CHINA UNICOM (HONG KONG) Ltd
Form 20-F
April 23, 2015
Table of Contents

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

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)**

75^{th} Floor, The Center

99 Queen s Road Central

Hong Kong

(Address of Principal Executive Offices)

Chu Ka Yee

Telephone: +852 2121 3220

Facsimile: +852 2121 3232

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:

Title of Each Class	Name of Each Exchange On Which Registered
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 depositary 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, 2014, 23,946,973,083 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 x 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 x

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 x 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 x Accelerated Filer ¨ Non-Accelerated Filer ¨

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 x 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 x

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

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 and our ability to successfully execute these 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 our mobile broadband services, which consist 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, our mobile broadband 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 r intended to identify 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 licenses for telecommunications services by the central government of the PRC;

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

- the level of demand for telecommunications services, in particular, mobile broadband 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 restructuring and integration (if any) in the PRC telecommunications industry and any cooperation among the PRC telecommunications operators;

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

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

effects of the imposition of and changes in value-added tax relating to the PRC telecommunications business; and

effects of any 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; and

changes in the political, economic, legal, tax and social conditions in China, including the PRC Government s policies and initiatives with respect to 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 (Hong Kong) Limited (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

Table of Contents

references to Renminbi or RMB are to the currency of the PRC, references to U.S. dollars or US$ ar 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).

Table of Contents

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, 2010, 2011, 2012, 2013 and 2014. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2012, 2013 and 2014 and the selected historical consolidated balance sheet data as of December 31, 2013 and 2014 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, 2010 and 2011 and consolidated balance sheet data as of December 31, 2010, 2011 and 2012 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, 2010, 2011, 2012, 2013 and 2014 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 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 .

In December 2011, we completed the acquisition of 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. 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 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 the business combination of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Given that Unicom NewSpace 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 Unicom NewSpace had always been part of our company during all the periods presented prior to 2011.

Table of Contents

	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2014 US$(1)
	As of or for the year ended December 31, (in millions, except for per share data)					
Consolidated Income Statement Data:						
Revenue(2)						
Mobile services						
Service revenue	82,449	103,307	126,036	151,133	155,095	24,997
Sales of mobile telecommunications products	7,173	23,219	38,735	56,393	39,743	6,405
Total mobile telecommunications revenue	89,622	126,526	164,771	207,526	194,838	31,402
Fixed-line services						
Service revenue (2)	79,942	81,642	83,213	86,487	88,481	14,261
Sales of fixed-line telecommunications products	114	63	64	78	60	9
Total fixed-line telecommunications revenue	80,056	81,705	83,277	86,565	88,541	14,270
Unallocated amounts						
Service revenue (2)	1,692	936	878	947	1,302	210
Sales of other telecommunications products						
	1,692	936	878	947	1,302	210
Total revenue	**171,370**	**209,167**	**248,926**	**295,038**	**284,681**	**45,882**
Total costs, expenses and others	**(166,786)**	**(203,569)**	**(239,405)**	**(281,324)**	**(268,750)**	**(43,314)**
Income before income tax	**4,584**	**5,598**	**9,521**	**13,714**	**15,931**	**2,568**
Income tax expenses	(883)	(1,371)	(2,425)	(3,306)	(3,876)	(625)
Net income	**3,701**	**4,227**	**7,096**	**10,408**	**12,055**	**1,943**
Earnings per share for income attributable to equity shareholders during the year						
-Basic earnings per share(3)	0.16	0.18	0.30	0.44	0.51	0.08
-Diluted earnings per share(3)	0.16	0.18	0.30	0.43	0.49	0.08
-Basic earnings per ADS(4)	1.57	1.79	3.01	4.40	5.05	0.81
-Diluted earnings per ADS(4)	1.56	1.78	2.96	4.31	4.95	0.80
	23,562	23,564	23,565	23,658	23,852	23,852

-Number of shares outstanding for basic earnings per share(3)						
-Number of shares outstanding for diluted earnings per share(3)	23,704	23,785	24,664	24,656	24,795	24,795
-Number of ADS outstanding for basic earnings per ADS(4)	2,356	2,356	2,357	2,366	2,385	2,385
-Number of ADS outstanding for diluted earnings per ADS(4)	2,370	2,379	2,466	2,466	2,480	2,480

Table of Contents

	As of or for the year ended December 31,					
	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2014 US$[(1)]
	(in millions, except for per share data)					
Consolidated Balance Sheet Data:						
Assets						
Cash and cash equivalents and short-term bank deposits	22,870	15,410	18,282	21,560	25,364	4,088
Property, plant and equipment	365,654	381,859	430,997	431,625	438,321	70,645
Inventories and consumables	3,728	4,651	5,803	5,536	4,378	706
Prepayments and other current assets	5,115	6,127	9,580	9,664	10,029	1,616
Financial assets at fair value through other comprehensive income	6,214	6,951	5,567	6,497	5,902	951
Total assets	**441,269**	**456,233**	**516,124**	**529,171**	**545,072**	**87,850**
Liabilities						
Accounts payable and accrued liabilities	97,666	95,252	108,486	102,212	120,371	19,400
Short-term bank loans	36,727	32,322	69,175	94,422	91,503	14,748
Commercial papers	23,000	38,000	38,000	35,000	9,979	1,608
Current portion of long-term bank loans	58	50	850	48	45	7
Current portion of other obligations	2,637	2,586	2,642	2,672	2,698	435
Current portion of corporate bonds			5,000			
Current portion of promissory notes			15,000			
Long-term bank loans	1,462	1,384	536	481	420	68
Promissory notes	15,000	15,000			21,460	3,459
Convertible bonds	11,558	11,118	11,215	11,002	11,167	1,800
Corporate bonds	7,000	7,000	2,000	2,000	2,000	322
Tax payable	1,483	1,232	1,820	2,634	1,466	236
Total liabilities	**235,608**	**250,335**	**306,619**	**310,272**	**317,531**	**51,177**
Shareholders equity	**205,661**	**205,898**	**209,505**	**218,899**	**227,541**	**36,673**
Share capital[(5)]	2,310	2,311	2,311	2,328	179,101	28,866

Table of Contents

	As of or for the year ended December 31,					
	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2014 US$[1]
	(in millions, except for per share data)					
Other Financial Data:						
CONTINUING OPERATIONS						
Net cash inflow from operating activities of continuing operations	66,376	66,491	70,620	78,482	88,094	14,198
Net cash outflow from investing activities of continuing operations	(76,619)	(82,970)	(99,480)	(77,110)	(75,319)	(12,139)
Net cash inflow/(outflow) from financing activities of continuing operations	19,824	8,988	32,004	1,926	(8,973)	(1,446)
Net cash inflow/(outflow) from continuing operations	**9,581**	**(7,491)**	**3,144**	**3,298**	**3,802**	**613**
DISCONTINUED OPERATIONS[6]						
Net cash inflow from operating activities of discontinued operations						
Net cash inflow from investing activities of discontinued operations	5,121					
Net cash outflow from financing activities of discontinued operations						
Net cash inflow from discontinued operations	**5,121**					
Net increase/(decrease) in cash and cash equivalents	**14,702**	**(7,491)**	**3,144**	**3,298**	**3,802**	**613**
Dividend declared per share	**0.08**	**0.10**	**0.12**	**0.16**	**0.20**	**0.03**

(1) The translation of RMB into U.S. dollars has been made at the rate of RMB6.2046 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, 2014. The translations are solely for the convenience of the reader.

(2) Revenue and service revenue figures for the years ended December 31, 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 10 years. No upfront connection fees will be recognized after December 31, 2011.

(3) See Note 39 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) The significant increase in our share capital in 2014 is primarily caused by the conversion of the amounts standing to the credit of the share premium account and the capital redemption reserve into our share capital due to the implementation of the no-par value regime under the Hong Kong Companies Ordinance (Cap. 622), which became effective on March 3, 2014. See Note 19 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(6) 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, 2014 (RMB6.2046 to US$1.00 and HK$7.7531 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.

Table of Contents

The daily exchange rates were RMB6.1976 = US$1.00 and HK$7.7510 = US$1.00, respectively, on April 17, 2015. 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:

Exchange Rate

	RMB per US$1.00		HK$ per US$1.00	
	High	**Low**	**High**	**Low**
October 2014	6.1385	6.1107	7.7645	7.7541
November 2014	6.1429	6.1117	7.7572	7.7519
December 2014	6.2256	6.1490	7.7616	7.7509
January 2015	6.2535	6.1870	7.7563	7.7508
February 2015	6.2695	6.2399	7.7584	7.7517
March 2015	6.2741	6.1955	7.7686	7.7534
April 2015 (up to April 17, 2015)	6.2152	6.1930	7.7525	7.7499

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 2010, 2011, 2012, 2013 and 2014, 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
2010	6.7603	7.7692
2011	6.4475	7.7793
2012	6.2990	7.7556
2013	6.1412	7.7565
2014	6.1704	7.7554

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 and

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. In particular, we compete with China Mobile and China Telecom in mobile 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 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.

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 implementing policies regarding the convergence of television broadcast, telecommunications and Internet access networks, and has 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. Since December 2013, the MIIT has approved 42 companies to operate such business.

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 and 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 and adversely affect our financial condition, results of operations and growth prospects.

We experienced a 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 a continuing decline in our revenue 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 growth slowdown or a decrease 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 Global System for Mobile Communications, or GSM mobile services have been negatively affected by the trend of migration to mobile broadband services, which resulted in a decrease in our subscribers and revenue of our GSM services.

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.

-6-

Table of Contents

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 expertize 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 and 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 mobile network long-term evolution;
- obtain adequate financing;
- obtain relevant government licenses, permits and approvals;

obtain adequate network equipment and software;

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 and adversely affected.

The successful development of our mobile broadband 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 mobile broadband networks.

We commercially launched our 3G services and 4G services in October 2009 and March 2014, respectively, and we will continue to make investments in our mobile broadband networks, expand our network coverage and improve our network quality in the future. We may experience various difficulties in the development of our mobile broadband 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 mobile broadband network expansion;
- there will be sufficient demand for mobile broadband services, or our mobile broadband services will be more popular among potential subscribers than those of our competitors;
- our mobile broadband services will generate an acceptable or commercially viable rate of return; and
- we will not encounter unexpected technological difficulties in implementing mobile broadband technologies.

Any failure or delay in expanding and upgrading our mobile broadband 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 mobile broadband services could hinder the recovery of our significant capital investment in mobile broadband 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 8.3% from RMB68.20 billion in 2013 to RMB73.87 billion in 2014, primarily due to our continuing expansion and upgrade of our fixed-line and mobile broadband networks. Also, our network, operation and support expenses increased by 12.3% from RMB33.70 billion in 2013 to RMB37.85 billion in 2014, mainly attributable to the expansion of our network coverage as well as our increased investment in network operation and enhanced network support and maintenance. If such expenses continue to increase without corresponding increase in the relevant service revenue, our profitability 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 and adversely affect our financial condition, results of operations and growth prospects.

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 and adversely affect our financial condition, results of operations and growth prospects.

Table of Contents

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 and 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 August 2014, an earthquake registering 6.5 on the Richter scale struck Lu Dian region of Yunnan Province. In 2014, 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 and 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 and adversely affected.

We continue to have a significant level of capital expenditure and debt service requirements necessary to implement our business strategies. We incurred RMB84.88 billion for capital expenditure in 2014. We expect to continue incurring significant capital expenditure in 2015. 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

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

We may continue to experience declines in ARPU for our telecommunications services.

In 2014, the ARPU for our mobile services decreased by 8.4% from 2013, primarily due to (i) the intensified competition with other telecommunications operators in China; (ii) the implementation of value-added tax to replace business tax in the PRC telecommunications industry; (iii) the change in our subsidies towards a model of lesser handset subsidies and more rebates or discounts on service charges to our subscribers, which resulted in a direct reduction of our mobile service revenue; and (iv) many new subscribers are users with lower usage of telecommunications services. We 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 manage 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.

Table of Contents

There remain uncertainties relating to the future operation of China Tower Company Limited.

In July 2014, we, China Mobile and China Telecom, the three major telecommunications operators in China, jointly established China Tower Company Limited, or the Tower Company (formerly known as China Communications Facilities Services Corporation Limited). Pursuant to the arrangement of setting up the Tower Company, we have made an investment of RMB3,010 million in cash in exchange for a 30.1% equity interest in the Tower Company. China Mobile and China Telecom subscribed for the remaining 40% and 29.9% equity interests, respectively. See Item 4. Information of the Company B. Business Overview Establishment of the Tower Company .

The Tower Company will be primarily engaged in the construction, maintenance and operation of telecommunications towers in the PRC . It will also be engaged in the construction, maintenance and operation of ancillary facilities, including base station control rooms, power supplies, air conditioning and interior distribution systems, as well as the provision of maintenance services of base station equipment. In addition, the Tower Company is expected to acquire certain tower assets from the three major telecommunications operators, and will lease the telecommunications towers and the ancillary facilities to the three major telecommunications operators for their operations. While the purpose of establishing the Tower Company is to enhance the efficiency of the capital expenditure of the three major telecommunications operators, to improve the network coverage and to reduce the competition among the three major telecommunications operators on sites of telecommunications towers, there remain uncertainties regarding the achievement of such purpose and the future operation of the Tower Company. For example, the operation of the Tower Company is at a preliminary stage, and the three major telecommunications operators are currently formulating plans to contribute their respective telecommunications tower assets into the Tower Company and the amount of rental payments the Tower Company will charge the three major telecommunications operators in the future remains to be determined. Therefore, there are uncertainties as to the evaluation of the telecommunications tower assets to be contributed into the Tower Company, the timetable for the tower asset contributions, the capability of the Tower Company to execute the tower assets integration and construction plans, the amount of rental payments the Tower Company will charge us in the future. In addition, as we do not control the Tower Company, the Tower Company may not act in the best interest of us. As such, we cannot assure you that our investment in the Tower Company will achieve the anticipated results in the near future as expected, or at all.

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 74.36% of our issued share capital as of April 17, 2015 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.

Table of Contents

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.

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, 2014 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2014 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 and 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.

Table of Contents

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 17, 2015, 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 3.81% of our enlarged issued and outstanding share capital as of April 17, 2015.

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.

Certain employee misconduct may not be detected or prevented in a timely manner, and such misconduct may damage our reputation and cause the trading price of our ordinary shares and ADSs to decrease.

In the course of investigations conducted jointly by the Central Commission for Discipline Inspection of the Communist Party of China and the Ministry of Supervision of the PRC in November and December 2014, two officers of our Group, who are not directors or members of the senior management of our company, were alleged to have engaged in unlawful conduct and other misconduct. Such allegations of unlawful conduct include the acceptance of bribes. While these incidents are still under investigation, we believe that such unlawful conduct and other misconduct are isolated incidents of individual misconduct.

In response to these investigations, we have taken and will continue to take various measures, including enhancing our employee s compliance awareness and strengthening our risk prevention in this regard, to detect and prevent similar misconduct by our employees in the future. However, we cannot assure you that these measures will effectively detect or prevent all misconduct by our employees in a timely manner or at all. If these measures prove ineffective in detecting or preventing employee misconduct, our reputation may be severely harmed, our operations could be disrupted and the trading price of our ordinary shares and ADSs could decrease significantly.

Table of Contents

The implementation of value-added tax to replace business tax in the PRC telecommunications industry has had, and may continue to have, a negative impact on our net income and profitability.

In April 2014, the Ministry of Finance, or the MOF, and the State Administration of Taxation of the People s Republic of China, or the SAT, jointly issued a notice, pursuant to which the pilot program regarding the replacement of business tax with value-added tax, or VAT, was implemented nationwide for the telecommunications industry from June 1, 2014. The notice sets out the scope of taxable telecommunications services and the tax rates applicable to various telecommunications services. The VAT rate for basic telecommunications services is 11% and the VAT rate for value-added telecommunications services is 6%, as opposed to the business tax of 3% imposed on the revenue that was applicable to us prior to June 1, 2014.

On the one hand, as the revenue is presented in our financial statements after excluding any VAT in accordance with IFRS, the implementation of VAT has a negative impact on our revenue. On the other hand, the implementation of VAT reduces our costs and expenses to the extent that we are entitled to certain input VAT credits. To the extent that the decrease in revenue is larger than the decrease in our costs and expenses due to the implementation of VAT in the PRC telecommunications industry, there is a negative impact on our net income. See Operating and Financial Review and Prospects Operations Results Year Ended December 31, 2014 Compared to Year Ended December 31, 2013 under Item 5 for more details. We have taken certain initiatives to manage the adverse impact from the implementation of VAT, such as increasing the contribution of the non-voice services to our total revenue, optimizing the marketing models and operations, and enhancing tax planning capabilities. However, we cannot assure you that the measures we take to manage the adverse effect on our net income due to the implementation of the VAT in the PRC telecommunications industry will achieve the anticipated results in the near future.

In 2011, the NDRC initiated an anti-monopoly investigation on us relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers. Any further investigation may adversely affect our business operations, our business, or 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 and April 2014, we submitted two reports to the NDRC regarding the improvement of our price management of Internet dedicated leased line access service. As of the date of this annual report, the NDRC has not informed us of any further investigation or improvement requirement. Nonetheless, we cannot assure you that the NDRC will not carry out any further investigation or impose any improvement requirement on us in the future, which investigation or improvement requirement, if any, may have an adverse effect on our business operations, our reputation, or the prices of our shares and ADSs.

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 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 and adversely affected. In addition, we are subject to various regulatory requirements as to service quality, pricing, real-name registration for telecommunications service subscribers 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. Furthermore, we cannot assure you that we will not experience any adverse impact on our business during the course of our compliance with regulatory requirements in the PRC telecommunications industry. For instance, in 2015, we will strictly comply with the PRC Government s policy relating to the real-name registration of telecommunications service subscribers by taking more stringent measures to manage the subscriber accounts that are not real-name registered or inactive. These measures are likely to cause a growth slowdown or a decrease in the number of our subscribers in 2015. Similarly, the PRC regulators may promulgate and implement new regulations, rules and policies on the telecommunications industry from time to time, and we cannot guarantee that any such new regulations, rules or policies will not have a material adverse effect on our financial condition, results of operations and growth prospects.

Table of Contents

Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially and 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 and 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, 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.

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.

Table of Contents

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 and adversely affected by changes in or deterioration of 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 and adversely affected by government control over capital investments.

The global financial crisis that unfolded in 2008 and continued in the past few years has led to a marked slowdown in the economic growth of the PRC. The GDP growth rate of China decreased from 11.4% in 2007 to 7.4% in 2014. It s uncertain whether China s economic growth will return to the previous level of growth or it will encounter deterioration. In light of the slowdown of China s economic growth, 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.

Table of Contents

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 and 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.

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 10 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.

Natural disasters such as earthquakes, snowstorms and floods may result 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 the outbreak of influenza A (H1N1). In April 2013, a major earthquake registering 7.0 on the Richter scale struck Ya an region of Sichuan Province. In August 2014, another major earthquake registering 6.5 on the Richter scale struck the Lu Dian area of Yunnan Province. In 2014, 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 and 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.

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 an order is imposed on the Chinese member firm of the KPMG network suspending its practice before the SEC, 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. While under appeal and in February 2015, the Chinese member firms of Big Four accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of Big Four accounting firms agreed to settlement terms that include a censure; undertakings to make a payment to the SEC; procedures and undertakings as to future requests for documents by the SEC; and possible additional proceedings and remedies should those undertakings not be adhered to.

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 settlement terms are not adhered to, Chinese member firms of Big Four accounting firms may be suspended from practicing before the SEC 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.

Table of Contents

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.

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.

Table of Contents

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.

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.

Table of Contents

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. The special purpose share option scheme expired on February 14, 2015.

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.

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).

Table of Contents

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 10 of our ordinary shares, are listed on the NYSE.

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;

- 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.

Table of Contents

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.

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 acquired 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 in July 2012.

On November 13, 2014, Telefónica, through Telefónica International, completed the sale of 597,844,100 ordinary shares in the capital of our company for an aggregate consideration of HK$6,660 million, and upon the completion of such transaction, Telefónica held less than 5% ordinary shares in the capital of our company.

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.

Table of Contents

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 17, 2015.

Table of Contents

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.

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 2015. We currently do not have any significant divestiture in progress.

Table of Contents

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 2014, mobile broadband services, which consist of 3G and 4G services, continued to be the largest driver of our revenue growth. The total number of our mobile broadband subscribers increased by 21.6% from 122.60 million as of December 31, 2013 to 149.11 million as of December 31, 2014, and service revenue from our mobile broadband services increased by 17.9% from RMB89.80 billion in 2013 to RMB105.83 billion in 2014. As a percentage of our total service revenue from mobile services, service revenue from mobile broadband services increased from 59.4% in 2013 to 68.2% in 2014. In addition, our fixed-line broadband services continued to grow. Service revenue from fixed-line broadband services increased by 9.2% compared with 2013, accounting for 56.7% of total service revenue from the fixed-line services.

Mobile Services

Our mobile services consist of GSM and mobile broadband services. Our service revenue from mobile services and number of mobile services subscribers continued to grow in 2014, primarily driven by the growth of our mobile broadband services. Revenue from our mobile services was RMB194.84 billion in 2014, of which, service revenue from our mobile services increased by 2.6% from RMB151.13 billion in 2013 to RMB155.10 billion in 2014, accounting for 63.4% and 63.3% of our total service revenue in 2013 and 2014, respectively.

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

	As of or for the year ended December 31,		
	2012	**2013**	**2014**
Number of subscribers (in thousands)	239,312	280,983	299,098
Estimated market share in our service areas(1)	21.6%	22.8%	23.2%
Average minutes of usage per subscriber per month (MOU)(2)	306.4	296.1	278.1
Average revenue per subscriber per month (ARPU) (in RMB)(3)	47.9	48.2	44.1

(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 6.4% from 280.98 million as of December 31, 2013 to 299.10 million as of December 31, 2014, which was mainly due to the increase in our mobile broadband subscribers. In 2015, we will strictly implement the PRC Government s policy relating to the real-name registration of telecommunications service subscribers by taking more stringent measures to manage the subscriber accounts that are not real-name registered or inactive. In addition, we will also adjust our sales and marketing model, including the initiatives to reduce our sales and marketing expenses. These measures are likely to have a negative effect on our subscriber growth in 2015. 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 and adversely affect our financial condition, results of operations and growth prospects , D. Risk Factors Risks Relating to Our Business 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 and adversely affect our financial condition, results of operations and growth prospects and D. Risk Factors 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 under Item 3, respectively. The MOU of our mobile services decreased from 296.1 minutes in 2013 to 278.1 minutes in 2014. The overall ARPU of our mobile services decreased by 8.5% from RMB48.2 in 2013 to RMB44.1 in 2014. The decline in the MOU was mainly due to (i) the intensified competition with other telecommunications operators in China; and (ii) many new subscribers are users with lower usage of telecommunications services. The decrease in our ARPU is mainly due to: (i) the decrease in the MOU; (ii) the implementation of value-added tax to replace business tax in the PRC telecommunications industry; and (iii) the change in our subsidies towards a model of lesser handset subsidies and more rebates or discounts on service charges to our subscribers, which resulted in a direct reduction of our mobile service revenue.

Table of Contents

Mobile Broadband Services

MIIT granted our parent company, Unicom Group, the licenses to operate mobile broadband services adopting the two major variants of 4G LTE technologies, being the Time Division LTE technology, or TD-LTE, and the Frequency-Division LTE technology, or LTE FDD, in December 2013 and February 2015, respectively. With the licenses from the MIIT, Unicom Group authorized our wholly owned subsidiary, CUCL, to operate the 4G services.

Our mobile broadband services primarily consist of mobile broadband voice services and mobile broadband non-voice services. Our mobile broadband 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 mobile broadband non-voice services primarily include wireless Internet, mobile reading, mobile music, WO App Store and other wireless information services.

Subscriber. Our total number of mobile broadband subscribers increased by 21.6% from 122.60 million as of December 31, 2013 to 149.11 million as of December 31, 2014 (which included 8.06 million wireless data card subscribers). The increase was primarily due to (i) our proactive participation in LTE-TD/LTE-FDD hybrid network trial operations; (ii) the increasing penetration rate of smart phones in the PRC market; and (iii) our efforts in the establishment of an integrated and centralized business operation management system along with innovations on distribution channels, pricing and service packages.

MOU and ARPU. With respect to our mobile broadband services, MOU decreased by 13.1% from 406.0 minutes in 2013 to 352.8 minutes in 2014 and ARPU decreased by 15.3% from RMB75.1 in 2013 to RMB63.6 in 2014. The decrease in our MOU is mainly attributed to (i) the intensified competition with other telecommunications operators in China; and (ii) many new subscribers are users with lower usage of telecommunications services. The decrease in our APRU is primarily due to (i) the decrease in our MOU; (ii) the implementation of value-added tax to replace business tax in the PRC telecommunications industry; and (iii) the change in our subsidies towards a model of lesser handset subsidies and more rebates or discounts on service charges to our subscribers, which resulted in a direct reduction of our mobile service revenue.

Mobile Broadband Voice Services. The total mobile broadband voice usage increased from 457.2 billion minutes in 2013 to 555.6 billion minutes in 2014, primarily as a result of the increase in our mobile broadband subscribers.

Mobile Broadband Non-Voice Services. In 2014, the data usage of mobile broadband handset users reached 353.19 billion MB, representing an increase by 69.0% from 208.97 billion MB in 2013, which was largely due to the increase in the number of our mobile broadband subscribers, our promotion of our WO+ open platform and our cooperation with internet companies on data volume, joint operation and distribution channels. The average data usage per mobile broadband handset user per month was 224.3 MB in 2014. As of December 31, 2014, we had 221.49 million registered subscribers of WO App Store and 23.62 million registered subscribers of mobile music.

GSM Mobile Services

Our GSM mobile services primarily consist of GSM voice services and non-voice services. Our GSM 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 and include 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 5.3% from 158.38 million as of December 31, 2013 to 149.99 million as of December 31, 2014. The decrease was primarily attributable to our business strategy to accelerate the migration of our GSM subscribers to our mobile broadband services and the intensified competition among the telecommunications operators in China.

Table of Contents

MOU and ARPU. With respect to our GSM mobile services, MOU decreased by 7.7% from 232.3 minutes in 2013 to 214.4 minutes in 2014, and ARPU decreased by 15.7% from RMB31.6 in 2013 to RMB26.6 in 2014. The decrease in our MOU and ARPU was primarily attributable to (i) the migration of certain mid- and high-end 2G subscribers to mobile broadband 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. In addition, the implementation of VAT to replace to the business tax in the PRC telecommunications industry also has a negative impact on the ARPU of our GSM mobile services.

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 RMB88.54 billion in 2014, of which service revenue from our fixed-line services increased by 2.3% from RMB86.49 billion in 2013 to RMB88.48 billion in 2014, accounting for 36.3% and 36.1% of our total service revenue in 2013 and 2014, respectively. In 2014, we achieved stable increase in revenue from our fixed-line services, mainly attributable to the proactive implementation of fiber-optic broadband network upgrade, the improvement of our network speed, 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.

In 2014, we continued to upgrade our fiber-optic transmission network and improved access speed. Through strengthening the marketing of integrated mobile and fixed-line services, we promoted IPTV/Internet TV business, which effectively developed fixed-line broadband subscribers and enhanced customer loyalty by creating more value for them. As of December 31, 2014, our fixed-line broadband subscribers increased by 6.4% to 68.79 million, of which subscribers with 4M-and-above bandwidth accounted for 88.2% of all fixed-line broadband subscribers, representing an increase of 9.4 percentage points from the end of 2013. Our fixed-line broadband ARPU increased by 1.3% from RMB61.4 in 2013 to RMB62.2 in 2014.

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

	As of December 31,		
	2012	**2013**	**2014**
Number of fixed-line broadband subscribers (in thousands)	58,540	64,647	68,790

Table of Contents

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 2014, we have established business cooperation relationships with 585 overseas operators in 251 countries and regions and multinational corporate customers to provide various international data communications products and services, such as international voice and data services. In 2014, 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 2014, 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, 2014, the number of our WO Family subscribers increased by 1.76 million to 21.25 million.

The number of our fixed-line subscribers (including PHS subscribers) was 91.96 million, 87.64 million and 82.06 million as of December 31, 2012, 2013 and 2014, respectively. The decrease in the recent years was primarily due to a decrease in the number of our fixed-line telephone service subscribers and our PHS subscribers.

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 total usage of our local calls were 81,820 million times, 64,793 million times and 69,879 million times in 2012, 2013 and 2014, respectively.

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.

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,		
	2012	**2013**	**2014**

Total minutes of domestic long-distance calls (minutes in millions)[1]			
Traditional	12,170	11,143	11,398
VoIP	5,520	4,447	2,800
Total	17,690	15,590	14,198

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

Table of Contents

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,		
	2012	2013	2014
International long-distance outbound call minutes (minutes in millions)(1)(2)			
Traditional	282	197	74
VoIP	229	199	100
Total	511	396	174

(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 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.

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.

Table of Contents

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, 2015, we had roaming arrangements for (i) GSM international voice and SMS services with 590 operators in 251 countries and regions, (ii) GPRS international inbound data services with 510 operators in 208 countries and regions and for international GPRS outbound data services with 461 operators in 191 countries and regions, and (iii) 3G services with 364 WCDMA operators in 138 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, WCDMA and LTE mobile networks. Our GSM mobile network mainly operates at 900 MHz and 1800 MHz. We use 2x6 MHz of spectrum in the 900 frequency band and 2x15 MHz of spectrum in the 1800 frequency band for our GSM network in most of our service areas. With the licenses from MIIT to operate the 4G technologies consisting of TD-LTE and LTE FDD technologies in December 2013 and February 2015, respectively, we have deployed 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. We have also deployed LTE-FDD networks using 2x15 MHz LTD-FDD frequency resources (uplink frequency of 1750-1765 MHz and downlink frequency of 1845-1860 MHz of spectrum).

We have devoted significant resources in developing our mobile broadband networks to enhance our customer experience and improve the quality of our mobile broadband networks. In 2014, we leveraged our 3G network coverage and technologies, we conducted TD-LTE/LTE FDD hybrid network trials in 56 cities in China and continued to expand our network coverage as well as to improve the quality of networks. As of December 31, 2014, our mobile broadband network base stations reached 565,000 with an increase of 158,000 base stations and our GSM network base stations reached 424,000.

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 mobile broadband 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, by adding seven national Internet backbone nodes, we further increased our Internet bandwidth, and our broadband network capacity was substantially enhanced. By the end of 2014, the number of fixed-line broadband access ports increased by 15.73 million to 135 million, up by 13.4% from the end of 2013, of which the number of access ports with FTTX accounted for 77.8% of total broadband access ports. Our international Internet outbound bandwidth reached 1,025G, our submarine cable capacity reached 4,707G, and our international cross-continental cable capacity reached 2,737G.

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 establish an integrated and unified operating marketing system based on cBSS and our online business-to-business platform Woego, 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 mobile broadband 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. Since year-end 2013, we have conducted extensive 4G promotion activities to further enhance WO brand value and corporate brand value. In 2014, we established a B2B e-commerce platform Woego , so as to further enhance the productivity and efficiency of our distribution channels.

Customer Service

We provide customer services through our nationwide sales outlets, hotline number 10010 , online sales outlets, SMSs, handset online stores, self-service service platforms, official micro-blog and other channels. Our customer services typically include inquiries, service initiation and termination, and response to reports of mechanical malfunction as well as customer complaints and suggestions. We provide customer services to our customers travelling outside of China via a dedicated international roaming service hotline number 18618610010 24 hours per day, seven days per week. We implement relevant procedures to ensure that our customer service is provided in a timely manner. For instance, to the extent that we are unable to address certain of our customer s inquiries via our customer hotline, we will make commitments to our customers that we will provide response to their inquiries within a specified timeframe.

We continue to improve our customer service system and operations, customer retention and customer service quality. We launch various initiatives to enhance our customer experience by customer service follow-up calls and regular greetings to customers. In addition, we promote the transparency of our broadband services by keeping our customers apprised of each key stage of the service installation process, which includes the service initiation, schedule for installation, and commencement and completion of installation.

Table of Contents

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 fixed line and mobile broadband 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. 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 2014, we completed the experiment on certain key technologies related to LTE carrier aggregation and base band resource pool. 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. 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 were granted the license to operate TD-LTE mobile service by the PRC Government in December 2013, and Unicom Group and China Telecom were granted the license to operate LTE-FDD mobile service in February 2015, 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 and 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.

Establishment of the Tower Company

In July 2014, we, through CUCL, entered into a promoters agreement with a subsidiary of China Mobile and China Telecom to jointly establish China Tower Company Limited (formerly known as China Communications Facilities Services Corporation Limited), or the Tower Company, with a registered capital of RMB10 billion. Pursuant to the promoters agreement, we subscribed for 3.01 billion shares at a par value of RMB1.00 per share in the registered capital of the Tower Company in cash, representing 30.1% of the registered capital of the Tower Company, while the remaining 40.0% and 29.9% of the registered capital of the Tower Company are beneficially held by China Mobile and China Telecom, respectively. The Tower Company will be primarily engaged in the construction, maintenance and operation of telecommunications towers. It will also be engaged in the construction, maintenance and operation of ancillary facilities including base station control rooms, power supplies, air conditioning and interior distribution systems, as well as the provision of maintenance services of base station equipment. In addition, the Tower Company is expected to acquire certain tower assets from the three major telecommunications operators, and will lease the telecommunications towers and the ancillary facilities to the three major telecommunications operators for their operations. The operation of the Tower Company is at a preliminary stage, we and the other two major telecommunications operators are currently formulating plans to contribute our respective telecommunications tower assets into the Tower Company and strategies relating to the development and operation of the Tower Company in the future. The establishment of the Tower Company is intended to enhance the efficiency of the capital expenditure of the three major telecommunications operators, to improve the network coverage and to reduce the competition among the three major telecommunications operators on the sites of telecommunications towers.

Strategic Alliances with Telefónica

On January 30, 2009, we entered into a business cooperation 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 an 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 acquired 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 in July 2012.

On November 13, 2014, Telefónica completed the sale of 597,844,100 ordinary shares in the capital of our company for an aggregate consideration of HK$6,660 million, and upon the completion of such transaction, Telefónica held less than 5% ordinary shares in the capital of our company.

Table of Contents

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.

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;
- 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 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 and adversely affect our financial condition, results of operations and growth prospects under 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. On August 15, 2014, the PRC State Council amended the Telecommunications Regulations of the People s Republic of China.

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.

Table of Contents

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.

- 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
- 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 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 and LTE-FDD 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

Prior to January 2014, the levels and categories of telecommunications tariffs were 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.

In January 2014, the State Council announced the removal of the MIIT s approval requirement on the tariff standard of telecommunications services. In addition, pursuant to the amendments to the Telecommunications Regulations dated August 15, 2014, the telecommunications tariffs shall be set by the telecommunications operators based on costs and market conditions.

Table of Contents

The following tables set forth the tariff rates of certain services provided by us:

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. 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 0.4 for receiver	0.6 for caller 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.

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.

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.

Table of Contents

Data Services

Set forth below are the tariffs for our data services consisting of DDN services and frame relay 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

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)]:

	Monthly Fee			
	64kbps	256kbps	512kbps	1Mbps
	(RMB)			
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:

	Monthly Fee			
	2Mbps	8Mbps	34Mbps	155Mbps
	(RMB)			
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.

Table of Contents

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	(1) Mobile operator collects the usage fees from its subscribers;
		(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.
Local fixed-line operator	Mobile operator	(1) Local fixed-line operator collects the usage charge from its subscribers;
		(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.
Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers;
		(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).
Local fixed-line operator A	Local fixed-line operator B	(1) Operator A collects the usage fees from its subscribers;
		(2) In the case of intra-district calls, operator A pays operator B 50% of the intra-district usage fees;
		(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.

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)	Local fixed-line or 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). Other than the above, operator A pays RMB0.06 per minute to operator B.
Fixed-line or mobile operator A	Domestic long-distance calls made without using the carrier identity code of operator B (through the long-distance network of 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 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.
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.

-41-

Table of Contents

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	(1) Operator A collects local usage fees;
		(2) Operator C collects the VoIP long-distance usage fees from its subscribers;
		(3) Operator C pays RMB0.06 per minute to operator B on the terminating end;
		(4) No settlement between operator C and operator A on the originating end.

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	(1) Operator A collects the tariff from its subscribers;
		(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

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

Network from Which	Network at Which	Current Main Settlement

MMS Originated	**MMS Terminated**	**Arrangement**
Mobile operator A	Mobile operator B	(1) Operator A collects the tariff from its subscribers;
		(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

Table of Contents

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.

Most of the standards used in the Chinese telecommunications industry are generally based on the standards issued by the International Telecommunications 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.

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.

Table of Contents

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 based on the trial results.

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 and SAIC, exercise extensive oversight 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.

In addition, the SASAC has an indirect influence over us as our controlling shareholder, Unicom Group, is under the direct supervision of the SASAC. In particular, the SASAC may designate certain nominees and request Unicom Group to propose the appointment of such nominees as our directors and senior management. The 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.

Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act of 1934, as amended. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

As of the date of this report, we are not aware of any activity, transaction or dealing by us or any of our affiliates in 2014 that requires disclosure in this under Section 13(r) of the Exchange Act of 1934, as amended, except as set forth below.

Our ultimate controlling shareholder, Unicom Group, is a party to the international roaming agreements with Mobile Company of Iran, or MCI, and MTN Irancell, or MTN, respectively. We have been informed by Unicom Group that, in 2014, the estimated gross revenue Unicom Group generated from such inbound international roaming traffic with MCI and MTN was approximately RMB1,810,000 and RMB2,600, respectively, and the estimated total amount paid by Unicom Group to MCI and MTN for the outbound international roaming traffic was approximately RMB268,000 and approximately RMB210,000, respectively. Unicom Group does not customarily allocate net profit on a country-by-country or activity-by-activity basis, and therefore it is not possible to determine accurately the precise net profits attributable to such transactions with MCI and MTN. Unicom Group estimates that the net profits attributable to the transactions with MCI and MTN were negligible relevant to its overall net profits. We understand that Unicom Group intends to continue these activities in the future.

Table of Contents

C. Organizational Structure

We are incorporated in Hong Kong and as of April 17, 2015, we were 40.61% 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, 33.75 % owned by Unicom Group BVI, which in turn was 100% owned by Unicom Group, and 25.64% owned by public shareholders. 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%
China Unicom (Australia) Operations Pty Limited	New South Wales	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.

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 .

Table of Contents

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 prior to 2011.

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. In recent years, we have continued to extend 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 2012, 2013 and 2014.

	For the Year Ended December 31,					
	2012		2013		2014	
	RMB in millions	As % of Total	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue	248,926	100.0	295,038	100.0	284,681	100.0
Total service revenue	210,127	84.4	238,567	80.9	244,878	86.0
Include: Mobile services	126,036	50.6	151,133	51.2	155,095	54.5
Fixed-line services	83,213	33.4	86,487	29.3	88,481	31.1
Out of which:						

Broadband service	41,570	16.7	45,991	15.6	50,201	17.6
Total sales of telecommunications products	38,799	15.6	56,471	19.1	39,803	14.0

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, which 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 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;

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.

Table of Contents

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 2012, 2013 and 2014.

	For the Year Ended December 31,					
	2012		2013		2014	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue	248,926	100.0	295,038	100.0	284,681	100.0
Costs, expenses and others	239,405	96.2	281,324	95.4	268,750	94.4
Interconnection charges	18,681	7.5	20,208	6.8	14,599	5.1
Depreciation and amortization	61,057	24.5	68,196	23.1	73,868	25.9
Network, operation and support expenses	32,516	13.1	33,704	11.4	37,851	13.3
Employee benefit expenses	28,778	11.6	31,783	10.8	34,652	12.2
Selling and marketing	35,037	14.1	42,991	14.6	40,193	14.1
General, administrative and other expenses	16,215	6.5	18,973	6.4	21,218	7.5
Cost of telecommunications products sold	45,040	18.1	63,416	21.5	43,397	15.2
Finance costs, net of interest income	3,424	1.4	2,940	1.0	4,334	1.5
Other income-net	(1,343)	(0.5)	(887)	(0.3)	(1,362)	(0.5)

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;

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;

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.

Table of Contents

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