15.5% in 2011 to 16.7% in 2012.

General, Administrative and Other Expenses. Our general, administrative and other expenses was RMB16.22 billion in 2012, up by 9.1% compared with last year, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees in 2011),

slightly decreased from 8.0% in 2011 to 7.7% in 2012.

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Cost of Telecommunications Products Sold. In 2012, we continued to proactively promote 3G handsets subsidy policies and launched a number of newly defined 3G handsets models. As a result, the cost of telecommunications products sold amount to RMB45.04 billion, up by 51.5% from 2011. Correspondingly, revenue from sale of telecommunications products in 2012 amounted to RMB38.80 billion, up by 66.6% from 2011.

Finance Costs, Net of Interest Income. Our finance costs, net of interest income, increased from RMB1.24 billion in 2011 to RMB3.42 billion in 2012, which was primarily due to the increase in our interest-bearing debt to finance the increased cash requirements for our business operations. The increase in our overall cash requirements in 2012 was primarily due to an increase in our capital expenditure in 2012.

Other Income-Net. In 2012, other income-net was RMB1.34 billion, down by 6.8% from 2011. The decrease was primarily as a result of a decrease in dividend income received from our investment in Telefónica and others, which was partially offset by an increase in other income.

Income Before Income Tax

In 2012, our income before income tax was RMB9.52 billion, up by 70.1% from 2011, mainly due to the rapid development of business volumes and revenue growth.

Income Tax

Our income tax was RMB2.43 billion in 2012, up by 76.9% from 2011, and our effective tax rate in 2012 was 25.5%, up by one percentage point from 2011. The increase in our income tax was largely due to the increases in our income before income tax and our effective tax rate.

Net Income for the Year

In 2012, our net income reached RMB7.10 billion, up by 67.9% from 2011. Our basic earnings per share was RMB0.30 in 2012, up by 68.2% from 2011.

Liquidity and Capital Resources

Working Capital and Cash Flows

As of December 31, 2013, we had RMB21.51 billion of cash and cash equivalents, as compared with RMB18.25 billion as of December 31, 2012 and RMB15.11 billion as of December 31, 2011. As of December 31, 2013, we had RMB0.05 billion of short-term bank deposits, as compared with RMB0.03 billion as of December 31, 2012 and RMB0.30 billion as of December 31, 2011. As of December 31, 2013, we had a working capital deficit (current liabilities less current assets) of RMB243.03 billion, representing a decrease by 4.4% from the working capital deficit of RMB254.15 billion as of December 31, 2012. The decrease in working capital deficit in 2013 primarily resulted from the increase in monetary assets and reclassification of convertible bonds to non-current liabilities.

In recent years, although the PRC Government introduced measures to avoid overheating of the economy, including tightening bank lending policies, we, due to our enterprise nature and our good credit records with PRC banks, generally have not experienced and do not expect to experience in the foreseeable future significant difficulties in obtaining bank financing in China. As of December 31, 2013, we had RMB308.8 billion revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which RMB175.7 billion was unutilized. There is no term of the facilities that materially restricts our ability to draw down the unutilized banking facilities. In addition, we believe we have the ability to raise funds from short, medium and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio. Therefore, we believe that we will be able to fund our anticipated capital and liquidity needs with our access to debt and equity financing, in particular bank financing in China, and net cash inflows from our operations.

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The following table sets forth cash inflows and outflows in 2011, 2012 and 2013.

	For the Year Ended December 31,		
	2011	2012	2013
	(RMB in millions)		
Net cash inflow from operating activities of continuing operations	66,491	70,620	78,482
Net cash outflow from investing activities of continuing operations	(82,970)	(99,480)	(77,110)
Net cash inflow from financing activities of continuing operations	8,988	32,004	1,926
Net cash (outflow)/inflow from continuing operations	(7,491)	3,144	3,298
Net (decrease)/increase in cash and cash equivalents	(7,491)	3,144	3,298

Our net cash inflow from operating activities of continuing operations increased by 6.2% from RMB66.49 billion in 2011 to RMB70.62 billion in 2012, and further increased by 11.1% to RMB78.48 billion in 2013. The increase in net cash inflow from operating activities in 2012 and 2013 was primarily a result of an increase in cash generated from our growing 3G and fixed-line broadband services, which was partially offset by the increases in interest paid and income tax paid.

Our net cash outflow from investing activities of continuing operations increased by 19.9% from RMB82.97 billion in 2011 to RMB99.48 billion in 2012, and decreased by 22.5% to RMB77.11 billion in 2013. The increase in 2012 was mainly due to an amount of RMB10.31 billion used in our acquisition of the entire equity interest in Unicom New Horizon, as well as an increase of RMB8.9 billion used in the purchase of property, plant and equipment. The decrease in 2013 was mainly due to relatively moderate investment activities, including acquisitions of property, plant and equipment in 2013, compared to 2012.

Our net cash inflow from financing activities for continuing operations increased from RMB8.99 billion in 2011 to RMB32.00 billion in 2012, mainly as a result of an increase in short-term bank loans and debt issuance incurred to finance the increased cash requirements for our business operations. The increase in our overall cash requirements in 2012 was primarily due to an increase in our capital expenditure in 2012. Our net cash inflow from financing activities decreased from RMB32.00 billion in 2012 to RMB1.93 billion in 2013, primarily due to the significant decrease in our overall cash requirements in 2013.

There was no cash inflow or outflow from discontinued operations in 2011, 2012 and 2013.

Table of Contents**Indebtedness and Capital Structure**

The following table sets forth the amount of cash, cash equivalents, assets, short-term and long-term debt and equity as well as debt-to-capitalization and debt-to-equity ratios as of the end of 2011, 2012 and 2013.

	As of December 31,		
	2011	2012	2013
	(RMB in millions, except percentages)		
Cash and cash equivalents and short-term bank deposits	15,410	18,282	21,560
Total assets	456,233	516,124	529,171
Short-term debt	72,606	139,367	130,975
Short-term bank loans	32,322	69,175	94,422
Commercial papers	38,000	38,000	35,000
Current portion of long-term bank loans	50	850	48
Amounts due to related parties	2,156	-	1,344
Current portion of obligations under finance lease included in other obligations	78	127	161
Current portion of promissory notes	-	15,000	-
Current portion of corporate bonds	-	5,000	-
Convertible bonds	-	11,215	-
Long-term debt	34,502	2,753	13,639
Promissory notes	15,000	-	-
Corporate bonds	7,000	2,000	2,000
Convertible bonds	11,118	-	11,002
Non-current portion of long-term bank loans	1,384	536	481
Non-current portion of obligations under finance lease included in other obligations	-	217	156
Equity attributable to equity shareholders	205,898	209,505	218,899
Debt-to-capitalization ratio ⁽¹⁾	34.2%	40.4%	39.8%
Debt-to-equity ratio ⁽²⁾	52.0%	67.8%	66.1%

(1) Debt-to-capitalization ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/(long-term interest-bearing debt + short-term interest-bearing debt + equity attributable to equity shareholders).

(2) Debt-to-equity ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/(equity attributable to equity shareholders).

Our debt-to-capitalization ratio was 39.8% at the end of 2013, compared to 40.4% at the end of 2012 and 34.2% at the end of 2011. Our debt-to-equity ratio was 66.1% at the end of 2013, compared to 67.8% at the end of 2012 and 52.0% at the end of 2011. The sum of our long-term and short-term interest-bearing debt exceeds the amount of our cash and cash equivalents and short-term bank deposits by RMB123.05 billion as of December 31, 2013, compared to RMB123.84 billion as of December 31, 2012 and RMB91.70 billion as of December 31, 2011. The increases in our debt-to-capitalization ratio and debt-to-equity ratio from 2011 to 2012 were mainly attributable to the incurrence of interest-bearing debt to finance the increased cash requirements for our business operations. The increase in our overall cash requirements in 2012 was primarily due to an increase in our capital expenditure in 2012. The decreases in our debt-to-capitalization ratio and debt-to-equity ratio from 2012 to 2013 were mainly due to the increase in equity attributable to equity shareholders. We continue to seek to optimize our capital structure, develop multiple financing sources and reduce overall financing costs. In addition, we seek to increase our capital turnover ratio and control the amount of monetary assets.

Our outstanding short-term and long-term bank loans, denominated in RMB, U.S. dollar, HK dollar and Euro, was RMB94.95 billion at the end of 2013, compared to RMB70.56 billion at the end of 2012 and RMB33.76 billion at the end of 2011. The increase from 2011 to 2013 was mainly because we raised bank loans to settle our payables when due. The loan agreement does not include financial performance or other covenants which may materially restrict our operations or those of CUCL, our principal operating subsidiary in China. As of December 31, 2013, no short-term bank loans or long-term bank loans were guaranteed by Unicom Group.

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In order to further rationalize our debt structure and reduce our interest expense, we may continue to finance a portion of our business operations and capital expenditures through issuance of debt securities. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations and obtain adequate external financing to meet our debt service obligations and planned capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including, but not limited to, changes in telecommunications tariffs, decreased demand for our telecommunications services and further intensified competition. Our ability to obtain external financing also depends on numerous factors, including, but not limited to, our financial condition and creditworthiness as well as our relationship with lenders. See "D. Risk Factors - Risks Relating to Our Business." If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be adversely affected under Item 3.

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On June 8, 2007, we issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a guarantee issued by Bank of China Limited. On September 3, 2008, we issued another RMB5 billion 5-year corporate bonds, bearing interest at 5.29% per annum. The corporate bonds are secured by a guarantee issued by State Grid Corporation of China. The aforementioned corporate bonds were fully repaid in September 2013.

On April 1, 2010, CUCL completed the issue of the first tranche of commercial paper for the year 2010 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 2.64% per annum. The commercial paper was fully repaid in March 2011. On April 2, 2010, CUCL completed the issue of the first tranche of promissory note for the year 2010 in an amount of RMB3 billion, with a maturity period of 3 years and at an interest rate of 3.73% per annum. The promissory note was fully repaid in April 2013.

On September 20, 2010, CUCL completed the issue of the second tranche of commercial paper for the year 2010 in an amount of RMB8 billion, with a maturity period of 365 days and at an interest rate of 2.81% per annum. The commercial paper was fully repaid in September 2011. On the same date, CUCL completed the issue of the second tranche of promissory note for the year 2010 in an amount of RMB12 billion, with a maturity period of 3 years and at an interest rate of 3.31% per annum. The promissory note was fully repaid in September 2013.

On October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, issued the 2015 Convertible Bonds in aggregate principal amount of US\$1,838,800,000 (at the fixed exchange rate of US\$1 equivalent to HK\$7.7576), which are guaranteed by our company and are exchangeable into ordinary shares of our company. Pursuant to the subscription agreement with respect to the 2015 Convertible Bonds, the holders of the 2015 Convertible Bonds may, beginning on November 28, 2010, elect to convert its bonds into our ordinary shares at an initial conversion price of HK\$15.85 per share, subject to certain adjustments. Pursuant to the relevant terms and conditions, the conversion price of the 2015 Convertible Bonds was adjusted to HK\$15.58 per share as a result of the payment of the 2011 final dividend and to HK\$15.36 per share as a result of the payment of the 2012 final dividend, and will be further adjusted to HK\$15.05 per share upon the payment of the 2013 final dividend, which is expected to be May 15, 2014. As of April 10, 2014, none of the 2015 Convertible Bonds has been converted into our ordinary shares.

On March 10, 2011, CUCL completed the issue of the first and second tranches of super and short-term commercial paper for the year 2011 in an amount of RMB8 billion for each tranche, each with a maturity period of 180 days and at an interest rate of 3.88% per annum. The first and second tranches of super and short-term commercial paper were fully repaid in September 2011.

On August 25, 2011, CUCL completed the issue of the first tranche of commercial paper for the year 2011 in an amount of RMB15 billion, with a maturity period of 366 days and at an interest rate of 5.23% per annum. The first tranche of commercial paper was fully repaid in August 2012.

On September 16, 2011, CUCL completed the issue of the third and fourth tranches of super and short-term commercial paper for the year 2011 in an amount of RMB4 billion for each tranche, each with a maturity period of 30 days and at an interest rate of 5.35% per annum. The third and fourth tranches of super and short-term commercial papers were fully repaid in October 2011.

On October 20, 2011, CUCL completed the issue of the second tranche of commercial paper for the year 2011 in an amount of RMB8 billion, with a maturity period of 366 days and at an interest rate of 5.78% per annum. The second tranche of commercial paper was fully repaid in October 2012.

On November 21, 2011, CUCL completed the issue of the fifth tranche of super and short-term commercial paper for the year 2011 in an amount of RMB15 billion, with a maturity period of 180 days and at an interest rate of 4.65% per annum. The fifth tranche of super and short-term commercial paper was fully repaid in May 2012.

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On May 16, 2012, CUCL completed the issue of the first tranche of super and short-term commercial paper for the year 2012 in an amount of RMB15 billion, with a maturity period of 60 days and at an interest rate of 3.88% per annum. The first tranche of super and short-term commercial paper was fully repaid in July 2012.

On July 12, 2012, CUCL completed the issue of the first tranche of commercial paper for the year 2012 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 3.45% per annum. The first tranche of commercial paper was fully repaid in July 2013.

On August 28, 2012, CUCL completed the issue of the second tranche of super and short term commercial paper for the year 2012 in an amount of RMB15 billion, with a maturity period of 60 days and at an interest rate of 3.70% per annum. The second tranche of super and short-term commercial paper was fully repaid in October 2012.

On October 24, 2012, CUCL completed the issue of the second tranche of commercial paper for the year 2012 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 4.20% per annum. The second tranche of commercial paper was fully repaid in October 2013.

On October 25, 2012, CUCL completed the issue of the third tranche of commercial paper for the year 2012 in an amount of RMB8 billion, with a maturity period of 365 days and at an interest rate of 4.20% per annum. The third tranche of commercial paper was fully repaid in October 2013.

On July 10, 2013, CUCL completed the issue of the first tranche of super and short-term commercial paper for the year 2013 in an amount of RMB15 billion, with a maturity period of 60 days and at an interest rate of 4.20% per annum. The first tranche of super and short-term commercial paper was fully repaid in September 2013.

On September 17, 2013, CUCL completed the issue of the second tranche of super and short-term commercial paper for the year 2013 in an amount of RMB15 billion, with a maturity period of 180 days and at an interest rate of 4.63% per annum. The second tranche of super and short-term commercial paper was fully repaid in March 2014.

On October 12, 2013, CUCL completed the issue of the third tranche of super and short-term commercial paper for the year 2013 in an amount of RMB10 billion, with a maturity period of 180 days and at an interest rate of 4.68% per annum.

On October 21, 2013, CUCL completed the issue of the fourth tranche of super and short-term commercial paper for the year 2013 in an amount of RMB10 billion, with a maturity period of 180 days and at an interest rate of 4.68% per annum.

On March 24, 2014, CUCL completed the issue of the first tranche of super and short term commercial paper for the year 2014 in an amount of RMB10 billion, with a maturity period of 270 days and at an interest rate of 5.10% per annum.

On April 3, 2014, the Company established a Medium Term Note Program, or the Program, under which the Company could offer and issue notes of aggregate principal amount of up to RMB10.0 billion. Notes issued under the Program will be denominated in Renminbi and issued to professional investors outside the United States. On April 16, 2014, the Company completed the issue of notes in an aggregate nominal amount of RMB4 billion pursuant to the Program, with a maturity period of three years and at an interest rate of 4.00% per annum.

On April 16, 2014, CUCL completed the issue of the first tranche of promissory note for the year 2014 in an amount of RMB5 billion, with a maturity period of three years and at an interest rate of 5.35% per annum.

Table of Contents**Contractual Obligations and Commercial Commitments**

The following table sets forth the amounts of our outstanding contractual cash obligations as of December 31, 2013.

	Total	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
Short-term bank loans ^{(1)*}	95,628	95,628	-	-	-
Commercial papers ^{(2)*}	35,406	35,406	-	-	-
Long-term bank loans ^{(3)*}	554	53	101	98	302
Corporate bonds ^{(4)*}	2,309	90	180	2,039	-
Convertible bonds ^{(5)*}	11,362	84	11,278	-	-
Promissory notes ^{(6)*}	-	-	-	-	-
Other obligations*	2,948	2,676	126	81	65
Capital commitments ⁽⁷⁾	28,372	11,009	5,845	2,009	9,509
Operating leases commitments ⁽⁷⁾	14,433	5,100	5,652	1,518	2,163
Total obligations	191,012	150,046	23,182	5,745	12,039

* Interest included

(1) See Note 25 Short-Term Bank Loans to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) See Note 26 Commercial Papers to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

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

(4) See Note 23 Corporate Bonds to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(5) See Note 22 Convertible Bonds to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(6) See Note 21 Promissory Notes to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(7) See Note 40 Contingencies and Commitments to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Trend Information

Please refer to the discussion in sections headed Overview and Operating Results under this Item 5.

Off-Balance Sheet Arrangements

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As of December 31, 2013, we did not have any other off-balance sheet arrangement.

Capital Expenditures

The following table sets forth our historical capital expenditure requirements for the periods indicated.

	For the Year Ended December 31,			
	2012	As a	2013	As a
	(RMB in billions)	Percentage	(RMB in billions)	Percentage
Mobile services	40.93	41.0%	24.65	33.6%
Broadband and data services	25.52	25.6%	17.47	23.8%
Infrastructure and transmission network	19.03	19.1%	23.77	32.4%
Others ⁽¹⁾	14.32	14.3%	7.57	10.2%
Total	99.80	100.0%	73.46	100.0%

⁽¹⁾ Other expenditures consist of innovation and value-added platform, IT system, fixed-line services and procurement of miscellaneous assets, equipment and spare parts.

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Our capital expenditure totaled RMB73.46 billion in 2013, which mainly consisted of investment in mobile services, broadband and data services, and infrastructure and transmission network. In 2013, capital expenditure attributable to mobile services was RMB24.65 billion; capital expenditure attributable to broadband and data services was RMB17.47 billion; capital expenditure attributable to infrastructure and transmission network was RMB23.77 billion.

We expect to continue incurring significant capital expenditure in 2014. We expect our capital expenditure in 2014 to include primarily investments in mobile services and fixed-line broadband services as well as infrastructure and transmission networks that support the development of our mobile services and fixed-line broadband services.

We expect to fund our capital expenditure needs through a combination of cash generated from operating activities, granted and unused banking facilities and other available financing sources. See **D. Risk Factors – Risks Relating to Our Business**. If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be adversely affected. under Item 3.

Item 6. Directors, Senior Management and Employees**A. Directors and Senior Management**

The following table sets forth certain information concerning our current directors and executive officers.

Name	Age	Position
Chang Xiaobing		Chairman of the Board of Directors and Chief Executive Officer
Lu Yimin	57	Executive Director and President
Tong Jilu	56	Executive Director and Senior Vice President
Li Fushen	51	Executive Director and Chief Financial Officer
Cesareo Alierta Izuel	68	Non-Executive Director
Cheung Wing Lam Linus	65	Independent Non-Executive Director
Wong Wai Ming	56	Independent Non-Executive Director
John Lawson Thornton	60	Independent Non-Executive Director
Chung Shui Ming Timpson	62	Independent Non-Executive Director
Cai Hongbin	46	Independent Non-Executive Director
Law Fan Chiu Fun Fanny	61	Independent Non-Executive Director
Li Jianguo	60	Senior Vice President
Li Gang	56	Senior Vice President
Zhang Junan	57	Senior Vice President
Jiang Zhengxin	57	Senior Vice President
Shao Guanglu	50	Senior Vice President

Mr. Chang Xiaobing was appointed in December 2004 as an Executive Director, Chairman and Chief Executive Officer of the Company. Mr. Chang, a professor level senior engineer, graduated in 1982 from the Nanjing Institute of Posts and Telecommunications with a bachelor's degree in telecommunications engineering and received a master's degree in business administration from Tsinghua University in 2001. He received a doctor's degree in business administration from the Hong Kong Polytechnic University in 2005. Prior to joining China United Telecommunications Corporation, Mr. Chang served as a Deputy Director of the Nanjing Municipal Posts and Telecommunications Bureau of Jiangsu Province and a Deputy Director General of the Directorate General of Telecommunications of the Ministry of Posts and Telecommunications and a Deputy Director General and Director General of the Department of Telecommunications Administration of the former Ministry of Information Industry, Vice President of China Telecommunications Corporation, as well as Executive Director and President of China Telecom Corporation Limited. Mr. Chang was appointed the Chairman of China United Telecommunications Corporation in November 2004. In December 2008, China United Telecommunications Corporation changed its company name to Unicom Group. Mr. Chang has served as a Director of Telefónica (listed on various stock exchanges including Madrid, New York and London) since May 2011. He also serves as the Chairman of Unicom Group, A Share Company and CUCL, respectively. Mr. Chang has extensive operational and managerial experience in the telecommunications industry.

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Mr. Lu Yimin was appointed as an Executive Director of the Company in October 2008 and President of the Company in February 2009. Mr. Lu, a researcher level senior engineer, graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in 1985 and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University. Mr. Lu joined Netcom Group in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited, or PCCW (listed on the Hong Kong Stock Exchange with an American Depositary Receipt trading on the Pink Sheets OTC Market in the U.S.), since May 2008 and the Deputy Chairman of PCCW since November 2011. Mr. Lu has served as a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Prior to joining the Netcom Group, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005. Mr. Lu is Vice Chairman and President of Unicom Group. Mr. Lu is also a Director and President of A Share Company, and a Director and President of CUCL. Mr. Lu has extensive experience in government administration and business management.

Mr. Tong Jilu was appointed as an Executive Director of the Company in February 2004 and Senior Vice President of the Company in March 2011. Mr. Tong graduated in 1987 from the Department of Economic Management at the Beijing University of Posts and Telecommunications. He received a doctor's degree in management from the Hong Kong Polytechnic University in 2009. Mr. Tong was Deputy Director General of the Posts and Telecommunications Administration of Liaoning Province, as well as the Posts Office of Liaoning Province. Mr. Tong joined China United Telecommunications Corporation in July 2000. He served first as Chief Accountant and later a Vice President and, from September 2003, a Director of China United Telecommunications Corporation. In December 2008, China United Telecommunications Corporation changed its company name to Unicom Group. From February 2004 to March 2011, Mr. Tong served as Chief Financial Officer of the Company. Mr. Tong now serves as a Director and Vice President of Unicom Group. He is also a Director of A Share Company, and a Director and Senior Vice President of CUCL. Mr. Tong has extensive operation and financial management experience in telecommunications companies.

Mr. Li Fushen was appointed in March 2011 as an Executive Director and Chief Financial Officer of the Company. Mr. Li graduated from the Jilin Engineering Institute with a degree in engineering management in 1988, and from the Australian National University with a master's degree in management in 2004. From November 2001 to October 2003, Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. From October 2003 to August 2005, Mr. Li served as General Manager of the Finance Department of Netcom Group. Since October 2005, he has served as the Chief Accountant of Netcom Group. He has served as Chief Financial Officer of China Netcom since September 2005 and has served as Executive Director of China Netcom since January 2007. From December 2006 to March 2008, Mr. Li served as Joint Company Secretary of China Netcom. From February 2009 to March 2011, Mr. Li served as a Senior Vice President of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipt trading on the Pink Sheets OTC Market in the U.S.) since July 2007, and a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li is a Director, Vice President and Chief Accountant of Unicom Group, a Director of A Share Company, as well as Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

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Mr. Cesareo Alierta Izuel was appointed in October 2008 as a Non-Executive Director of the Company. Mr. Alierta has been a member of the Board of Directors of Telefónica (listed on various stock exchanges including Madrid, New York and London) from January 1997 and has been Chairman of Telefónica since July 2000. Mr. Alierta is a member of the Board of Directors of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London). He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University) and a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. From April 2008 to December 2013, he was a member of the Board of Directors of Telecom Italia, S.p.A. In September 2005, Mr. Alierta received The Global Spanish Entrepreneur award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master's degree in business administration at the University of Columbia (New York) in 1970.

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

Mr. Wong Wai Ming was appointed in January 2006 as an Independent Non-Executive Director of the Company. Mr. Wong is Senior Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the Hong Kong Stock Exchange and the New York Stock Exchange). Besides, Mr. Wong is a Non-Executive Director of Linmark Group (listed on the Hong Kong Stock Exchange). Prior to his current executive position at Lenovo Group Limited, Mr. Wong was a Chief Executive Officer and Executive Director of Roly International Holdings Limited and an Executive Director of Linmark Group. Mr. Wong was also an Independent Non-Executive Director of I.T Limited. Mr. Wong was previously an investment banker with over 15 years of experience in investment banking business in Greater China and was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Wong is a chartered accountant and holds a bachelor's degree (with Honors) in management science from the Victoria University of Manchester in the United Kingdom.

Mr. John Lawson Thornton was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Thornton is currently a Professor and Director of the Global Leadership Program, and Member of the Advisory Board, at the Tsinghua University School of Economics and Management in Beijing. He is the Co-Chairman of Barrick Gold Corporation (listed on the Toronto Stock Exchange and New York Stock Exchange). He is the Chairman of the Board of Trustees of the Brookings Institution in Washington, D.C. Mr. Thornton is a Director of Ford Motor Company (listed on the New York Stock Exchange). He is also an advisory board member of China Investment Corporation (CIC) and China Securities Regulatory Commission (CSRC). Mr. Thornton served as a Director of HSBC Holdings plc from December 2008 to May 2013, a Director of News Corporation from June 2004 to November 2012 and an Independent Non-Executive Director of China Netcom from October 2004 to November 2008. Mr. Thornton retired in July 2003 as President and Director of The Goldman Sachs Group, Inc. Mr. Thornton received an A.B. in history from Harvard College in 1976, a B.A. and M.A. in jurisprudence from Oxford University in 1978 and an M.P.P.M. from the Yale School of Management in 1980.

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Mr. Chung Shui Ming Timpson was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 12th Chinese People's Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, Henderson Land Development Company Limited and China Construction Bank Corporation (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an Independent Director of China State Construction Eng. Corp. Ltd. (listed on the Shanghai Stock Exchange). From October 2004 to November 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee, an Independent Non-Executive Director of Nine Dragons Paper (Holdings) Limited, an Independent Director of China Everbright Bank Company Limited and an Outside Director of China Mobile Communications Corporation. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Mr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Cai Hongbin was appointed in May 2010 as an Independent Non-Executive Director of the Company. Mr. Cai is currently the Dean of and a Professor in Applied Economics at Guanghua School of Management at Peking University. Besides, Mr. Cai is a Deputy to the National People's Congress of the People's Republic of China and an Outside Director of China Petrochemical Corporation. Prior to joining Guanghua School of Management at Peking University, Mr. Cai served as an Assistant Professor of the Economics Department at University of California, Los Angeles. He was also an Independent Director of China Everbright Bank Company Limited, Concord Medical Services Holdings Limited and Beijing Venustech Inc. Mr. Cai received a bachelor's degree in Mathematics from Wuhan University in 1988, a master's degree in Economics from Peking University in 1991, and a doctoral degree in Economics from Stanford University in 1997. In addition, Mr. Cai was awarded New Century Excellent Talents in University from Ministry of Education of the PRC, or the Ministry of Education, in 2006, the National Outstanding Young Researcher from National Science Foundation of China in 2007, the National Changjiang Scholar from the Ministry of Education in 2008, Fellow of the Econometric Society in 2011 and Council of the Econometric Society in 2012. Mr. Cai has carried out extensive research in the areas of, among others, game theory, industrial organization, corporate finance and Chinese economy, and has published many academic papers in top international and national journals.

Mrs. Law Fan Chiu Fun Fanny was appointed in November 2012 as an Independent Non-Executive Director of the Company. Mrs. Law is currently a Deputy of the Hong Kong Special Administrative Region, or HKSAR, to the National People's Congress of the PRC, a Member of the Executive Council of the Government of HKSAR, the Special Adviser to the China-US Exchange Foundation, a Director of the Fan Family Trust Fund and the Honorary Principal of Ningbo Huizhen Academy. Besides, Mrs. Law is an Independent Non-Executive Director of CLP Holdings Limited (listed on the Hong Kong Stock Exchange). Prior to her retirement from the civil service in 2007, Mrs. Law was the Commissioner of the Hong Kong Independent Commission Against Corruption. During her 30 years as an Administrative Officer, Mrs. Law has worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, civil service, transport and education. Mrs. Law graduated from the University of Hong Kong with an Honours degree in Science, and in 2009 was named an outstanding alumnus of the Science Faculty of the University of Hong Kong. She received a Master degree in public administration from Harvard University and was named a Littauer Fellow of Harvard University. She also holds a Master degree in education from the Chinese University of Hong Kong and is a Fellow of The Hong Kong Institute of Directors.

Ms. Li Jianguo was appointed as Senior Vice President of the Company in February 2009. Ms. Li graduated from the Xiangtan University with a bachelor's degree in Chemical Engineering in 1982 and received a master's degree in business administration from the Hong Kong Polytechnic University in 2006. From June 2000 to July 2007, Ms. Li held various senior positions in China United Telecommunications Corporation, including serving as a Director and Chairperson of the Labour Union. Ms. Li also served as the Chairperson of the Board of Supervisors of A Shares Company from December 2001 to July 2007 and as Executive Director of the Company from April 2006 to July 2007. Ms. Li served as Senior Management in Netcom Group since July 2007. She has also served as Executive Director of China Netcom since July 2007. Ms. Li holds a senior managerial position in Unicom Group. Ms. Li is the Chairman of the Supervisory Board of A Share Company, as well as Director and Senior Vice President of CUCL. Ms. Li held leading positions in various enterprises, local governments and state ministries and committees for long period of time, and she has extensive working and management experiences in government, authorities and enterprises.

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Mr. Li Gang was appointed as Vice President of the Company in April 2006 and Senior Vice President of the Company in February 2009. Mr. Li graduated from Beijing University of Posts and Telecommunications in 1985 and received a master's degree in business administration from the Department of Advanced Business Administration of Jinan University in 2004. Mr. Li previously served as a Deputy Director of the Telecommunications Division, a Deputy Director of the Telecommunications Department, a Deputy Director of the Rural Telephone Bureau, a Deputy Director and a Director of the Telecommunications Operation and Maintenance Department of the Posts and Telecommunications Administration Bureau in Guangdong Province and as a Director of the Mobile Communication Bureau in Guangdong Province. From 1999 to 2005, he served as the Deputy Chairman, General Manager and Chairman of Guangdong Mobile Communication Co., Limited and as the Chairman and General Manager of Beijing Mobile Communication Co., Limited. From 2000 to 2005, he also served as an Executive Director of China Mobile (Hong Kong) Limited. Mr. Li joined China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to Unicom Group. From April 2006 to October 2008, Mr. Li served as an Executive Director of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW since November 2011. Mr. Li is a Deputy General Manager of Unicom Group, Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Zhang Junan was appointed as Vice President of the Company in April 2006 and Senior Vice President of the Company in February 2009. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982. He received a master's degree in business administration from the Australian National University in 2002 and a doctor's degree in business administration from the Hong Kong Polytechnic University in 2008. He previously served as a Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company and the Chairman and General Manager of the Anhui Provincial Telecommunications Co., Limited. Mr. Zhang joined the China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to Unicom Group. From April 2006 to October 2008, Mr. Zhang served as the Executive Director of the Company. In addition, Mr. Zhang serves as a Non-Executive Director of China Communications Services Corporation Limited. Mr. Zhang also serves as Vice President of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Zhang has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Jiang Zhengxin was appointed as Senior Vice President of the Company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor's degree in radio engineering from Beijing University of Posts and Telecommunications in 1982, a master's degree in business administration from Jilin University in 2001, and a PhD in political economy from Jilin University in 2006. Mr. Jiang served as Deputy Director of the Bureau of Telecommunications Administration in Changchun of Jilin Province from February 1998 to July 1999. He was the Deputy General Manager of Jilin Mobile Communication Company from July 1999 to March 2004. He served as the Deputy General Manager of South Communication Co. Limited of Netcom Group from March 2004 to June 2004, and he was the General Manager of Zhejiang Branch of Netcom Group from June 2004 to September 2007. He has served as Deputy General Manager of Netcom Group since September 2007. Mr. Jiang is a Deputy General Manager of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Shao Guanglu was appointed as Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined China United Telecommunications Corporation in February 1995. In December 2008, China United Telecommunications Corporation changed its company name to Unicom Group. Mr. Shao was Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. Mr. Shao also serves as a Vice President of Unicom Group, and a Director and Senior Vice President of CUCL. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

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B. Compensation

The aggregate compensation and other benefits paid by us to our directors as a group in 2013 was approximately RMB6.099 million, while retirement benefits paid by us were approximately RMB316,000. Each of our executive directors participated in a bonus scheme with us that ties the amount of bonus he or she will receive at the end of a year to our operating results of the year and his or her job performance. Some of our directors also hold options to purchase shares in our company. See *E. Share Ownership* below for detailed descriptions of our share option schemes and options granted to our directors as well as compensation for the year 2013.

C. Board Practices

General

Pursuant to our articles of association, at each annual general meeting, one-third of our directors retire from office by rotation. The retiring directors are eligible for re-election. The Board may at any time appoint a new director to fill a vacancy or as an additional director. The Board may also appoint and remove our executive officers. No benefits are payable to our directors or executive officers upon termination of their service with us in accordance with the provisions of their service agreements, except certain statutory compensation. The following table sets forth certain information concerning our current directors.

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Name	Appointment Date	Re-appointment Date	Resignation or Retirement Date
Current Directors			
Chang Xiaobing	December 21, 2004	May 12, 2006, May 26, 2009 and May 29, 2012	
Lu Yimin	October 15, 2008	May 26, 2009, May 24, 2011 and April 16, 2014	
Tong Jilu	February 1, 2004	May 12, 2004, May 12, 2006, May 16, 2008, May 12, 2010 and May 21, 2013	
Li Fushen	March 30, 2011	May 24, 2011 and May 21, 2013	
Cesareo Alierta Izuel	October 15, 2008	May 26, 2009, May 24, 2011 and May 21, 2013	
Cheung Wing Lam Linus	May 12, 2004	May 12, 2006, May 16, 2008, May 12, 2010, May 29, 2012 and April 16, 2014	
Wong Wai Ming	January 19, 2006	May 12, 2006, May 26, 2009, May 24, 2011 and April 16, 2014	
John Lawson Thornton	October 15, 2008	May 26, 2009, May 29, 2012 and April 16, 2014	
Chung Shui Ming Timpson	October 15, 2008	May 26, 2009 and May 29, 2012	
Cai Hongbin	May 13, 2010	May 24, 2011 and May 21, 2013	
Law Fan Chiu Fun Fanny	November 21, 2012	May 21, 2013	
Audit Committee			

The audit committee reviews and supervises our financial reporting process and internal controls. The duties of the audit committee include, among others:

as the key representative body for overseeing our relationship with the independent auditor, considering and approving the appointment, resignation and removal of our independent auditor and the auditor's fees;

reviewing our quarterly, interim and annual financial statements before submission to the board of directors;

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coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits;

reviewing any correspondence from the independent auditor to our management and the responses of our management;

reviewing the relevant reports concerning our internal controls and procedures;

discussing our internal control system with our management to ensure that our management perform their duties to have an effective internal control system in place;

pre-approving the audit and non-audit services to be provided by the external auditor, and determining whether any non-audit services would affect the independence of the auditor;

discussing with our management the schedule and procedures for the rotation of the partner of the auditing firm who will principally be responsible for the audit of our company and the partners who will actively participate in the audit of our company;

supervising the internal audit department, which will directly report to the committee; and

having the right to approve the appointment or removal of the head of internal audit department.

As of April 10, 2014, the members of the audit committee are Mr. Wong Wai Ming (Chairman of the audit committee), Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive directors of our company.

Remuneration Committee

The remuneration committee meets regularly to consider human resources issues, issuance of options and other matters relating to compensation. The primary duties of the remuneration committee include considering and approving the remuneration policies and structure for directors and senior management's remuneration, considering and making recommendations to the Board regarding the remuneration packages of the directors and senior management, and considering and approving our Company's share option schemes. The remuneration committee also conducts performance review of the Chief Executive Officer and determines the Chief Executive Officer's year-end bonus pursuant to the performance target contract entered into between the Board and the Chief Executive Officer. The Chief Executive Officer is responsible for the performance review and determination of performance-based year-end bonuses for the other members of our management, which is subject to the review of the remuneration committee. In addition, the remuneration committee consults the Chairman of the Board on the remuneration proposals for other executive directors. As of April 10, 2014, the members of the remuneration committee are Mr. Cheung Wing Lam Linus (Chairman of the remuneration committee), Mr. Wong Wai Ming, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson and Mr. Cai Hongbin, all being independent non-executive directors of our company.

Nomination Committee

The nomination committee meets regularly to consider the nomination of our directors and senior management personnel. The primary duties of the nomination committee are to (i) review the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement our corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board; (iii) formulate and review the policy of diversity of Board members as appropriate; (iv) give due regards to the benefits of diversity on the Board against the criteria set out in the policy of diversity of Board members when performing its duties; (v) assess the independence of independent non-executive directors; (vi) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors; and (vii) provide

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opinion to the Board on candidates nominated by our Chief Executive Officer to become our senior management personnel and on changes to our senior management personnel. As of April 10, 2014, the members of the nomination committee are Mr. Cai Hongbin (Chairman of the nomination committee), Mr. Chang Xiaobing, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson. Except for Mr. Chang Xiaobing, who is our Chairman and Chief Executive Officer, each of the members of the nomination committee is an independent non-executive director of our company.

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As of December 31, 2011, 2012 and 2013, we had a total number of 297,210, 289,015 and 283,596 employees, respectively. The employees as of December 31, 2013 are classified by function as follows:

By Function	Number of Employees
Employees	222,529
Management and administration	24,734
Sales and customer service	68,977
Product and Marketing	19,457
Network construction and maintenance	79,278
Support	27,352
Others	2,731
Temporary employees	61,067
Total	283,596

E. Share Ownership

As of April 10, 2014, our directors who own shares in our company are listed as follows:

Name	Capacity and Nature	Ordinary Shares Held	Percentage of Total Issued Shares
Cheung Wing Lam Linus	Beneficial Owner (<i>Personal</i>)	400,000	0.0017%
Chung Shui Ming Timpson	Beneficial Owner (<i>Personal</i>)	6,000	0.0000%

Apart from those disclosed herein, as of April 10, 2014, our other directors as a group do not own any shares in our company.

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As of April 10, 2014, our directors as a group hold options for 946,000 shares, or approximately 0.004% of our issued and outstanding share capital, including the following options granted under our share option scheme and special purpose share option scheme:

Name Directors	Capacity and Nature	Number of Shares Covered ⁽¹⁾	Expiration Date	Exercise Price	Consideration Paid	Compensation for 2013 (RMB in thousands)
Chang Xiaobing	Beneficial Owner					1,191
	(Personal)	746,000	February 14, 2015 ⁽³⁾	HK\$ 6.35	HK\$ 1.00	
Lu Yimin						1,070
Tong Jilu	Beneficial Owner					1,005
	(Personal)	200,000	February 14, 2015 ⁽³⁾	HK\$ 6.35	HK\$ 1.00	
Li Fushen						956
Cesareo Alierta Izuel						239
Cheung Wing Lam Linus						327
Wong Wai Ming						335
John Lawson Thornton						327
Chung Shui Ming Timpson						327
Cai Hongbin						343
Law Fan Chiu Fun Fanny						295
Employees⁽²⁾						
		13,854,000	July 19, 2014 ⁽³⁾	HK\$ 5.92	HK\$ 1.00	
		128,000	December 20, 2014 ⁽³⁾	HK\$ 6.20	HK\$ 1.00	
		70,922,000	February 14, 2015 ⁽³⁾	HK\$ 6.35	HK\$ 1.00	
		43,675,696	November 16, 2014 ⁽³⁾	HK\$ 5.57	HK\$ 1.00	
		44,972,381	December 5, 2014 ⁽³⁾	HK\$ 8.26	HK\$ 1.00	

(1) Each option gives the holder the right to subscribe for one share.

(2) In 2009, the exercise periods of approximately 25,000,000 options were extended by one year by the Board pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those options were determined by the Board as Transferred Personnel under the terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those options were not exercisable due to a Mandatory Moratorium under the terms of the Share Option Scheme. Due to the Mandatory Moratorium in force until the middle of 2013, the Board further extended the exercise periods of certain options by one year in each of March 2010, 2011, 2012 and 2013 under the terms of the Share Option Scheme. As of December 31, 2013, approximately 3,214,236 share options held by Transferred Personnel remained valid.

(3) In each of March 2010, 2011, 2012 and 2013, the expiry dates for certain options were extended by one year by the Board pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those options were not exercisable during the Mandatory Moratorium Period, which was in force until the middle of 2013, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

Stock Incentive Schemes

Share Option Scheme. We adopted a share option scheme on June 1, 2000, and amended the scheme on each of May 13, 2002, May 11, 2007 and May 26, 2009. The amended scheme provides for the grant of options to our employees, including executive directors and non-executive directors. Any grant of options to a connected person (as defined in the HKSE Listing Rules) of Unicom requires approval by our independent non-executive directors, excluding any independent non-executive director who is the grantee of the option. The option period commences on any date after the date on which an option is offered, but may not exceed 10 years from the offer date. The subscription price of a share in respect of any particular option granted under this share option scheme will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares on the HKSE on the grant date of such option; and (iii) the average closing price of the shares on the HKSE for the five trading days immediately preceding the grant date. As of March 31, 2014, 83,358,000 options granted by us under the share option scheme were outstanding and held by two directors and approximately 2,800 of our employees. The share option scheme expired on June 21, 2010. Following the expiry of the share option scheme, no further option may be granted under the share option scheme, but the provisions of the share option scheme will remain in full force and effect to the extent necessary to give effect to the exercise of the options granted prior to the expiry or otherwise as may be required in accordance with the provisions of the share option scheme. As of March 31, 2014, 4,310,000 options (with an exercise price of HK\$15.42), 34,131,200 options (with an exercise price of HK\$6.18), 101,244,800 options (with an exercise price of HK\$4.3), 366,000 options (with an exercise price of HK\$4.66), 94,758,000 options (with an exercise price of HK\$5.92), 526,000 options (with an exercise price of HK\$6.20) and 92,328,000 options (with an exercise price of HK\$6.35) had been exercised.

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Special Purpose Share Option Scheme. We also adopted a special purpose share option scheme on September 16, 2008, in connection with our merger with China Netcom and amended the scheme on May 26, 2009. The special purpose share option scheme provides for the grant of options to the optionholders of China Netcom, in consideration for the cancellation of their outstanding China Netcom options (whether vested or not) on October 14, 2008. There are two exercise periods for the options granted under the special purpose share option scheme, one of which commenced on October 15, 2008, and ended on November 16, 2013 (as extended by the Board), with an exercise price of HK\$5.57 and the other commenced on October 15, 2008, and ended on December 5, 2013 (as extended by the Board), with an exercise price of HK\$8.26. No amount was payable on acceptance of the grant of options under the special purpose share option scheme. As of March 31, 2014, 87,056,281 options granted under this scheme were outstanding and held by approximately 690 of our employees. As of March 31, 2014, 58,000,298 options (with an exercise price of HK\$5.57) and 44,499,987 options (with an exercise price of HK\$8.26) granted under the Special Purpose Share Option Scheme had been exercised.

New Share Option Scheme. We adopted a new share option scheme on April 16, 2014. The new scheme provides for the grant of options to our employees, including executive directors and non-executive directors. Any grant of options to a connected person (as defined in the HKSE Listing Rules) of Unicom requires approval by our independent non-executive directors, excluding any independent non-executive director who is the grantee of the option. The option period commences on any date after the date on which an option is offered, but may not exceed 10 years from the offer date, after which period no further option may be granted under the new share option scheme, but the provisions of the new share option scheme will remain in full force and effect to the extent necessary to give effect to the exercise of the options granted prior to the expiry or otherwise as may be required in accordance with the provisions of the new share option scheme. The subscription price of a share in respect of any particular option granted under this new share option scheme will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the closing price of the shares on the HKSE on the grant date of such option; and (ii) the average closing price of the shares on the HKSE for the five trading days immediately preceding the grant date. As of April 16, 2014, no options had been granted or agreed to be granted by us under the new share option scheme.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of April 10, 2014, our controlling shareholder, Unicom Group, through its 17.90% direct interest in Unicom BVI, 63.09% direct interest in the A Share Company (which in turn holds 82.10% of Unicom BVI) and 100% direct interest in Unicom Group BVI, indirectly and beneficially owned approximately 17.8 billion shares of Unicom, or 74.87% of our total outstanding shares. See A. History and Development of the Company under Item 4. Unicom Group's shares are held by the SASAC and a group of companies, most of which are state-owned enterprises in China. Shares beneficially owned by Unicom Group do not carry voting rights different from our other issued shares. In addition, Telefónica held 5.01% of our total outstanding shares.

As of April 10, 2014, most of our shareholders of record were located outside of the United States. In addition, as of April 10, 2014, there were approximately 34,782,000 ADSs outstanding, each representing 10 shares and together representing 1.46% of our total outstanding shares or 5.82% of our total outstanding shares not beneficially owned by our controlling shareholder.

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B. Related Party Transactions **Establishment of a Finance Company**

On December 6, 2013, CUCL and Unicom Group entered into a capital contribution agreement regarding the establishment of a joint venture company, or the JV Company, for the purposes of providing various financial services to our company and subsidiaries.

Pursuant to the capital contribution agreement and the Measures for Administration of Finance Companies of Enterprise Groups issued by China Banking Regulatory Commission, or the CBRC, the JV Company may carry out all or part of the following businesses: to provide financial advice, credit verification and related consultancy services and agency services, to handle payment and collection of transaction money, to conduct approved insurance agency business, to grant guarantees, to handle entrusted loans and entrusted investments, to carry out bill acceptance and discounting businesses, to handle fund transfers and settlement and advise on the relevant settlement options and structures, to accept internal money deposits, to arrange for loans and finance leases, to conduct inter-bank lending and borrowing, and to carry out any other businesses approved by the CBRC. The final scope of business of the JV Company will be subject to the approval by the CBRC and the registration with the relevant departments of SAIC in the PRC.

Pursuant to the capital contribution agreement, the registered capital of the JV Company will be RMB3,000 million, and CUCL and Unicom Group agreed to invest RMB2,730 million and RMB270 million in the JV Company, which represent 91% and 9% of the total registered capital of the JV Company, respectively. The capital contribution agreement will become effective upon approval of the CBRC.

2012 Acquisition

In December 2012, we completed our acquisition through CUCL of the entire equity interest in Unicom New Horizon from Unicom Group for a total cash consideration of RMB12,165,750,000. The assets of Unicom New Horizon consist of fixed-line telecommunications network assets located in 21 provinces in southern China and the rights and liabilities of Unicom New Horizon relating to its business operations.

2011 Acquisition

In December 2011, we completed our acquisitions through Broadband Online, a wholly-owned subsidiary of CUCL, of the entire equity interest in Unicom NewSpace from Unicom Group for a total cash consideration of RMB158 million. Unicom NewSpace primarily engages in mobile value-added business in China.

Continuing Related Party Transactions under the 2010 Integrated Services Agreement and the 2013 Integrated Services Agreement

Under the two-step approach described under *A. History and Development of the Company Two-Step Voting Arrangements* of Item 4, the continuing transactions between CUCL and Unicom Group under the comprehensive services agreement entered into in 2006 were amended, or the amended comprehensive services agreement, effective upon the completion of our merger with China Netcom, with CNC China added as party to such transactions. In January 2009, CNC China merged into CUCL. Pursuant to the amended comprehensive services agreement, Unicom Group agreed to provide certain services to CUCL and CNC China, being the supply of telephone cards, the provision of equipment procurement services, interconnection arrangements, the mutual provision of premises, the provision of international telecommunications network gateway, the provision of operator-based value-added services, the provision of value-added telecommunications services, the provision of 10010/10011 customer services, the provision of agency services and the provision of engineering design and technical services, until December 31, 2010.

On October 29, 2010, CUCL and Unicom Group entered into the 2010 integrated services agreement to renew certain continuing related party transactions for a term of three years commencing on January 1, 2011 and expiring on December 31, 2013. Unless CUCL notifies Unicom Group at least 60 days prior to the expiration of such agreement of their intention not to renew the 2010 integrated services agreement, such agreement shall automatically be renewed for a further period of three years.

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On October 24, 2013, CUCL and Unicom Group entered into a new integrated services agreement, or the 2013 integrated services agreement, to renew the relevant continuing related party transactions under the 2010 integrated services agreement for a term of three years commencing on January 1, 2014 and expiring on December 31, 2016.

Details of the continuing related party transactions under the 2010 integrated services agreement and the 2013 integrated services agreement are summarized below.

Telecommunications Resources Leasing

Unicom Group agrees to lease to CUCL certain international telecommunications resources and certain other telecommunications facilities required by CUCL for its operations.

The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and telecommunications facilities, provided that such charges would not be higher than market rates. CUCL will be responsible for the on-going maintenance of the leased international telecommunications resources. CUCL and Unicom Group will determine and agree which party is to provide maintenance service to the leased telecommunications facilities. Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group is responsible for maintaining any leased telecommunications facilities, CUCL will pay to Unicom Group the relevant maintenance service charges which will be determined with reference to market rates, or where there are no market rates, be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Unicom Group for the provision of the leased telecommunications resources leasing will be settled between CUCL and Unicom Group on a quarterly basis. In 2013, the total charges paid by CUCL to Unicom Group amounted to approximately RMB328 million.

Property Leasing

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

The rental charges payable by CUCL or Unicom Group are based on market rates or the depreciation charges and taxes in respect of each property, provided that such rental charges will not be higher than the market rates. The rental charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year. In 2013, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB943 million and the rental charges paid by Unicom Group to CUCL was negligible.

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.

CUCL will settle the revenue generated from the value-added telecommunications services with the branches of Unicom Group (or its subsidiaries) on the condition that such settlement will be based on the average revenue for independent value-added telecommunications content providers who provide value-added telecommunications content to CUCL in the same region. The revenue will be settled on a monthly basis. In 2013, the total revenue allocated to Unicom Group in relation to value-added services amounted to approximately RMB53 million.

Provision of Materials Procurement Services

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

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

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

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

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

The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles:

(A) the government fixed price;

(B) where there is no government fixed price but a government guidance price exists, the government guidance price;

(C) where there is neither a government fixed price nor a government guidance price, the market price; or

(D) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.

The charges for the provision of storage and logistics services are determined by reference to the market price, which is determined by reference to the following:

(I) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or

(II) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.

The service charges due to Unicom Group will be settled on a monthly basis. In 2013, the total charges paid by CUCL to Unicom Group amounted to approximately RMB188 million.

Provision of Engineering Design and Construction Services

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

The charges for the provision of engineering design and construction services are determined by reference to the market price, which is determined by reference to the following:

(a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or

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(b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction. The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. In 2013, the total charges paid by CUCL to Unicom Group amounted to approximately RMB2,178 million.

Provision of Ancillary Telecommunications Services

Unicom Group agrees to provide ancillary telecommunications services to CUCL. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers services.

The charges payable for the provision of ancillary telecommunications services are determined by reference to the following pricing principles:

- (a) the government fixed price;
- (b) where there is no government fixed price but a government guidance price exists, the government guidance price;
- (c) where there is neither a government fixed price nor a government guidance price, the market price; or
- (d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.

The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. In 2013, the total charges paid by CUCL to Unicom Group amounted to approximately RMB1,853 million.

Provision of Comprehensive Support Services

Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities which are provided under the paragraph headed *Provision of Telecommunications Resources Leasing* above), vehicle services, health and medical services, labor services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services).

The service charges are determined by reference to the following pricing principles:

- (a) the government fixed price;
- (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.

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The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. In 2013, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB613 million and the total services charges paid by Unicom Group to CUCL was RMB52 million.

Provision of Shared Services

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

- (a) CUCL will provide headquarter human resources services to Unicom Group;
- (b) Unicom Group and CUCL will provide central business support services to each other;
- (c) CUCL will provide trust services related to the services referred to in paragraphs (a) and (b) above to Unicom Group; and
- (d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters.

In relation to the central business support services, CUCL will provide support services, such as billing and settlement services provided by the business support center and operational statistics reports. Unicom Group will provide support services, including telephone card production, development and related services, maintenance and technical support and management services in relation to the telecommunications card operational system.

Unicom Group and CUCL will share the costs related to the shared services proportionately in accordance with their respective total assets value, except that the total assets value of the overseas subsidiaries and the listed company of Unicom Group will be excluded from the total asset value of Unicom Group, and the shared costs proportion will be agreed between Unicom Group and CUCL in accordance with the total assets value set out in the financial statements provided to each other, as adjusted in accordance with their respective total assets value on an annual basis. In 2013, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB171 million and the total services charges paid by Unicom Group to CUCL was negligible.

Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China

Under the two-step voting mechanism described in **A. History and Development of the Company Two-Step Voting Arrangements** under Item 4, we completed our acquisitions, through CUCL, of certain telecommunications business and assets, including the telecommunications business across 21 provinces in southern China, from Unicom Group and Netcom Group pursuant to (1) an acquisition agreement entered into among Unicom Group, Netcom Group and the A Share Company on December 16, 2008, under which the A Share Company agreed to acquire the relevant business and assets and (2) a transfer agreement entered into between the A Share Company and CUCL on December 16, 2008, under which the A Share Company agreed to transfer all of its rights and obligations under the acquisition agreement to CUCL. In addition, in order to operate the fixed-line business in the 21 provinces in southern China, on December 16, 2008, CUCL entered into the initial network lease agreement with Unicom Group, Netcom Group and Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, to lease on an exclusive basis the telecommunications networks in those provinces, which are held by Unicom New Horizon and are necessary for the operation of the fixed-line business in southern China. The initial network lease agreement expired at the end of 2010.

On October 29, 2010, CUCL entered into the 2011-2012 network lease agreement, with Unicom New Horizon, which was for an initial term of two years effective from January 1, 2011 and was renewable at the option of CUCL with at least two months prior notice on the same terms and conditions, except for the future lease fee which will remain subject to further negotiations between the parties. The annual lease fee paid by CUCL under the 2011-2012 network lease agreement for the years ending December 31, 2011 and 2012 was RMB2.4 billion and RMB2.6 billion, respectively. See **A. History and Development Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China** under Item 4.

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Certain Agreements Relating to Our Initial Public Offering

The Reorganization Agreement

In relation to the restructuring in connection with our initial public offering, our wholly-owned subsidiary, CUCL, entered into a reorganization agreement with Unicom Group, dated April 21, 2000. This agreement includes the following terms:

Unicom Group's agreement to transfer to CUCL certain assets and liabilities;

mutual warranties and indemnities given by Unicom Group and CUCL in relation to the assets and liabilities transferred to CUCL and in relation to the restructuring;

undertakings by Unicom Group in favor of CUCL, including, among other things:

to hold and maintain all licenses received from the former Ministry of Information Industry in connection with any of our businesses for our benefit, and to allocate spectrum and to provide other resources to us;

subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for our benefit such governmental or regulatory licenses, consents, permits or other approvals as we shall require to continue to operate our businesses;

to arrange for us to participate in its international roaming arrangements;

not to engage in any business that competes with our businesses, except for the existing competing businesses of Unicom Group;

to grant us a right of first refusal in relation to any governmental authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service;

to ensure that we can continue to use the premises for which title documentation cannot be obtained at this time, for a period of three years following the restructuring;

not to dispose of any of our shares it beneficially owns or to take or permit any other actions, including primary issuances of securities by us or CUCL, which would result in us or CUCL no longer constituting majority-owned subsidiaries of Unicom Group; and

not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future except through us;

an option granted by Unicom Group to us to acquire Unicom Group's interest in any telecommunications interest, such as Unicom Paging, Unicom Xingye and Unicom Group's CDMA telephony license and business; and

a commitment by Unicom Group that it will provide continuous financial support to us when necessary.

The 2010 integrated services agreement provides that the determination of whether we or CUCL would constitute majority-owned subsidiaries of the Unicom Group shall be made in accordance with the PRC Enterprise Accounting Standards, as amended by the MOF from time to time.

