



Major Events 2012

17/5

China Unicom announced the launch of cloud computing products.



4/9

China Unicom officially announced its Smart City strategy characterized by joint construction, aggregation and open platform.

10/6

China Unicom Group reached an agreement with Telefónica Internacional, S.A.U. to purchase 1.07 billion shares in China Unicom (Hong Kong) Limited

held by the latter through the former's wholly-owned overseas subsidiary.



12/9

China Unicom announced the launch of new dual-core large-screen smartphones for WO 3G service in Xi'an.



26/11

China Unicom and China Merchants Bank jointly launched NFC-SIM Card based mobile payment product.

30/11

China Unicom announced the launch of WO+ Industry Alliance as well as the digital music product.



6/12

China Unicom - Microsoft Windows Industry Alliance was founded in Beijing. Vendors from the Alliance jointly announced the launch of

more than 10 Windows smartphones and tablets for WO 3G service.

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FINANCIAL SECTIONS

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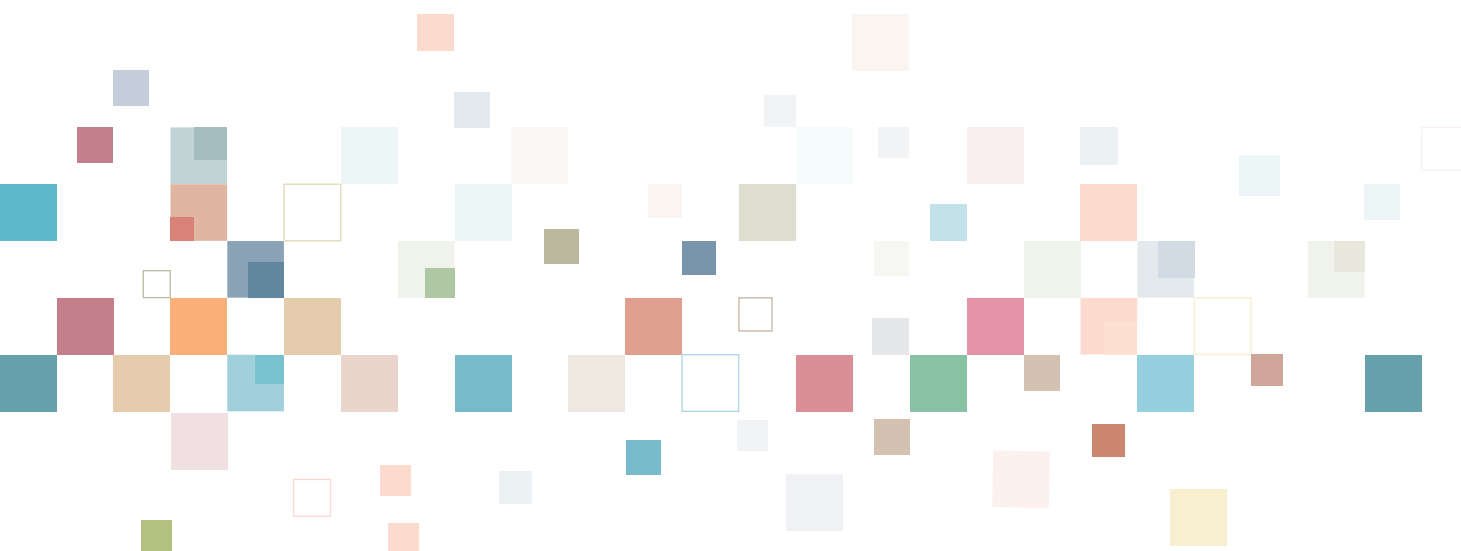
China Unicom (Hong Kong) Limited (the “Company”) was incorporated in Hong Kong in February 2000 and was listed on the New York Stock Exchange and the Stock Exchange of Hong Kong on 21 June 2000 and 22 June 2000 respectively. On 1 June 2001, the Company was included as a constituent stock of the Hang Seng Index.

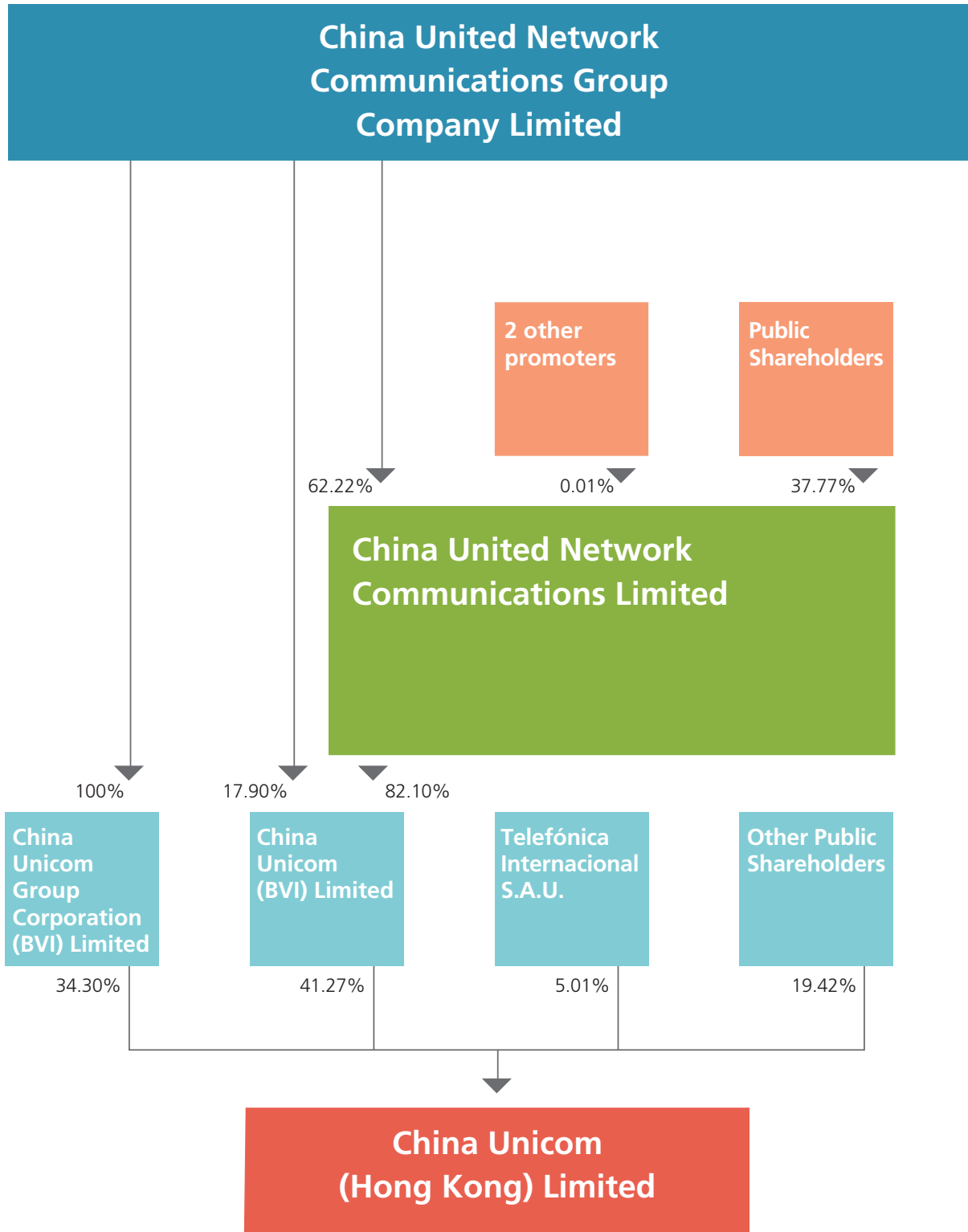
The Company merged with China Netcom Group Corporation (Hong Kong) Limited on 15 October 2008. The ultimate parent company of the Company, China United Network Communications Group Company Limited (“Unicom Group”) also gained approval and officially merged with China Network Communications Group Corporation (“Netcom Group”) on 6 January 2009.

As at the end of February 2013, Unicom Group held 62.77% of the shares in the Company through China United Network Communications Limited (“A Share Company”), China Unicom (BVI) Limited and China Unicom Group Corporation (BVI) Limited; the public investors of the A Share Company held 12.80% of the shares in the Company through A Share Company’s shareholding in China Unicom (BVI) Limited; Telefónica Internacional S.A.U. held 5.01% of the shares in the Company. The remaining 19.42% of the shares in the Company are held by public investors in Hong Kong and New York.

On 7 January 2009, China United Network Communications Corporation Limited, a wholly-owned subsidiary of the Company, was granted the license to operate 3G digital cell business with WCDMA technology nationwide in China. The Company officially launched 3G services on 1 October 2009.

At present, the Company is engaged in GSM and WCDMA cellular business in 31 provinces, municipalities and autonomous regions in China, the provision of fixedline voice, broadband and other Internet-related services, information and communications technology services, business and data communications services, and other related telecommunication value-added businesses. As at the end of February 2013, the total subscribers of the Company’s mobile, local telephone and broadband businesses reached 403 million.





2012 Performance Highlights

Operating Revenue

RMB 248.93 billion ▲ 19.0%

Service Revenue

RMB 210.13 billion ▲ 13.1%

EBITDA

RMB 72.66 billion ▲ 14.6%

EBITDA Margin

34.6% ▲ 0.5pp

Net Profit

RMB 7.10 billion ▲ 68.5%

3G Subscribers

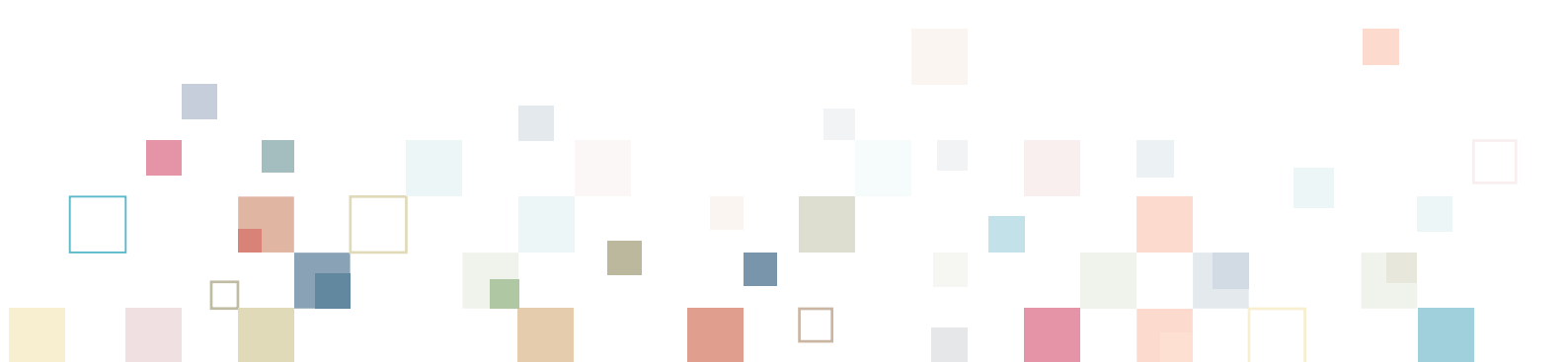
76.456 million ▲ 91.0%

3G Service Revenue

RMB 59.80 billion ▲ 82.6%

3G Service as % of Mobile Service Revenue

47.4% ▲ 15.7pp



Key Financial Results	2012	2011
Operating Revenue (RMB in billions) (Note 1)	248.93	209.15
Service Revenue (RMB in billions)	210.13	185.87
Of which: Mobile business	126.04	103.31
Fixed-line business (Note 1)	83.21	81.63
EBITDA (RMB in billions) (Note 2)	72.66	63.40
EBITDA as % of service revenue	34.6%	34.1%
Net Profit (RMB in billions) (Note 1)	7.10	4.21
Basic earnings per share (RMB) (Note 1)	0.301	0.179
Dividend per share (RMB)	0.12	0.10

Key Operating Metrics	2012	2011
Mobile Subscribers (millions)	239.312	199.660
Mobile ARPU (RMB)	47.9	47.3
3G Subscribers (millions)	76.456	40.019
3G ARPU (RMB)	86.1	110.0
3G Total Voice Usage (billion minutes)	313.1	169.5
3G Total Data Traffic (billion MB)	155.1	79.6
2G Subscribers (millions)	162.856	159.641
2G ARPU (RMB)	34.2	37.4
2G Total Voice Usage (billion minutes)	475.7	484.8
Fixed-line Broadband Subscribers (millions)	63.869	55.651
Fixed-line Broadband ARPU (RMB)	54.4	56.4
Fixed-line Local Access Subscribers (millions)	91.957	92.851
Fixed-line Local Access ARPU (RMB)	22.6	25.7

Note 1: Except for basic earnings per share, all revenue and profit figures herein exclude deferred fixed-line upfront connection fee of RMB15 million in 2011.

Note 2: EBITDA represents profit for the year before interest income, finance costs, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditures and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, we believe EBITDA may be helpful in analysing the operating results of a telecommunications service operator like our Group.

DEAR SHAREHOLDERS,

In the past 2012, the Company continued to lead the industry in terms of revenue growth. Its market share further increased, its business structure further improved, and its profitability showed significant improvement.

FINANCIAL PERFORMANCE ¹

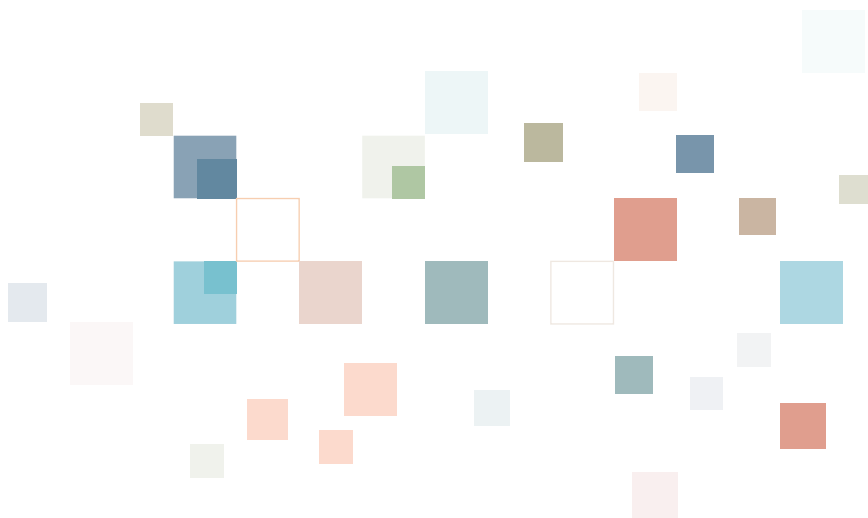
In 2012, the Company's operating revenue reached RMB248.93 billion, an increase of 19.0% compared with the previous year (excluding deferred fixed-line upfront connection fee in 2011, same hereinafter unless otherwise specified), of which, service revenue was RMB210.13 billion, up by 13.1% year-on-year.

Together with the rapid revenue growth, the Company also recorded significant improvement in profitability in 2012. EBITDA reached RMB72.66 billion, up by 14.6% year-on-year; and EBITDA as a percentage of service revenue was 34.6%, up by 0.5 percentage point year-on-year. Net profit reached RMB7.10 billion, up by 68.5% year-on-year; and basic earnings per share was RMB0.301. Operating cash flow was RMB70.62 billion, up by 6.2% year-on-year; CAPEX was RMB99.79 billion.

Based on the Company's overall financial position in 2012 and taking into account the development needs of mobile and fixed-line broadband businesses in the future, the Board recommended a final dividend payout of RMB0.12 per share for the year ended 31 December 2012.

**Net
Profit
Increased by**

68.5%





CHANG XIAOBING
Chairman & CEO



BUSINESS PERFORMANCE ¹

Centering on business scale and market share expansions, the Company accelerated the development of the key businesses in 2012, such as 3G and fixed-line broadband. Its revenue grew rapidly, and its service revenue growth exceeded the industry average by 4.1 percentage points, resulting in a further increase in its market share. In addition, the Company achieved further improvement in its business structure, with mobile business's share of total service revenue up by 4.4 percentage points year-on-year to 60.0%, and non-voice business's share up by 3.9 percentage points year-on-year to 53.1%.

Rapid 3G Growth Driving Transformation and Upgrade of Mobile Business

In 2012, the Company's mobile business maintained its rapid growth momentum. Mobile subscribers reached 239.312 million at year end, up by 19.9% year-on-year; and mobile service revenue reached RMB126.04 billion, up by 22.0% year-on-year. In addition, the Company's mobile business structure in terms of subscribers and revenue achieved further improvement. 3G's share of total mobile subscribers reached 31.9%, up by 11.9 percentage points year-on-year; 3G's share of mobile service revenue reached 47.4%. Mobile ARPU reached RMB47.9, up by 1.3% year-on-year, of which 3G ARPU was RMB86.1.

During the year, the Company proactively leveraged its supply chain advantage and enhanced data volume operation to drive 3G scale development. In 2012, the Company's 3G subscribers reached 76.456 million at year end, with net additions of 36.437 million; 3G service revenue reached RMB59.80 billion, up by 82.6% year-on-year. In addition, 3G sales and marketing efficiency also recorded further improvement, with handset subsidies as a percentage of 3G service revenue falling to 10.2% from 17.7% of the previous year. In 2012, the Company's GSM subscribers grew to 162.856 million at year end, up by 2.0% year-on-year; GSM service revenue decreased by 6.1% year-on-year to RMB66.24 billion. The revenue decline was mainly due to the decrease in revenues from traditional services such as voice and SMS.

To drive rapid growth in mobile data business, the Company enhanced the cooperation with its supply chain, further improved smartphones' quality-to-price ratios, continued to carry out experiential marketing, and implemented the integrated operation of its mobile business. In 2012, mobile data volume increased by 92.0% compared with the previous year.

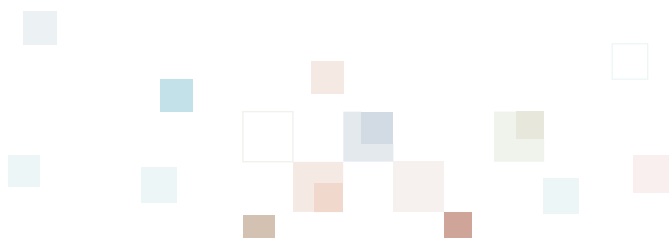
Solid Broadband Growth Ensuring Stable Development of Fixed-line Business

In 2012, the Company's fixed-line business achieved stable development. Fixed-line service revenue grew by 1.9% year-on-year to RMB83.21 billion, of which 70.0% was generated from non-voice services, indicating a continuous improvement in business structure.

During the year, the Company continued to promote the upgrade and speed-up of its broadband network, and strived to improve user experience of its broadband subscribers. The Company's broadband subscribers grew by 14.8% year-on-year; broadband service revenue reached RMB39.37 billion, up by 11.8% year-on-year, and its share of fixed-line service revenue reached 47.3%. The Company proactively promoted broadband-centered "WO Family" integrated service to help stabilise the fixed-line business. As at year end 2012, "WO Family" subscribers accounted for 28.8% of the Company's residential broadband subscribers, up by 10.2 percentage points year-on-year.

Scale Development of Key Industry Applications and Further Enhanced Capability to Serve Corporate Clients

In 2012, the Company leveraged the construction of Smart City, and proactively established its incubation base for industry applications to improve its R&D capabilities. The Company also leveraged its reputation accumulated from some key sectors to expand its industry applications subscriber base through further strategic cooperation. As at year end 2012, the Company's key industry applications users reached 22.99 million. The Company has established its leading positions in the areas such as mobile office, auto informatization, wireless surveillance, etc.



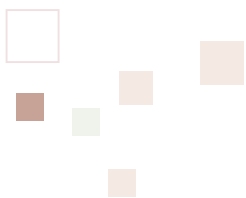
NETWORK CONSTRUCTION

In 2012, the Company strived to build future-oriented high-speed mobile and fixed-line broadband networks, and its overall network capabilities recorded substantial improvement. In 2012, the Company's 3G base stations increased by 92,000 to 331,000, covering almost every town in the eastern and central China as well as developed towns in the western China. All of the Company's 3G base stations have been upgraded to HSPA+, which can offer downlink speed up to 21Mbps, maintaining the Company's network advantage. The Company also accelerated the upgrade of its transmission network, and the network's transmission capacity and load-carrying capabilities were significantly strengthened.

Leveraging the further implementation of broadband network upgrade and speed-up, the Company continued to carry out fiber optic broadband network construction to strengthen its broadband network competitiveness. As at year end, the Company's fixed-line broadband access ports increased by 23.9% to 106.46 million, of which 59% were FTTH/B access ports, up by 14 percentage points year-on-year.

MANAGEMENT REFORM

In 2012, the Company continued to carry out management reform in key areas. Striving to enhance sales and customer service capabilities, the Company further optimised job functions, consolidated resources, improved market-driven, customer-focused vertically integrated sales and marketing system, and proactively explored ways to establish operation and management mechanism suitable for e-commerce. The Company also further pushed forward the centralised, standard and professional data management to enhance IT system's supporting capability and overall management transparency. In addition, the Company further enhanced full cost evaluation and benchmarking management toward local access network units, and optimised scale and profit oriented remuneration incentive mechanism. As a result, the Company's overall vigor was further strengthened.



CORPORATE SOCIAL RESPONSIBILITY

The Company has been committed to balancing between its business development and its social responsibility. The Company proactively promoted sustainable development mode, took good care of its employees, dedicated itself to public services and strived to contribute to the society. The Company proactively promoted energy-saving technologies as well as joint construction and co-sharing of telecom infrastructure, and pushed forward the transformation of offline products and services to online. In 2012, the energy consumption per carrier frequency in its mobile network fell by 7.5% year-on-year. With high social responsibility awareness and quick response, the Company ensured safe and stable communications during the natural disasters such as the floods in South China and the earthquake in Yunnan in 2012. The Company paid great attention to employee care and closely followed employees' physical and mental health to improve employees' satisfaction and royalty.

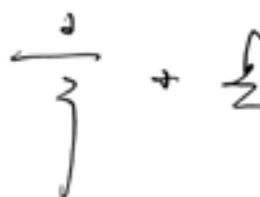
OUTLOOK

Looking into 2013, China's economy is expected to maintain stable growth. The development of new industrialisation, informatisation, urbanisation and agricultural modernisation also shows clear acceleration. The government is expected to take further measures to enlarge domestic consumption and ensure people's livelihood. All these are bringing in new opportunities to the communications industry. In addition, further maturing mobile Internet value chain, rapidly growing demand for data services and accelerating penetration of informatization into all parts of the society indicate that 3G and broadband businesses are still on the stage of rapid growth.

2013 is still important development window of opportunity for China Unicom. The Company will firmly grasp the strategic opportunity, fully leveraged its differentiated advantages, and accelerate the scale and profitable development. The Company will also pay close attention and proactively response to new opportunities brought about by LTE, market opening and trials on resale of mobile services. The Company set up the following development targets for 2013: industry-leading revenue growth, further increased profitability, substantially lowered CAPEX-to-sales ratio, continued network advantages, and further enhanced informatisation capability.

Centering on its full year development targets, the Company will accelerate scale and profitable growth in 3G business, ensure solid growth in broadband business, accelerate the integrated development of 2G and 3G businesses, fixed-line and mobile businesses, and continue to increase its efforts on industry applications development and promotion, so as to realise continuous rapid growth in mobile business and stable development of fixed-line business. The Company will further improve margins, investment returns and resource use efficiency to realise continuous rapid growth in EBITDA and net profit. The Company will further improve 3G network coverage to maintain its network advantage and enhance network quality and customer perception; accelerate FTTH/B based fiber optic access network construction; and fully deploy IPRAN to increase transmission capacity and meet future bandwidth demand from LTE. In addition, the Company will continue to carry out further management improvement, accelerate the transformation of sales and customer service system to cope with mobile Internet trend, and continuously improve its capabilities in market response and customer service to keep pace with ever changing market, so as to constantly strengthen its internal development capabilities.

Lastly, on behalf of the Board of the Company, I would like to express my sincere gratitude to the shareholders, the government and different parts of the society for their support to the development of the Company, and also to the management and all staff members of the Company for their consistent efforts in the development of the Company.



Chang Xiaobing

Chairman and Chief Executive Officer
Hong Kong, 21 March 2013

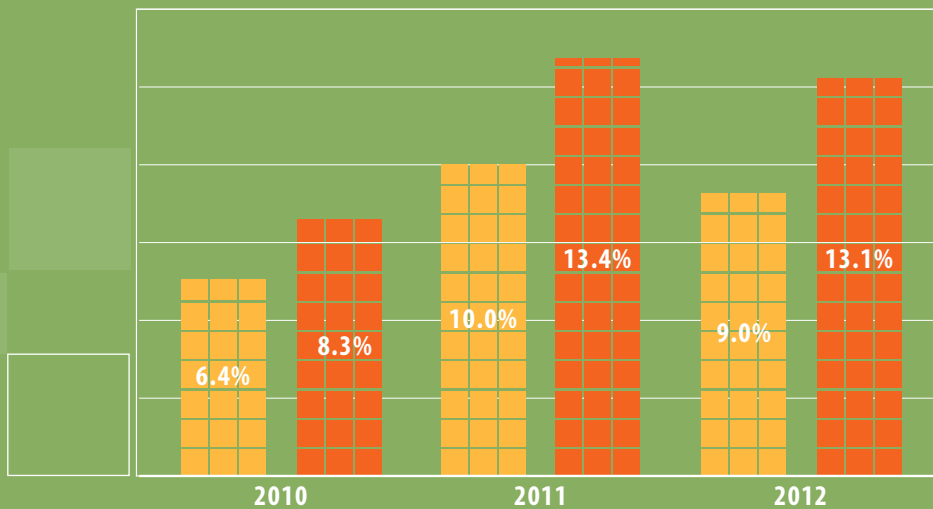
Notes:

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GROWTH

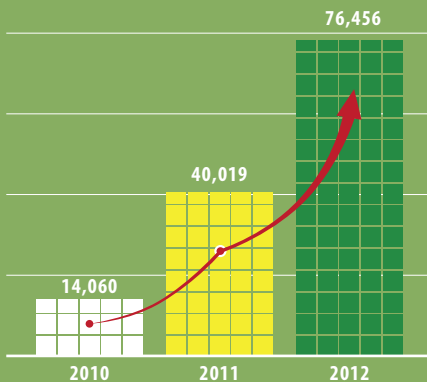


Leveraging on its 3G advantages, China Unicom has been outperforming the industry in revenue growth over the past three years.

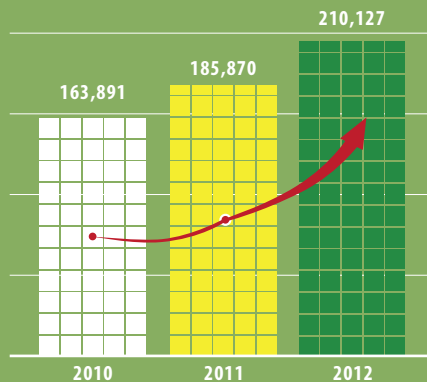


■ Industry's Average Revenue Growth (Source: MIIT)
■ China Unicom's Service Revenue Growth

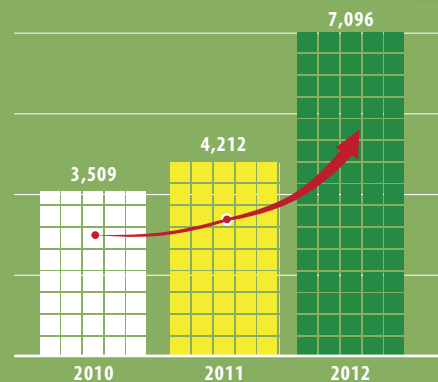
China Unicom's 3G Subscribers
(Thousands)



China Unicom's Service Revenue
(RMB in millions)



China Unicom's Net Profit
(RMB in millions)





Growth

76,456 thousand
3G Subscribers at YE2012

203%
CAGR



2,742 thousand
3G Subscribers at YE2009

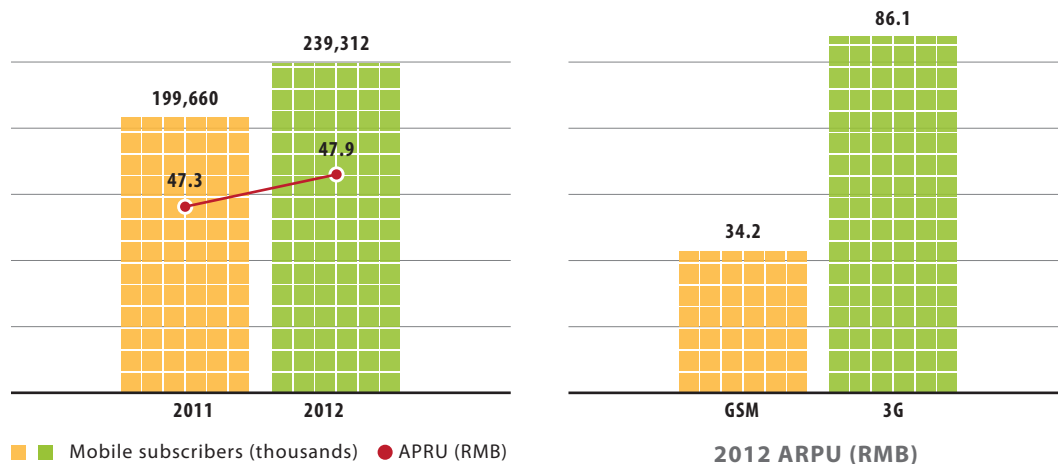
Progress





LU YIMIN
Executive Director
and President

In 2012, the Company strengthened its business innovation efforts, established a vertically integrated marketing system, and continued to improve its sales capability. As a result, the Company's 3G and broadband businesses achieved rapid development, its revenue growth continued to lead the telecommunications industry, and its market share increased steadily.

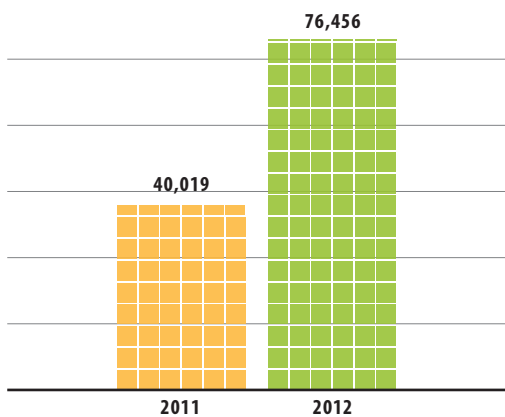


MOBILE BUSINESS

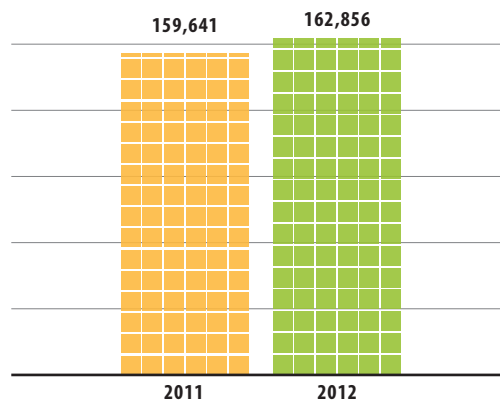
3G Business

In 2012, the Company achieved rapid growth in 3G business by leveraging on the pulling effects of handsets, distribution channels and applications, improving tariff packages, optimising contract plans, and promoting integrated 2G/3G products. Through further handset customisation and professional operation of the handset business, the Company took the leading role in the handset supply chain and achieved significant growth in contract subscribers. By leveraging on the advantages of its nationwide unified electronic sales platform and effectively expanding its physical channels as well as e-channels, the Company improved its sales and customer service capabilities. By promoting experiential marketing to cultivate user demand and launching innovative data usage packages to enhance the value of data volume, the Company successfully increased not only data traffic but also data revenue. Furthermore, the Company established a full lifecycle management system for 3G subscribers and launched 3G data volume upgrade program to strengthen customer retention. The Company also enhanced its capabilities in Internet applications to promote the key applications such as WO app store and mobile music. In 2012, the number of 3G subscribers increased by 36.437 million to 76.456 million, of which the number of wireless data card subscribers amounted to 5.649 million; 3G handset data usage reached 93.99 billion MB, up by 185.0% year-on-year, the average data usage per 3G smartphone user per month was 256MB, and 3G ARPU per month was RMB86.1; as at 31 December 2012, the registered subscribers of app store and mobile music were 18.94 million and 22.15 million, respectively.

3G subscribers (thousands)



GSM subscribers (thousands)



GSM Business

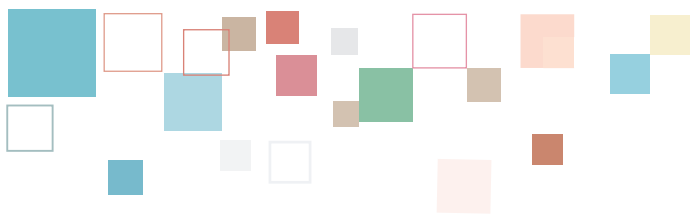
In 2012, the Company achieved stable growth in GSM subscribers by establishing centralised channel management system and further flattening and standardising GSM distribution channels. The Company also promoted data traffic growth by enhancing GPRS data volume management and bundled sales and marketing, as well as opening EDGE, AMR and paging services over the entire network. Meanwhile, the Company accelerated the migration of 2G subscribers to 3G network by promoting integrated 2G/3G packages. The Company also carried out subscription-length based upgrade programs among existing subscribers, so as to improve customer perception. In 2012, the number of GSM subscribers increased by 3.215 million to 162.856 million; total GSM voice usage reached 475.7 billion minutes, down by 1.9% year-on-year; ARPU per month was RMB34.2, down by 8.6% year-on-year; the number of mobile Internet subscribers increased by 11.467 million to 75.066 million, representing a penetration rate of 46.1%; data usage of GPRS increased by 77.4% year-on-year.

FIXED-LINE BUSINESS

In 2012, the Company further carried out the broadband network upgrade and speed-up, optimised the sales and marketing system of fixed-line business, improved customer perception,

strengthened customer retention and improved customer service capability, so as to promote the rapid development of fixed-line broadband business. By fully leveraging on the advantages of bundled sales of fiber optic broadband and mobile services, the Company encouraged subscribers to upgrade to high value products, and further improved the fixed-line revenue mix. In 2012, the number of broadband subscribers increased by 8.218 million to 63.869 million. Subscribers of plans with 4M bandwidth or above accounted for 63.8% of all broadband subscribers, up by 22.5 percentage points year-on-year. The number of broadband content and application subscribers reached 19.058 million, accounting for 29.8% of all broadband subscribers. ARPU of broadband subscribers per month was RMB54.4, down by 3.5% year-on-year. The number of “WO Family” subscribers increased by 6.50 million, which helped to bring in 4.95 million new broadband subscribers and 3.25 million new local access subscribers.

In 2012, the number of local access subscribers declined by 894,000 to 91.957 million, among which the number of PHS subscribers declined by 2.365 million to 5.422 million. ARPU of local access subscribers per month was RMB22.6, down by 12.1% year-on-year.

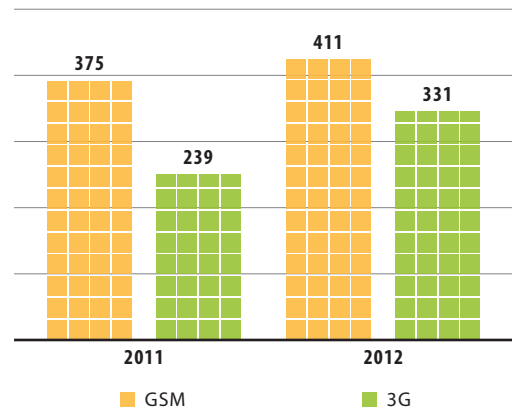


NETWORK CAPABILITY

In 2012, the Company focused on its network construction for 3G business. The Company rapidly expanded the broad coverage of 3G network, improved the in-depth coverage of 3G network in urban areas, and selectively expanded the coverage and capacity of 2G network. Meanwhile, the Company accelerated broadband network upgrade and speed-up, and further enhanced the network capability. In 2012, the number of 3G base stations increased by 92,000 to 331,000 and 3G network has covered all cities in China, almost every town in the eastern and central China and developed towns in the western China, with 3G network coverage rate in townships increased by 44 percentage points. The Company also upgraded the whole 3G network to HSPA+ and maintained its leading position in terms of 3G network speed. The number of GSM base stations increased by 36,000 to 411,000 and GSM network has reached all townships except those in certain western regions of China. In 2012, the number of broadband access ports increased by 20.54 million to 106.46 million, of which FTTH/B access ports accounted for 59% of the total broadband access ports.

The Company continued to expand its international network coverage and optimised its international network layout. As at the end of 2012, international Internet outbound bandwidth reached 642G, international submarine cable capacity reached 2,066G, international terrestrial cable capacity reached 2,490G, the number of overseas network nodes reached 82, and international roaming coverage reached 567 operators in 247 countries and regions.

Mobile base stations (thousands)



SALES AND MARKETING

Branding

In 2012, the Company persisted on its 3G-led integrated innovation strategy. In light of its differentiated advantages such as 3G’s high network speed, broad network coverage, variety of handsets and applications, international roaming coverage as well as smart city and fiber optic network, the Company successfully enhanced its brand reputation. By enhancing the promotion of the perfect combination of its HSPA+ network and star smartphones, the Company highlighted the outstanding quality of its high speed mobile Internet network, and further enhanced its “WO” brand value as well as its corporate brand value.

Sales and Marketing

In 2012, the Company continued to implement its unified 3G strategy, strengthened data volume management, constantly innovated 3G products to cope with user demand, optimised contract plans, carried out integrated 2G/3G sales and marketing, and further enhanced handset customisation, so as to enhance product competitiveness. The Company also strengthened the experiential marketing practice and promoted the e-commerce marketing model, so as to increase sales and customer service capabilities. The Company further optimised “WO Family” and “WO Business” bundled packages, strengthened the capability

of constructing fiber optical access ports and accelerated the sales and marketing on broadband speed-up, so as to improve broadband resources as well as sales and customer service capabilities.

In 2012, the Company designed a comprehensive system on strategic terminal products and deepened its strategic cooperation with terminal vendors. Leveraging on thousand-RMB smartphones and star terminals, the Company further enhanced the quality-to-price ratio and competitiveness of its terminal products. Meanwhile, the Company promoted the collaborative development of different terminal brands to better utilise vendors’ channel resources. In addition, the Company optimised its terminal customisation and sales policies and strengthened professional operation of terminals, so as to ensure the large-scale growth in contract subscribers and improve operational efficiency on terminals.

In 2012, the Company continued to strengthen the aggregation of Internet applications, enhanced the capability to integrate online/offline applications, improved innovation in application development, strengthened the operation of key applications, and promoted the implementation of WO+ open platform, so as to facilitate the rapid development of mobile Internet business and the increase in data volume.

In 2012, driven by its outstanding solutions on industrial applications, the Company implemented its “smart city” strategy, provided informatisation solutions to corporate clients, and established industry-focused vertical marketing system.

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卡种	有效期	充值/消费	其他
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Meanwhile, the Company leveraged on strategic agreements with corporate clients to drive its business development, and increased its influence in many sectors such as government, financial industry, automobile industry, the Internet and media industry. The Company's service revenue generated from corporate clients increased by 24.4% year-on-year.

Distribution Channels

In 2012, the Company continued to improve its distribution channel system that serves all its businesses, and further increased its distribution channel capacity. The Company continued to carry out experiential marketing, strengthened on-site store management, improved sales efficiency and stimulated sales vigor. As a result, the sales capacity in its core sales store increased by 62% year-on-year. The Company achieved full strategic cooperation with national-level chain stores, expanded the scale of third-party channels, and ensured effective supports toward those channels. As a result, the sales capacity per unit in key third-party channels increased by 65% year-on-year. Coping with the mobile Internet trend, the Company established integrated e-commerce management system and operation mechanism, fully upgraded its online stores, innovated online sales model, launched China Unicom official flagship stores, constantly improved functions of handset online stores, and strengthened the layout of self-service terminals, so as to enhance the sales and customer service capabilities of e-channel. In 2012, the revenue generated from the e-channel amounted to RMB35.8 billion, up by 55% year-on-year; and the transactions conducted over the e-channel accounted for 34% of the total transactions.

Customer Care

In 2012, the Company shortened the queuing time at sales outlets by carrying out service improvement projects and optimising customer service procedures. The Company also opened green channel management system to improve its customer service capability for VIP clients. The Company accelerated customer service reform and process refining to cope with the trend of mobile Internet and established differentiated advantages in customer service. The Company further enhanced weibo-based customer care capability, and launched online 3G customer services in a large scale. The customer service time was extended to 24 hours a day and 7 days a week, daily customer service volume reached 338,000 times at the end of December 2012, and the call-connection rate reached 94%. In addition, the Company promoted consumption alert services for all its services, and standardised the resolution of disputes over data volume, resulting in improved customer satisfaction.





Innovation



Creativity





INNOVATION

From nationwide refill card, nationwide standard 3G packages to advanced e-commerce platform and industry applications, China Unicom has been leading the industry transformation through continuous innovations.

1 R&D Capabilities

First national engineering lab (Unicom Group) in the information and communication field; first post-doctoral work station in the telecom industry; the industry's only member of Chinese Academy of Engineering.

2 Awards

In the past three years, China Unicom won 2 first prizes, 7 second prizes and 6 third prizes of Science and Technology Awards by Chinese Institute of Communications and 1 first prize, 8 second prizes and 13 third prizes of Science and Technology Awards by Chinese Communications Standard Association.

3 Nationwide Standard 3G Packages

China Unicom launched nationwide standard 3G packages in October 2009, the first of its kind in the telecom industry.

4 E-commerce

Unicom has established the leading e-commerce platform in the telecom industry. Revenue generated from the e-commerce channel reached RMB35.8 billion in 2012, up by 55% year-on-year.

5 Industry Applications

As the integrated and China's only WCDMA telecom operator, China Unicom has become a leading developer of industry applications. By year-end 2012, China Unicom has signed strategic cooperative agreements with 112 corporate clients, and its key industry applications users reached 22.99 million.

In 2012, the Company sustained a rapid growth in revenue and continuously optimised its business structure, resulting in an improved profitability.

Financial Overview¹

I. OVERVIEW

In 2012, the Group's revenue was RMB248.93 billion, up by 19.0% compared with last year. Profit for the year was RMB7.10 billion, up by 68.5% compared with last year. Basic earnings per share¹ was RMB0.301, up by 68.2% compared with last year.

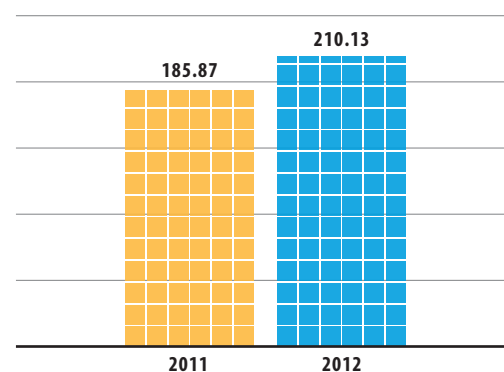
In 2012, net cash flow from operating activities was RMB70.62 billion. Capital expenditure was RMB99.79 billion. Liabilities-to-assets ratio was 59.4% as at 31 December 2012.



II. REVENUE

In 2012, the Group's revenue was RMB248.93 billion, of which, service revenue accounted for RMB210.13 billion, up by 13.1% compared with last year. Revenue from sales of telecommunications products was RMB38.80 billion.

Service revenue*
(RMB in billions)



* Please refer to Note 1 for explanation

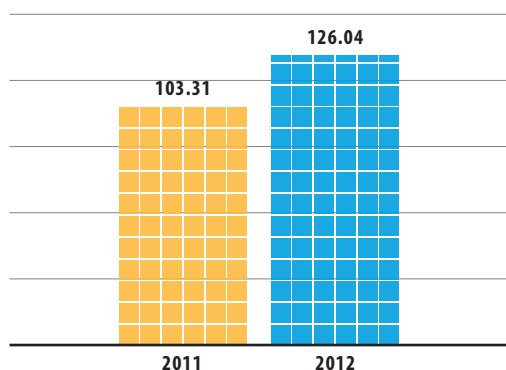
The table below sets forth the composition of service revenue by business, including as a percentage of the service revenue for the years of 2012 and 2011.

(RMB in billions)	2012		2011	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	210.13	100.0%	185.87	100.0%
Include: Mobile business	126.04	60.0%	103.31	55.6%
Include: 3G service	59.80	28.5%	32.74	17.6%
Fixed-line business	83.21	39.6%	81.63	43.9%
Include: Broadband service	39.37	18.7%	35.23	19.0%

1. Mobile Business

In 2012, service revenue from the mobile business was RMB126.04 billion, up by 22.0% compared with last year. Out of service revenue from the mobile business, 3G service revenue accounted for RMB59.80 billion, up by 82.6% compared with last year and, as a percentage of service revenue from the mobile business increased from 31.7% in 2011 to 47.4% in 2012.

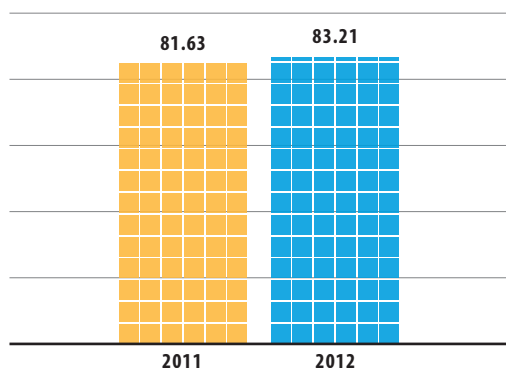
Service revenue from mobile business (RMB in billions)



2. Fixed-line Business

In 2012, service revenue from the fixed-line business was RMB 83.21 billion, up by 1.9% compared with last year, of which service revenue from fixed-line broadband business was RMB39.37 billion, up by 11.8% compared with last year and, as a percentage of service revenue from the fixed-line business, increased from 43.2% in 2011 to 47.3% in 2012.

Service revenue from fixed-line business* (RMB in billions)

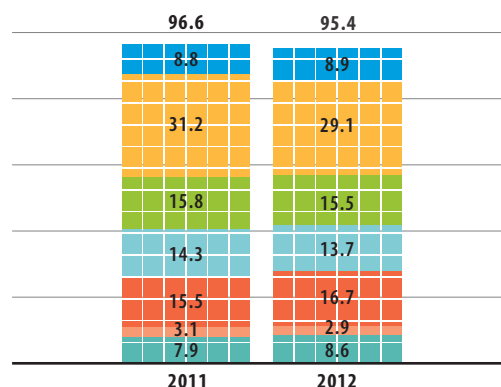


* Please refer to Note 1 for explanation

III. COSTS AND EXPENSES

In 2012, total costs and expenses² amounted to RMB239.41 billion, up by 17.6% compared with last year and 1.4 percentage points lower than the increase in revenue in 2012. Out of total costs and expenses, costs of telecommunications products sold accounted for RMB45.04 billion in 2012. Revenue from sales of telecommunications products accounted for RMB38.80 billion in 2012. Loss on sales of telecommunications product amounted to RMB6.24 billion, of which 3G terminal subsidy cost accounted to RMB6.10 billion in 2012.

Analysis of adjusted total costs and expenses*
Percentage of adjusted total costs and expenses to service revenue(%)



- Interconnection charges
- Depreciation and amortisation
- Networks, operations and support expenses
- Employee benefit expenses
- Selling and marketing expenses
- 3G terminal subsidy cost
- Others#

Including general, administrative and other expenses, finance costs, net of interest income and other income, net

* Please refer to Note 3 for explanation

The adjusted total costs and expenses³ amounted to RMB200.47 billion, up by 11.6% compared with last year and 1.5 percentage points lower than the increase in revenue in 2012. The table below sets forth the major items of the adjusted costs and expenses and their respective percentage of the service revenue for the years of 2012 and 2011:

(RMB in billions)	2012		2011	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Total	200.47	95.4%	179.62	96.6%
Include: Interconnection charges	18.68	8.9%	16.38	8.8%
Depreciation and amortisation	61.06	29.1%	58.02	31.2%
Networks, operations and support expenses	32.52	15.5%	29.45	15.8%
Employee benefit expenses	28.78	13.7%	26.60	14.3%
Selling and marketing expenses	35.04	16.7%	28.75	15.5%
3G terminal subsidy cost	6.10	2.9%	5.79	3.1%
General, administrative and other expenses	16.21	7.6%	14.84	8.0%
Finance costs, net of interest income	3.42	1.6%	1.24	0.7%
Other income-net	-1.34	-0.6%	-1.45	-0.8%

1. Interconnection charges

In 2012, the interconnection usage increased as the Company's number of subscribers and revenue grew rapidly. The interconnection charges amounted to RMB18.68 billion in 2012, up by 14.1% compared with last year and, as a percentage of service revenue, changed from 8.8% in 2011 to 8.9% in 2012.

2. Depreciation and amortisation

In 2012, the Company further expanded its network coverage and improved the network quality and network capability. Depreciation and amortisation charges in 2012 were RMB61.06 billion, up by 5.2% compared with last year and, as a percentage of service revenue, decreased from 31.2% in 2011 to 29.1% in 2012.

3. Networks, operations and support expenses

Due to the expansion in network coverage and its relevant assets, as well as increases in utilities charges and rental expenses, the Company continued to strengthen costs control, and proactively carried out energy conservation and emission reduction measures. The Company incurred networks, operations and support expenses of RMB32.52 billion in 2012, up by 10.4% compared with last year. Networks, operations and support expenses, as a percentage of service revenue, decreased from 15.8% in 2011 to 15.5% in 2012.

4. Employee benefit expenses

In 2012, the Company committed to linking the employee benefit expenses to the revenue and operational efficiency. The Company's employee benefit expenses in 2012 amounted to RMB28.78 billion, up by 8.2% compared with last year and, as a percentage of service revenue, decreased from 14.3% in 2011 to 13.7% in 2012.

5. Selling and marketing expenses

In 2012, the Company responded proactively to the competitions in market and accelerated the development of key businesses and fully utilised the role of channels and applications in driving business development. In 2012, selling and marketing expenses were RMB35.04 billion, up by 21.9% compared with last year and, as a percentage of service revenue, changed from 15.5% in 2011 to 16.7% in 2012.

6. 3G terminal subsidy cost

In 2012, the Company continued to optimise 3G contract policies and accelerate the growth in the number of contract subscribers. The Company's 3G terminal subsidy cost amounted to RMB6.10 billion, up by 5.4% compared with last year, as a percentage of total revenue, changed from 3.1% in 2011 to 2.9% in 2012 and, as a percentage of 3G service revenue, changed from 17.7% in 2011 to 10.2% in 2012.

7. General, administrative and other expenses

In 2012, general, administrative and other expenses were RMB16.21 billion, up by 9.3% compared with last year and, as a percentage of service revenue, decreased from 8.0% in 2011 to 7.6% in 2012.

8. Finance costs, net of interest income

In 2012, due to the increase in interest-bearing debts, decrease in exchange gains and other factors, finance costs, net of interest income, was RMB3.42 billion, up by RMB2.18 billion compared with last year.

9. Other income-net

In 2012, other income-net was RMB1.34 billion, down by RMB0.11 billion compared with last year.

IV. EARNINGS

1. Profit before income tax

In 2012, the Company's profit before income tax was RMB9.52 billion, up by 70.6% compared with last year. The significant improvement in profitability was primarily due to the rapid development of business volumes and revenue growth.

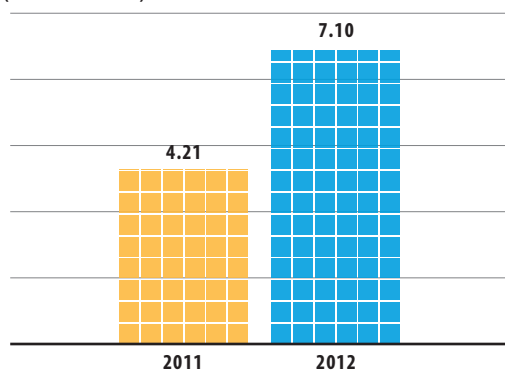
2. Income tax

In 2012, the Company's income tax was RMB2.43 billion and the effective tax rate was 25.5%.

3. Profit for the year

In 2012, the Company's profit for the year was RMB7.10 billion, up by 68.5% compared with last year. Basic earnings per share was RMB0.301, up by 68.2% compared with last year.

Profit for the year*
(RMB in billions)

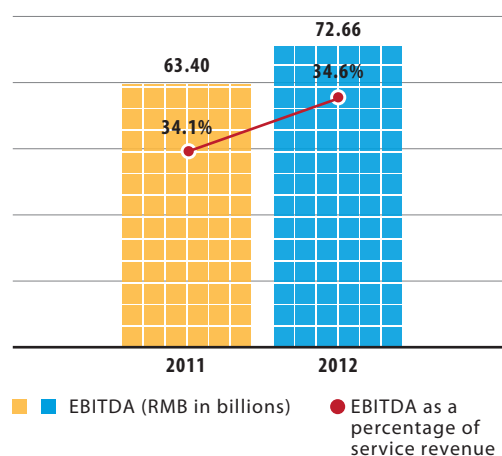


* Please refer to Note 1 for explanation

V. EBITDA⁴

The Company's EBITDA was RMB72.66 billion in 2012, up by 14.6% compared with last year. EBITDA as a percentage of service revenue was 34.6%, up by 0.5 percentage points compared with last year.

EBITDA and EBITDA as a percentage of service revenue



VI. CAPITAL EXPENDITURE AND CASH FLOW

Capital expenditure of the Company totaled RMB99.79 billion in 2012, which mainly consisted of investments in mobile networks, broadband and data, and infrastructure and transmission networks. In 2012, capital expenditure attributable to mobile networks was RMB40.92 billion; capital expenditure attributable to broadband and data was RMB25.52 billion; and capital expenditure attributable to infrastructure and transmission networks was RMB25.53 billion.

In 2012, the Company's net cash inflow from operating activities was RMB70.62 billion. Free cash flow was RMB-29.17 billion after the deduction of the capital expenditure in 2012.

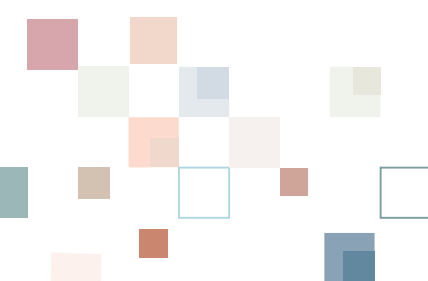
The table below sets forth the major items of the capital expenditure in 2012.

(RMB in billions)	2012	
	Total amount	As percentage
Total	99.79	100.0%
Include: Mobile networks	40.92	41.0%
Broadband and data	25.52	25.6%
Infrastructure and transmission networks	25.53	25.6%
Others	7.82	7.8%

VII. BALANCE SHEET

The Company's total assets increased from RMB456.23 billion as at 31 December 2011 to RMB516.12 billion as at 31 December 2012. Total liabilities increased from RMB250.34 billion as at 31 December 2011 to RMB306.62 billion as at 31 December 2012. The liabilities-to-assets ratio changed from 54.9% as at 31 December 2011 to 59.4% as at 31 December 2012. The debt-to-capitalisation ratio changed from 34.2% as at 31 December 2011 to 40.4% as at 31 December 2012. The net debt-to-capitalisation ratio was 35.2%.

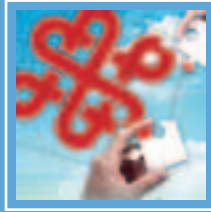
The Company's net current liabilities (i.e. current liabilities minus current assets) changed from RMB175.12 billion as at 31 December 2011 to RMB254.15 billion as at 31 December 2012. Taking into consideration of the Company's stable net cash inflows from its operating activities and good credit records, the Company believes that it should have sufficient funds to meet its needs for working capital.



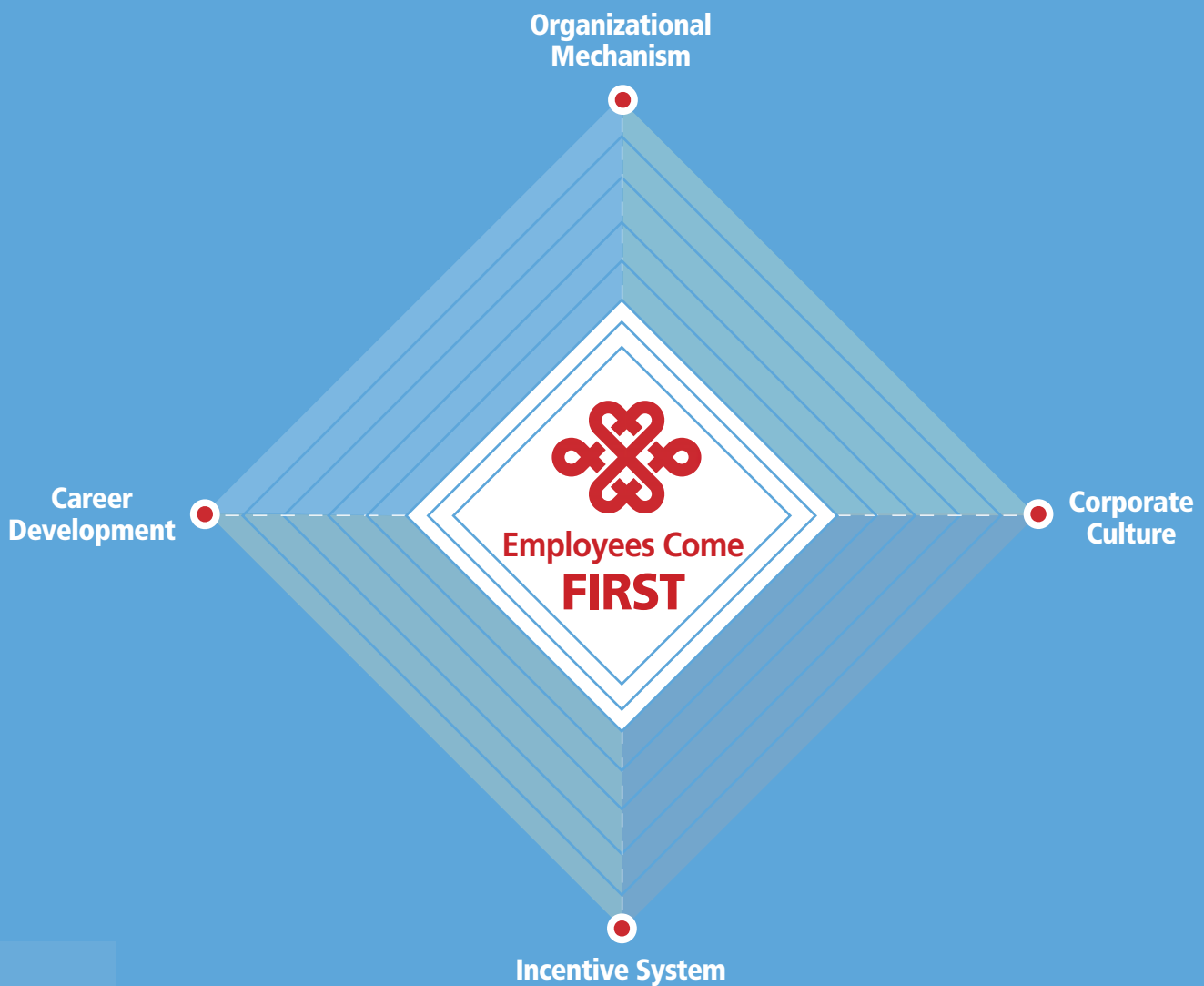
Notes:

1. *Except for basic earnings per share, all revenue and profit figures herein excludes deferred fixed-line upfront connection fee of RMB15 million in 2011.*
2. *Including interconnection charges, depreciation and amortisation, networks, operations and support expenses, employee benefit expenses, selling and marketing expenses, general, administrative and other expenses, costs of telecommunications products sold, finance costs, interest income and other income-net.*
3. *Included in the financial statements as set out in the Annual Report, in 2012, 3G terminal subsidy cost of RMB6.10 billion was charged to loss on sales of telecommunications products (revenue from sales of telecommunications products less costs of telecommunications products sold). For analytical purposes, the adjusted total costs and expenses were derived by including 3G terminal subsidy cost, interconnection charges, depreciation and amortisation, networks, operations and support expenses, employee benefit expenses, selling and marketing expenses, general, administrative and other expenses, finance costs, interest income and other income-net.*
4. *EBITDA represents profit for the year before finance costs, interest income, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like our Group.*

Hard Work



Every success China Unicom has been achieving among the fierce competition relies upon the hard work of its employees. They are the heroes of China Unicom.





Sharing



289,000

EMPLOYEES



Teamwork

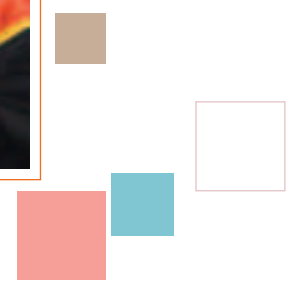
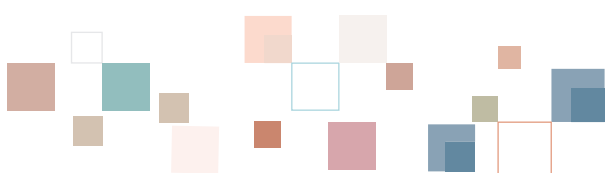


Human Resources Development

In 2012, centering on the Company's overall operation and management goals, the Company proactively promoted mechanism enhancement and process optimization of human resources management, consolidated human resources allocation, and further enhanced the core competitiveness and professional capabilities of its human resources.

As at year end 2012, the Group had 218,598 employees (excluding 70,400 temporary staff). The distribution of employees based on job category and education level is as follows:

	Number of Employees	Percentage
By Job Category		
Sales and Customer Service	63,397	29.0%
Product and Marketing	18,308	8.4%
Construction and Maintenance	81,155	37.1%
Support	26,579	12.2%
Management	23,620	10.8%
Others	5,539	2.5%
By Education Level		
Postgraduate Degree	10,571	4.8%
Undergraduate Degree	95,407	43.6%
College Degree	56,749	26.0%
Others	55,871	25.6%

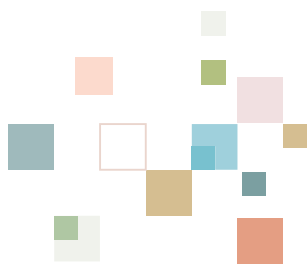


CONTINUOUSLY OPTIMIZING HUMAN RESOURCES ALLOCATION MECHANISM AND PROCESS AND ENHANCING EMPLOYMENT EFFICIENCY

China Unicom improved employment management system, strengthened entry mechanism for job positions, and fully matched employees with positions. As a result, employment efficiency was significantly improved. The Company also optimized the management system toward managerial staff, enhanced competition for managerial positions and exchange between positions, and promoted rational allocation of management team in the Company's affiliates. Moreover, the Company optimized remuneration management system, continuously improved the distribution mechanism that linked personnel compensation to the Company's business development and profit goals, and provided effective incentives towards employees with higher contribution. In addition, the Company promoted the informatization of human resources management, refined human resources management skills, and proactively promoted the online practice of various human resources management tasks.

EXPANDING CAREER DEVELOPMENT PATH AND ENHANCING OVERALL QUALITY AND ABILITY OF PROFESSIONAL TALENTS

China Unicom strengthened the team buildup and management toward its core talents, promoted the exchange and sharing between cadres and professionals, and helped its overseas operating companies manage position reserves as well as recruit and update talents pool. The Company carried out the assessment of professional and technical qualifications to enhance the capability of front-line employees. The Company organized 7 certification exams, and 45,000 front-line employees participated. Moreover, the Company optimized employee training system with a focus on key training projects. The Company held 16 leadership training courses and conducted 23 classes with a total of 1,384 attendees; organized 288 group-level skills training classes with nearly 20,000 attendees; leveraged online education resource and commenced nearly 1,300 online courses to help employees learn and grow up.



By further integrating social responsibility with its business development, and social interest with its corporate interest, China Unicom made new progress on corporate social responsibility in 2012.

I. BUILDING HIGH QUALITY NETWORK

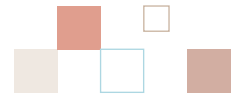
China Unicom continues to enhance the quality and capability of its mobile and broadband networks. To eliminate digital divide and realize seamless coverage, the Company further pushed forward on its Village Coverage Project, and extended network coverage to 4,552 villages in 11 provinces with a total investment of RMB 1.22 billion. By further enhancing its emergency communications capability, the Company successfully completed communications tasks for many major events such as the launch of “Shenzhou 9” Manned Spaceship, the 18th Party Congress, Asia-Europe Expo, the Davos Forum, and also ensured stable communications with high social responsibility and quick response during such natural disasters as mountain torrents, earthquakes, mud flows, landslides and hurricanes. The Company fully improved its management and control capability on information security by carrying out network

security protection, overhauling the management on Internet environment and enhancing interconnection quality. To promote self-innovation, the Company conducted the research on next generation network, and made effort to build responsible and high quality network facilities.

II. ENSURING CONSUMERS AND SOCIETY CONTINUOUS BENEFITS FROM INFORMATION AND COMMUNICATIONS SERVICES

China Unicom keeps its promise of offering high quality services to its mobile and broadband subscribers. To further enrich product offerings and raise customer satisfactions, the Company took a series of measures, such as enhancing customer relationship management, improving tariff packages through simplification and transparentization, promoting positive messages while eliminating negative ones, developing new products and services, and innovated the way to conduct customer services. The Company proactively developed 3G applications and facilitated smartphone penetration to ensure more consumers enjoy the new information life. The Company also proactively facilitated the informatization for farmers, agriculture and





rural areas through “12316” hotline service, agriculture Internet of things and cloud computing. In addition, the Company announced its own smart city strategy and designed nationwide standard smart city cloud platform to support local governments’ smart city planning and construction as well as the informatization in urban areas. The Company continued to develop applications for various sectors such as governments, medical and education organizations, financial and tourism industries, to facilitate the informatization among industries.

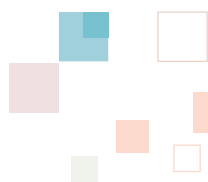
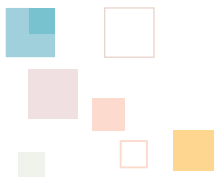
III. EMPLOYEES COME FIRST

Employees are the most precious assets of China Unicom. The Company has paid great attention to every part of employee management, including hiring, motivation, training and retention. The Company promoted employee empowerment and involvement to fully exert employees’ enthusiasm and creativity. The Company tried to deploy corporate resources in a more efficient and performance-oriented way, so as to allocate more remuneration toward employees with high performance and high value. The Company further improved training system and clarified career development path to help employees better plan their careers. The Company also improved employees’

working environment, paid greater attention to employees’ health, organized colorful entertainment and sport activities for employees, and set up more sustainable employee relief mechanism, so as to continue to energize the whole team.

IV. CONTRIBUTING TO THE SOCIETY

China Unicom insists on honesty in business and fair competition. The Company set up strategic cooperative mechanism and platform with its partners, conducted responsible purchases from its partners, and helped its partners fulfill their social responsibilities, so as to facilitate the mutual development of China Unicom and its partners. As part of its commitment to poverty relief, the Company stationed two cadres and allocated relief funds of RMB2.2 million to support poverty alleviation efforts in Kangbao County and Guyuan County in Hebei Province; the Company also donated RMB11.52 million to Ngari Prefecture and Xigaze Prefecture in Tibet to support local government’s development projects. As part of its commitment to education and other charity, the Company donated books and funds to HOPE primary schools, established specific organizations to help college graduates with intern opportunities and entrepreneurial training,





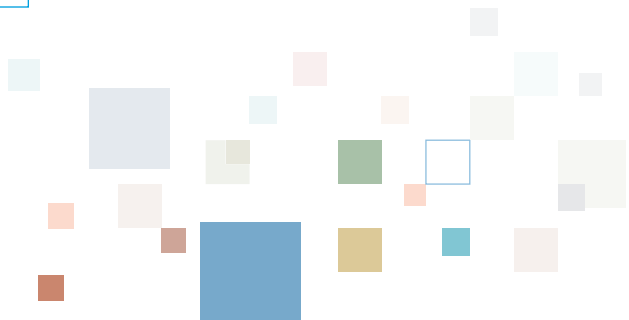
encouraged its subscribers to donate to children welfare houses by consumption points redemption, and participated in a series of cultural activities to promote the integration of migrant workers into new life in cities. In addition, the Company joined various volunteer activities, including Chinese translation for Expo 2012 Yeosu Korea, logistical support for college entrance examination, caring services for children of migrant workers, so as to facilitate a harmonious society.

V. RESPONDING TO CLIMATE CHANGE

China Unicom fully taps the internal energy saving & emission reduction potentials and strongly implements environmental management. The Company established Energy Saving & Emission Reduction Management Committee, and further improved the management system. By promoting 24 different energy saving technologies and launching 306 energy saving projects, the Company proactively constructed green networks to lower energy consumption. The Company continued to push forward the joint construction and co-sharing of base stations with other operators, resulting in RMB3.6 billion CAPEX savings in the reporting period. The Company also tried to facilitate green administration by promoting energy saving efforts in the office. In addition, the Company participated

in environmental public services, such as tree planting and electronic equipment recycling, to help build a more environmental friendly society.

Looking into 2013, with support from the society and hard work of its employees, China Unicom will endeavor to make new progress together with its partners. Capturing on the new opportunities, China Unicom will further implement its 3G-led integrated development strategy and accelerate the ongoing transformation. Together with its stakeholders, China Unicom will further promote the integration of informatization and industrialization, facilitate the upgrade of traditional industries, develop market-oriented information services, and deepen the application of information and communications technologies into various sectors so as to make more contribution to the future of informatization.



DIRECTORS

Chang Xiaobing *Executive Director, Chairman and Chief Executive Officer*

Lu Yimin *Executive Director and President*

Tong Jilu *Executive Director and Senior Vice President*

Li Fushen *Executive Director and Chief Financial Officer*

Cesareo Alierta Izuel *Non-Executive Director*

Cheung Wing Lam Linus *Independent Non-Executive Director*

Wong Wai Ming *Independent Non-Executive Director*

John Lawson Thornton *Independent Non-Executive Director*

Chung Shui Ming Timpson *Independent Non-Executive Director*

Cai Hongbin *Independent Non-Executive Director*

Law Fan Chiu Fun Fanny *Independent Non-Executive Director*

AUDIT COMMITTEE

Wong Wai Ming (*Chairman*) Cheung Wing Lam Linus John Lawson Thornton Chung Shui Ming Timpson Cai Hongbin
Law Fan Chiu Fun Fanny

REMUNERATION COMMITTEE

Cheung Wing Lam Linus (*Chairman*) Wong Wai Ming John Lawson Thornton Chung Shui Ming Timpson Cai Hongbin

NOMINATION COMMITTEE

Cai Hongbin (*Chairman*) Chang Xiaobing John Lawson Thornton Chung Shui Ming Timpson

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Chu Ka Yee

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISORS

Freshfields Bruckhaus Deringer Sullivan & Cromwell

REGISTERED OFFICE

75th Floor, The Center, 99 Queen's Road Central, Hong Kong Tel: (852) 2126 2018

MAJOR SUBSIDIARY

China United Network Communications Corporation Limited
No. 21 Financial Street, Xicheng District, Beijing 100033, P.R.C. Tel: (86) 10 6625 9550

SHARE REGISTRAR

Hong Kong Registrars Limited
46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

AMERICAN DEPOSITARY RECEIPTS DEPOSITARY

The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, USA

PUBLICATIONS

Under the United States securities law, the Company is required to file an annual report on Form 20-F with the United States Securities and Exchange Commission by 30 April 2013. Copies of the annual report as well as the U.S. annual report on Form 20-F, once filed, will be available at :

Hong Kong : China Unicom (Hong Kong) Limited, 75th Floor, The Center, 99 Queen's Road Central, Hong Kong

United States : The Bank of New York Mellon, 101 Barclay Street, New York, NY 10286, USA

STOCK CODE

Hong Kong Stock Exchange: 0762 New York Stock Exchange: CHU

COMPANY WEBSITE

www.chinaunicom.com.hk



Biographical Details of Directors and Senior Management



Chang Xiaobing
Chairman and
Chief Executive Officer

Aged 56, was appointed in December 2004 as an Executive Director, Chairman and Chief Executive Officer of the Company. Mr. Chang, a professor level senior engineer, graduated in 1982 from the Nanjing Institute of Posts and Telecommunications with a bachelor's degree in telecommunications engineering and received a master's degree in business administration from Tsinghua University in 2001. He received a doctor's degree in business administration from the Hong Kong Polytechnic University in 2005. Prior to joining China United Telecommunications Corporation, Mr. Chang served as a Deputy Director of the Nanjing Municipal Posts and Telecommunications Bureau of Jiangsu Province and a Deputy Director General of the Directorate General of Telecommunications of the Ministry of Posts and Telecommunications and a Deputy Director General and Director General of the Department of Telecommunications Administration of the former Ministry of Information Industry, Vice President of China Telecommunications Corporation, as well as Executive Director and President of China Telecom Corporation Limited. Mr. Chang was appointed the Chairman of China United Telecommunications Corporation in November 2004. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). Mr. Chang has served as a Director of Telefónica S.A. ("Telefónica", listed on various stock exchanges including Madrid, New York and London) since May 2011. He also serves as the Chairman of Unicom Group, China United Network Communications Limited ("A Share Company") and China United Network Communications Corporation Limited ("CUCL"), respectively. Mr. Chang has extensive operational and managerial experience in the telecommunications industry.



Lu Yimin
Executive Director and
President

Aged 49, was appointed as an Executive Director of the Company in October 2008 and President of the Company in February 2009. Mr. Lu, a researcher level senior engineer, graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in 1985 and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University. Mr. Lu joined China Network Communications Group Corporation ("Netcom Group") in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited ("PCCW", listed on the Hong Kong Stock Exchange with an American Depositary Receipt trading on the Pink Sheets' OTC Market in the U.S.) since May 2008 and the Deputy Chairman of PCCW since November 2011. Mr. Lu has served as a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Prior to joining the Netcom Group, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005. Mr. Lu is Vice Chairman and President of Unicom Group. Mr. Lu is also a Director and President of A Share Company, and a Director and President of CUCL. Mr. Lu has extensive experience in government administration and business management.



Tong Jilu
Executive Director and
Senior Vice President

Aged 54, was appointed as an Executive Director of the Company in February 2004 and Senior Vice President of the Company in March 2011. Mr. Tong graduated in 1987 from the Department of Economic Management at the Beijing University of Posts and Telecommunications. He received a doctor's degree in management from the Hong Kong Polytechnic University in 2009. Mr. Tong was Deputy Director General of the Posts and Telecommunications Administration of Liaoning Province, as well as the Posts Office of Liaoning Province. Mr. Tong joined China United Telecommunications Corporation in July 2000. He served first as Chief Accountant and later a Vice President and, from September 2003, a Director of China United Telecommunications Corporation. In December 2008, China United Telecommunications Corporation changed its company name to Unicom Group. From February 2004 to March 2011, Mr. Tong served as Chief Financial Officer of the Company. Mr. Tong now serves as a Director and Vice President of Unicom Group. He is also a Director of A Share Company, and a Director and Senior Vice President of CUCL. Mr. Tong has extensive operation and financial management experience in telecommunications companies.



Li Fushen
Executive Director and
Chief Financial Officer

Aged 50, was appointed in March 2011 as an Executive Director and Chief Financial Officer of the Company. Mr. Li graduated from the Jilin Engineering Institute with a degree in engineering management in 1988, and from the Australian National University with a master's degree in management in 2004. From November 2001 to October 2003, Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. From October 2003 to August 2005, Mr. Li served as General Manager of the Finance Department of Netcom Group. Since October 2005, he has served as the Chief Accountant of Netcom Group. He has served as Chief Financial Officer of China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") since September 2005 and has served as Executive Director of China Netcom since January 2007. From December 2006 to March 2008, Mr. Li served as Joint Company Secretary of China Netcom. From February 2009 to March 2011, Mr. Li served as a Senior Vice President of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipt trading on the Pink Sheets' OTC Market in the U.S.) since July 2007, and a Non-Executive Director of HKT Limited (HKT Trust and HKT Limited are listed on the Hong Kong Stock Exchange) and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li is a Director, Vice President and Chief Accountant of Unicom Group, a Director of A Share Company, as well as Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.



**Cesareo
Alierta Izuel**
Non-Executive Director

Aged 67, was appointed in October 2008 as a Non-Executive Director of the Company. Mr. Alierta has been a member of the Board of Directors of Telefónica (listed on various stock exchanges including Madrid, New York and London) from January 1997 and has been Chairman of Telefónica since July 2000. Mr. Alierta is a member of the Board of Directors of Telecom Italia (listed on the stock exchange of Milan) and of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London). He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University) and a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts' Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. In September 2005, Mr. Alierta received "The Global Spanish Entrepreneur" award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master's degree in business administration at the University of Columbia (New York) in 1970.



**Cheung Wing Lam
Linus**
Independent
Non-Executive Director

Aged 64, was appointed in May 2004 as an Independent Non-Executive Director of the Company. Mr. Cheung is Chairman of both the University of Hong Kong School of Professional and Continuing Education and Centennial College. Mr. Cheung was Chairman of Asia Television Limited, Deputy Chairman of PCCW Limited, an Independent Non-Executive Director of Taikang Life Insurance Company Limited and HKR International Limited, as well as President of the Chartered Institute of Marketing (Hong Kong Region). Prior to the merger of Pacific Century Cyberworks Limited and Cable & Wireless HKT Limited, or Hongkong Telecom, Mr. Cheung was the Chief Executive of Hongkong Telecom and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung also worked at Cathay Pacific Airways for 23 years, before departing as Deputy Managing Director. He was appointed an Official Justice of the Peace in 1990 and a Non-official Justice of the Peace in 1992. Mr. Cheung received a bachelor's degree in social sciences and a diploma in management studies from the University of Hong Kong. He is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.



Wong Wai Ming
Independent
Non-Executive Director

Aged 55, was appointed in January 2006 as an Independent Non-Executive Director of the Company. Mr. Wong is Senior Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the Hong Kong Stock Exchange and the New York Stock Exchange). Besides, Mr. Wong is a Non-Executive Director of Linmark Group (listed on the Hong Kong Stock Exchange). Prior to his current executive position at Lenovo Group Limited, Mr. Wong was a Chief Executive Officer and Executive Director of Roly International Holdings Limited and an Executive Director of Linmark Group. Mr. Wong was also a Non-Executive Director of Kingsoft Corporation Limited and an Independent Non-Executive Director of I.T Limited. Mr. Wong was previously an investment banker with over 15 years of experience in investment banking business in Greater China and was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Wong is a chartered accountant and holds a bachelor's degree (with Honors) in management science from the Victoria University of Manchester in the United Kingdom.



John Lawson Thornton
Independent
Non-Executive Director

Aged 59, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Thornton is currently a Professor and Director of the Global Leadership Program, and Chairman of the Advisory Board, at the Tsinghua University School of Economics and Management in Beijing. He is the Co-Chairman of Barrick Gold Corporation (listed on the Toronto Stock Exchange and New York Stock Exchange). He is also the Chairman of the Board of Trustees of the Brookings Institution in Washington, D.C. He is a Director of HSBC Holdings plc (listed on the Hong Kong Stock Exchange, London Stock Exchange, New York Stock Exchange, Paris Stock Exchange and Bermuda Stock Exchange), and is also a Director of Ford Motor Company (listed on the New York Stock Exchange). Mr. Thornton is a trustee, director, advisory board member or member of China Foreign Affairs University, China Investment Corporation (CIC), China Securities Regulatory Commission (CSRC), The Committee on Capital Markets Regulation, Council on Foreign Relations, General Atlantic, The Hotchkiss School, McKinsey Knowledge Council, Morehouse College, and the National Committee on U.S.-China Relations. Mr. Thornton served as a Director of News Corporation from June 2004 to November 2012, a Director of Intel Corporation from July 2003 to May 2010, a Director of Industrial and Commercial Bank of China Limited from October 2005 to November 2008, and an Independent Non-Executive Director of China Netcom from October 2004 to November 2008. Mr. Thornton retired in July 2003 as President and Director of The Goldman Sachs Group, Inc. Mr. Thornton received an A.B. in history from Harvard College in 1976, a B.A. and M.A. in jurisprudence from Oxford University in 1978 and an M.P.P.M. from the Yale School of Management in 1980.



**Chung Shui Ming
Timpson**
Independent
Non-Executive Director

Aged 61, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 12th Chinese People's Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited and Henderson Land Development Company Limited (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an Independent Director of China State Construction Eng. Corp. Ltd. (listed on the Shanghai Stock Exchange). From October 2004 to November 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee, an Independent Non-Executive Director of Nine Dragons Paper (Holdings) Limited, an Independent Director of China Everbright Bank Company Limited and an Outside Director of China Mobile Communications Corporation. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Mr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Mr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants.



Cai Hongbin
Independent
Non-Executive Director

Aged 45, was appointed in May 2010 as an Independent Non-Executive Director of the Company. Mr. Cai is currently the Dean of and a Professor in Applied Economics at Guanghua School of Management at Peking University. Besides, Mr. Cai is a Deputy to the National People's Congress of the People's Republic of China and an Outside Director of China Petrochemical Corporation. Prior to joining Guanghua School of Management at Peking University, Mr. Cai served as an Assistant Professor of the Economics Department at University of California, Los Angeles. He was also an Independent Director of China Everbright Bank Company Limited, Concord Medical Services Holdings Limited and Beijing Venustech Inc.. Mr. Cai received a bachelor's degree in Mathematics from Wuhan University in 1988, a master's degree in Economics from Peking University in 1991, and a doctoral degree in Economics from Stanford University in 1997. In addition, Mr. Cai was awarded New Century Excellent Talents in University from Ministry of Education of the People's Republic of China (the "Ministry of Education") in 2006, the National Outstanding Young Researcher from National Science Foundation of China in 2007, the National Changjiang Scholar from the Ministry of Education in 2008, Fellow of the Econometric Society in 2011 and Council of the Econometric Society in 2012. Mr. Cai has carried out extensive research in the areas of, among others, game theory, industrial organization, corporate finance and Chinese economy, and has published many academic papers in top international and national journals.



Law Fan Chiu Fun
Fanny
Independent
Non-Executive Director

Aged 60, was appointed in November 2012 as an Independent Non-Executive Director of the Company. Mrs. Law is currently a Deputy of the Hong Kong Special Administrative Region ("HKSAR") to the National People's Congress of the People's Republic of China, a Member of the Executive Council of the Government of HKSAR, the Special Adviser to the China-US Exchange Foundation, a Director of the Fan Family Trust Fund and the Honorary Principal of Ningbo Huizhen Academy. Besides, Mrs. Law is an Independent Non-Executive Director of CLP Holdings Limited (listed on the Hong Kong Stock Exchange). Prior to her retirement from the civil service in 2007, Mrs. Law was the Commissioner of the Hong Kong Independent Commission Against Corruption. During her 30 years as an Administrative Officer, Mrs. Law has worked in many fields, including medical and health, economic services, housing, land and planning, home affairs, social welfare, civil service, transport and education. Mrs. Law graduated from the University of Hong Kong with an Honours degree in Science, and in 2009 was named an outstanding alumna of the Science Faculty of the University of Hong Kong. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow of Harvard University. She also holds a Master degree in Education from the Chinese University of Hong Kong and is a Fellow of The Hong Kong Institute of Directors.



Li Jianguo
Senior Vice President

Aged 59, was appointed as Senior Vice President of the Company in February 2009. Ms. Li graduated from the Xiangtan University with a bachelor's degree in Chemical Engineering in 1982 and received a master's degree in business administration from the Hong Kong Polytechnic University in 2006. From June 2000 to July 2007, Ms. Li held various senior positions in China United Telecommunications Corporation, including serving as a Director and Chairperson of the Labour Union. Ms. Li also served as the Chairperson of the Board of Supervisors of A Shares Company from December 2001 to July 2007 and as Executive Director of the Company from April 2006 to July 2007. Ms. Li served as Senior Management in Netcom Group since July 2007. She has also served as Executive Director of China Netcom since July 2007. Ms. Li holds a senior managerial position in Unicom Group. Ms. Li is the Chairman of the Supervisory Board of A Share Company, as well as Director and Senior Vice President of CUCL. Ms. Li held leading positions in various enterprises, local governments and state ministries and committees for long period of time, and she has extensive working and management experiences in government, authorities and enterprises.



Li Gang
Senior Vice President

Aged 55, was appointed as Vice President of the Company in April 2006 and Senior Vice President of the Company in February 2009. Mr. Li graduated from Beijing University of Posts and Telecommunications in 1985 and received a master's degree in business administration from the Department of Advanced Business Administration of Jinan University in 2004. Mr. Li previously served as a Deputy Director of the Telecommunications Division, a Deputy Director of the Telecommunications Department, a Deputy Director of the Rural Telephone Bureau, a Deputy Director and a Director of the Telecommunications Operation and Maintenance Department of the Posts and Telecommunications Administration Bureau in Guangdong Province and as a Director of the Mobile Communication Bureau in Guangdong Province. From 1999 to 2005, he served as the Deputy Chairman, General Manager and Chairman of Guangdong Mobile Communication Co., Limited and as the Chairman and General Manager of Beijing Mobile Communication Co., Limited. From 2000 to 2005, he also served as an Executive Director of China Mobile (Hong Kong) Limited. Mr. Li joined China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). From April 2006 to October 2008, Mr. Li served as an Executive Director of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW since November 2011. Mr. Li is a Deputy General Manager of Unicom Group, Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.



Zhang Junan
Senior Vice President

Aged 56, was appointed as Vice President of the Company in April 2006 and Senior Vice President of the Company in February 2009. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982. He received a master's degree in business administration from the Australian National University in 2002 and a doctor's degree in business administration from the Hong Kong Polytechnic University in 2008. He previously served as a Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company and the Chairman and General Manager of the Anhui Provincial Telecommunications Co., Limited. Mr. Zhang joined the China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). From April 2006 to October 2008, Mr. Zhang served as the Executive Director of the Company. In addition, Mr. Zhang serves as a Non-Executive Director of China Communications Services Corporation Limited. Mr. Zhang also serves as Vice President of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Zhang has worked in the telecommunications industry for a long period of time and has extensive management experience.



Jiang Zhengxin
Senior Vice President

Aged 55, was appointed as Senior Vice President of the Company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor's degree in radio engineering from Beijing University of Posts and Telecommunications in 1982, a master's degree in business administration from Jilin University in 2001, and a PhD in political economy from Jilin University in 2006. Mr. Jiang served as Deputy Director of the Bureau of Telecommunications Administration in Changchun of Jilin Province from February 1998 to July 1999. He was the Deputy General Manager of Jilin Mobile Communication Company from July 1999 to March 2004. He served as the Deputy General Manager of South Communication Co. Limited of Netcom Group from March 2004 to June 2004, and he was the General Manager of Zhejiang Branch of Netcom Group from June 2004 to September 2007. He has served as Deputy General Manager of Netcom Group since September 2007. Mr. Jiang is a Deputy General Manager of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.



Shao Guanglu
Senior Vice President

Aged 49, was appointed as Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined China United Telecommunications Corporation in February 1995. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). Mr. Shao was Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. Mr. Shao also serves as a Vice President of Unicom Group, and a Director and Senior Vice President of CUCL. Mr. Shao Guanglu has worked in the telecommunications industry for a long period of time and has extensive management experience.

CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) provides for code provisions (the “Code Provisions”) and recommended best practices with respect to (i) composition, responsibilities and procedures of the Board of Directors (the “Board”), (ii) remuneration of Directors and senior management and Board evaluation, (iii) accountability and audit, (iv) delegation by the Board, (v) communication with shareholders and (vi) company secretary.

The Board is responsible for performing overall corporate governance duties, in which the Chairman has the primary responsibility for ensuring that good corporate governance practices and procedures are established. The Company has adopted a Corporate Governance Policy which sets out the key terms of reference of the Board on corporate governance functions, including, amongst others, developing and reviewing the Corporate Governance Policy and corporate governance practices of the Company; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and reviewing the Company’s compliance with the Code.

Other than the disclosures made in the section headed “(1) Board of Directors” below, the Company confirms that for the year ended 31 December 2012, it complied with all the Code Provisions.

(1) Board of Directors

To serve the best interests of the Company and its shareholders, the Board is responsible for reviewing and approving major corporate matters, including, amongst others, business strategies and budgets, major

investments, capital market operations, as well as mergers and acquisitions. The Board is also responsible for monitoring internal control, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities.

The Board membership maintains wide representation. Members of the Board consist of outstanding individuals from different professions in Mainland China, Hong Kong and overseas. The Board comprises four executive directors, one non-executive director and six independent non-executive directors.

Mr. Chang Xiaobing serves as Chairman and Chief Executive Officer (the “CEO”) of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Chang Xiaobing is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company.

Under Code Provision A.2.1, the roles and responsibilities of the chairman and the chief executive should be separate and should not be performed by the same individual. The Board understands that the principle of Code Provision A.2.1 is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority. The Board believes that at the present stage, Mr. Chang Xiaobing and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities. These arrangements also facilitate the formulation and implementation of the Company’s strategies in a more effective manner so as to support the effective development of the Company’s business.

All non-executive directors and independent non-executive directors of the Company are influential members of society and possess good knowledge and experience in different aspects. They have been making positive contributions to the development of the Company’s strategies and policies through independent, constructive and informative

comments. They have kept close contact with management and often actively express different opinions on matters relating to shareholders and the capital market at board meetings. These views and opinions facilitate the Board in their consideration of the shareholders' best interests. All independent non-executive directors, except for their equity interests and remuneration disclosed in this annual report, do not have any business with or financial interests in the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. Personal particulars of Directors are set out on pages 38 to 43 of this annual report. The functions of non-executive directors and independent non-executive directors include, amongst others, attending board meetings, making independent judgments at meetings, playing a leading role in resolving any potential conflicts of interest, serving on committees by invitation and carefully examining whether the performance of the Company has reached the planned corporate targets and objectives, and monitoring and reporting on matters relating to the performance of the Company.

With respect to the nomination and appointment of new Directors and senior management members, the Nomination Committee would, after considering the Company's need for new Directors and/or senior management members, identify a wide range of candidates from within the Company and the human resources market and make recommendations to the Board. After having obtained the consent from candidates in relation to the relevant nomination and based on the Company's actual needs, the Board would convene a meeting which would be attended by independent non-executive directors and non-executive directors to consider the qualifications of the candidates. Under Code Provision A.4.1, non-executive directors shall be appointed for a specific term, subject to re-election. The Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation at general meetings and re-election by shareholders pursuant to the Company's memorandum and articles of association (the "Memorandum and Articles of Association"). All Directors of the Company are subject to retirement by rotation at least once every three years. Mr. Tong Jilu, Mr. Li Fushen, Mr. Cesareo Alierta Izuel, Mr.

Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. Personal particulars of the Directors for re-election and their proposed remuneration are set out on pages 39 to 43 and page 68 of this annual report.

Following their appointment, all newly appointed Directors are provided with comprehensive orientation information to ensure that they have proper understanding of the Company's operations and businesses, full understanding of their responsibilities under the Listing Rules, applicable legal and regulatory requirements, and the Company's business and corporate governance policies. Furthermore, formal letters of appointment setting out the key terms and conditions of the Directors' appointment will be duly prepared.

Directors' training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and industrial environment to Directors. During the year, in addition to the attendance at meetings, review of papers and circulars sent by the Company as well as reading of training materials, Mr. Chang Xiaobing, Mr. Lu Yimin, Mr. Tong Jilu, Mr. Li Fushen, Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny attended relevant trainings respectively; Mr. Cesareo Alierta Izuel attended various trainings in legislative and regulatory update held by Telefónica S.A.; Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson also attended various professional trainings in accounting.

The remuneration package for executive directors includes salary and performance-linked annual bonuses. The remuneration of executive directors is determined by reference to their respective duties and responsibilities in the Company, their respective experience and prevailing market conditions while the award of the performance-linked annual bonuses is tied to the attainment of key performance indicators or targets set by the Company. The remuneration of non-executive directors is determined by reference to prevailing market conditions and their respective workload from serving as non-executive directors and members of the board committees of the Company. The Company also adopted share option schemes for the purpose of providing long term incentives to Directors (details of such share option schemes are set out in the paragraph headed "Share Option Schemes of the Company" on pages 61 to 66 of this annual report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 149 to 151 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

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

The Board convenes meetings regularly and all Directors have adequate opportunity to present at the meetings and to include issues for discussion in the meeting agenda. Notices of regular board meetings are delivered to the Directors at least 14 days in advance of the meetings. The Company delivers, on a best endeavour basis, all documents for regular board meetings to the Directors at least one week prior to the meetings (and ensures that all documents

are delivered to the Directors no less than three days prior to the regular meetings as required by the Code Provisions).

The Company Secretary, being an employee of the Company, has day-to-day knowledge of the Company's affairs and reports to the Chairman of the Board. She keeps close contact with all Directors and ensures that the operation of the Board and all board committees is in line with the procedures as set forth in the Memorandum and Articles of Association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting the draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meeting will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform her duties, the Company Secretary attended sufficient professional training in 2012.

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

All Directors are required to devote sufficient time for handling the affairs of the Company. A culture of openness and debate are promoted in the Board and the Directors are encouraged to express their views and concerns. Senior management holds formal and informal meetings with all Directors from time to time to provide sufficient and timely information so that the Directors can make informed decisions. Besides formal board meetings, the Chairman also meets annually with non-executive Directors and independent non-executive Directors, without the

presence of the executive Directors, which further promotes the exchange of different views and opinions. In order to ensure that all Directors have appropriate knowledge of the matters discussed at the meetings, complete and reliable information regarding those matters is provided in advance, and all Directors have the right to inspect documents and information in relation to matters to be decided by the Board. The Directors have frequently visited various branches in Mainland China to gain better understanding of the Company's daily operations. In addition, the Company has arranged relevant trainings for the Directors (which include training sessions conducted by professional advisers, such as lawyers and accountants, from time to time) in order to broaden their knowledge in the relevant areas and to

improve their understanding of the Company's business and the latest operational technologies. The Board also conducts annual evaluation of its performance. Such efforts have also facilitated to improve the corporate governance of the Company.

In 2012, the Board held six full board meetings for, amongst other things, discussion and approval of important matters such as the 2011 annual results, the 2011 Form 20-F, the 2012 annual budget, the 2012 interim results, the first and third quarter results for 2012, reports on internal control, appointment of Director and the acquisition of Unicom New Horizon Telecommunications Company Limited.

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

	Meetings Attended / Held					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Independent Board Committee Meeting	Shareholders Meeting
Executive Director						
Chang Xiaobing (Chairman)	6/6	N/A	N/A	2/2	N/A	2/2
Lu Yimin	6/6	N/A	N/A	N/A	N/A	2/2
Tong Jilu	6/6	N/A	N/A	N/A	N/A	2/2
Li Fushen	6/6	N/A	N/A	N/A	N/A	2/2
Non-Executive Director						
Cesareo Alierta Izuel	0/6	N/A	N/A	N/A	N/A	0/2
Independent Non-Executive Director						
Cheung Wing Lam Linus	6/6	5/5	1/1	N/A	3/3	2/2
Wong Wai Ming	5/6	4/5	0/1	N/A	3/3	0/2
John Lawson Thornton	3/6	4/5	1/1	1/2	3/3	1/2
Chung Shui Ming Timpson	6/6	5/5	1/1	2/2	3/3	1/2
Cai Hongbin	5/6	4/5	0/1	2/2	3/3	0/2
Law Fan Chiu Fun Fanny ¹	1/1	0/0	N/A	N/A	1/1	1/1

Note 1: On 21 November 2012, Mrs. Law Fan Chiu Fun Fanny was appointed as independent non-executive director of the Company.

With the contribution from each Director, the Board works effectively and performs its responsibilities efficiently with all key and appropriate issues being discussed and approved in a timely manner. The Board is satisfied that each Director has spent sufficient time on performing its responsibilities to the Company.

(2) Committees under the Board

The Company has established three committees under the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee has a written charter, which is available on the websites of the Company and the Hong Kong Stock Exchange. From time to time as required by the Listing Rules, the Board also establishes Independent Board Committee for the purpose of advising and providing voting recommendations to independent shareholders on connected transactions and transactions subject to independent shareholders approval entered into by the Company and/or its subsidiaries. The committees are provided with sufficient resources, including, amongst others, obtaining independent professional advice at the expense of the Company, to perform its duties. The committees report their decisions or recommendations to the Board after meetings.

(a) Audit Committee

Composition

The Audit Committee comprises Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive directors of the Company. The Chairman of the Audit Committee is Mr. Wong Wai Ming. All members of the Audit Committee have satisfied the "independence" requirements in relation to an Audit Committee member under applicable laws, regulations and rules. Amongst the members of the committee, one member is an accountant with extensive accounting professional experience, and the Chairman of the committee is a chartered accountant with expertise and experience in accounting and financial management.

Major Responsibilities

The major responsibilities of the Audit Committee include: as the key representative body for overseeing the Company's relationship with the independent

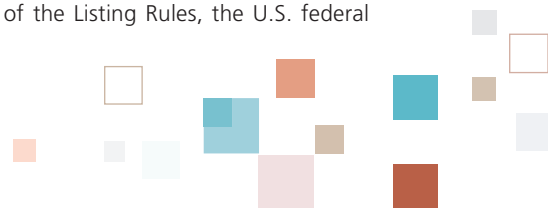
auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor's independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from the independent auditor to the management and responses of the management; discussing the internal control system with the management and reviewing the reports on the internal control procedures of the Company.

Work Done in 2012

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

The Audit Committee held five meetings in 2012 for, amongst other things, discussion and approval of the 2011 annual results, the 2011 Form 20-F, the 2012 interim results, and the first and third quarter results for 2012. In addition, the Audit Committee approved in the meetings the change of internal audit officer, the reports on internal control, the report on internal audit findings in 2011 and the action plan for 2012, the audit fees and the audit plans of the independent auditor as well as the non-audit services provided by the independent auditor in 2012.

The Audit Committee has performed its duties effectively, and enabled the Board to better monitor the financial condition of the Company, supervise the internal control over financial reporting of the Company, ensure the integrity and reliability of the financial statements of the Company, prevent significant errors in the financial statements and ensure the Company's compliance with the relevant requirements of the Listing Rules, the U.S. federal



securities regulations and the New York Stock Exchange listing standards with respect to audit committee.

(b) Remuneration Committee

Composition

The Remuneration Committee comprises Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson and Mr. Cai Hongbin, all being independent non-executive directors of the Company. The Chairman of the Remuneration Committee is Mr. Cheung Wing Lam Linus.

Major Responsibilities

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

Work Done in 2012

The Remuneration Committee meets at least once a year.

The Remuneration Committee held one meeting in 2012 for, amongst other things, discussion and approval of the 2011 appraisal report and the 2012 performance contract of the CEO, bonus for senior management for 2011, the remuneration for Chairman and members of the Nomination

Committee, and adjustment to the remuneration of senior management.

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

(c) Nomination Committee

Composition

The Nomination Committee comprises Mr. Cai Hongbin, Mr. Chang Xiaobing, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson. Except for Mr. Chang Xiaobing, who is the Chairman and CEO of the Company, each of Mr. Cai Hongbin, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson is an independent non-executive director of the Company. The Chairman of the Nomination Committee is Mr. Cai Hongbin.

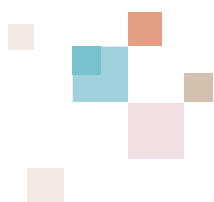
Major Responsibilities

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

Work Done in 2012

The Nomination Committee meets at least once a year.

The Nomination Committee held two meetings in 2012 for, amongst other things, reviewing the



structure, size and composition of the Board, assessment of the independence of independent non-executive directors and making recommendations to the Board on the proposed re-election of Directors and appointment of independent non-executive director.

(d) Independent Board Committee

Pursuant to the requirements of the Listing Rules, the Board established an Independent Board Committee, which comprised all independent non-executive directors of the Company, to provide recommendation to independent shareholders in respect of the connected transaction regarding the acquisition by China United Network Communications Corporation Limited (a wholly-owned subsidiary of the Company) of Unicom New Horizon Telecommunications Company Limited from China United Network Communications Group Company Limited (the ultimate parent of the Company). The Independent Board Committee held meetings and frequent discussions with independent advisors for studying and providing recommendation to independent shareholders in respect of such connected transaction.

(3) Preparation of Financial Statements and Financial Reporting

The Directors understand that the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”) provides that the Directors shall prepare financial statements for each year to give a true and fair view of the financial position of the Company as at the balance sheet date and profits or losses and cash flows of the Company for the year ended the balance sheet date.

In preparing financial statements, the Directors shall:

- (a) select and consistently apply appropriate accounting policies and make fair and reasonable judgments and estimates in applying the selected accounting policies;
- (b) state reasons for any serious deviation from the applicable accounting principles; and
- (c) prepare financial statements on a going concern basis, unless it is inadvisable to assume that the Company itself or the Company and its subsidiaries will continue to operate in the foreseeable future.

The financial statements for the year ended 31 December 2012 are prepared under the going concern basis. In preparing the financial statements, appropriate accounting policies have been selected; fair and reasonable judgments and estimates have been made.

A statement of the independent auditors about their reporting responsibilities related to the financial statements is set out in the independent auditor’s report on pages 81 to 82 of this annual report.

In addition, the Directors are also responsible for keeping appropriate accounting records to safeguard the assets of the Company and taking appropriate procedures to prevent and investigate whether there are any fraud and other irregularities.

With respect to financial reporting, the management provides explanations and information to the Board so that the Board can evaluate the merits of the financial information and other information that need to be approved. The Board has also made a balanced, clear and understandable assessment of the financial position and performance of the Company in the communications to shareholders.

(4) Internal Control

Internal control systems have been designed to monitor and facilitate the accomplishment of the Company’s business objectives, safeguard the Company’s assets against loss and misappropriation, ensure maintenance of proper accounting records for the provision of reliable financial information, ensure the Company’s compliance with applicable laws, rules and regulations, and to provide reasonable, but not absolute, assurance against fraud and errors.

The Company has continuously refined the policies and standards for the control environment based on the risk control framework established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO”). In the past few years, the Company has: standardized control procedures for monitoring the financial reporting and period-end financial closing procedures at the branch and subsidiary level and upgraded the business performance review processes and controls; expanded accounting manuals and clearly document key controls and

processes for preparing consolidated financial statements in accordance with applicable accounting standards; hired additional accounting professionals with experience in financial reporting and familiarity with international accounting practices and increased technical training for the finance and accounting personnel in respect of relevant accounting standards; established and implemented the code of ethics for senior officers and employees, company-wide anti-fraud policies and whistleblowing mechanisms; assessed the effectiveness of internal control at branch-level based on the Company's enterprise risk assessment results and took measures to improve internal control over branches and subsidiaries; and implemented the Policy on Risk Management.

The Company has an internal audit department with over 660 staffs, with officers stationed at various provincial branches. The internal audit department reports directly to the Audit Committee and is independent of the Company's daily operation and accounting functions. With an emphasis on the effectiveness of internal control with respect to the efficiency of operations, accuracy of financial information, and compliance with rules and regulations, the internal audit department conducts, amongst others, internal control assessment and internal audit on economic accountability. In addition, the internal audit department also contributes to strengthen the operation and management, to improve internal control systems, to mitigate operational risks and to increase the economic efficiency of the Company.

The Board has overall responsibility for maintaining sound and effective internal control systems. Pursuant to the Code Provisions, the Board conducted an annual review of the effectiveness of the internal control systems of the Company and its subsidiaries for the year ended 31 December 2012 based on thorough discussions with, and review of evaluation report prepared by, the Company's internal audit department, legal and risk management department, as well as meetings with the Company's management. The

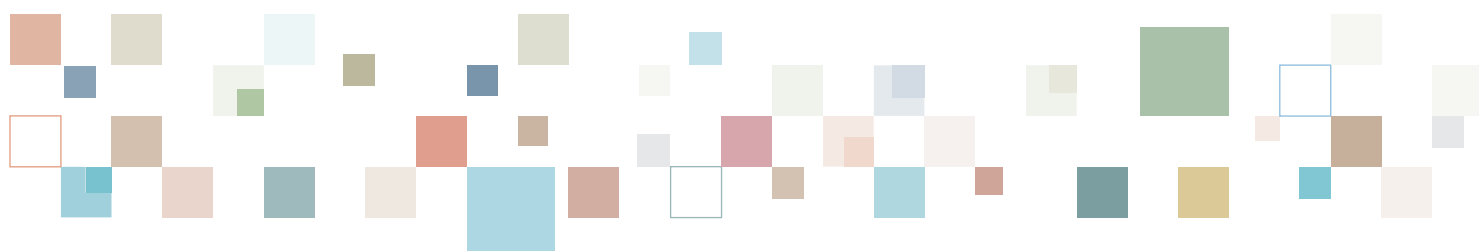
review covered all material aspects of the Company's control functions, including financial, operational, information system, compliance controls and risk management functions. The review also considered, with respect to the Company's accounting and financial reporting function, the adequacy of resources, staff qualifications and experience, and training programs and budget.

(5) Information Disclosure Controls and Procedural Standards

In order to further enhance the Company's system of information disclosure, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Company has adopted and implemented the Information Disclosure Controls and Procedural Standards. In an effort to standardize the principles for information disclosures, the Company established the Information Disclosure Review Committee under the management and formulated the procedures in connection with the compilation and reporting of the Company's financial and operational statistics and other information, as well as the procedures in connection with the preparation and review of the periodic reports. Moreover, the Company established detailed implementation rules with respect to the contents and requirements of financial data verification, in particular, the upward undertakings by the individual responsible officers at the levels of subsidiaries, branches and major departments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has established the "Code for Dealing of Securities by Directors" in accordance with the "Model Code for Securities Transactions by Directors of Listed Issuers", as set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries to Directors as to their respective compliance with the relevant code for securities transactions for the year ended 31 December 2012, and all of the Directors have confirmed such compliance.



REQUIREMENTS UNDER SECTION 404 OF THE SARBANES-OXLEY ACT

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

The relevant internal control report needs to stress the management’s responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company’s internal control over financial reporting as at year end. Under Section 404 of the Sarbanes-Oxley Act, the Company’s management is required to conduct an assessment of the effectiveness of the Company’s internal control over financial reporting as at 31 December 2012. Management is currently in the process of finalizing the management’s report on internal control over financial reporting, which will be included in the Company’s annual report on Form 20-F for the year ended 31 December 2012 to be filed with the United States Securities and Exchange Commission by 30 April 2013.

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

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

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its website (www.chinaunicom.com.hk) a summary of the significant differences between corporate governance practices of the Company and those required to be followed by U.S. companies under the listing standards of the New York Stock Exchange.



The Company received Gold Corporate Award from “The Asset” magazine for the second consecutive year in March 2013.



INDEPENDENT AUDITOR

PricewaterhouseCoopers is the independent auditor of the Company overseas and in the PRC. Apart from audit services, it also provides audit-related, tax and other services. The remuneration paid/ payable to the independent auditor for provision of services in 2012 is as follows:

Items	Note	2012 (in RMB thousands)
Audit services	(i)	68,100
Audit-related services	(ii)	1,145
Taxation services		477
Others	(iii)	2,119
Total		71,841

Notes:

- (i) Audit services in 2012 include the audit on the Company's internal control over financial reporting pursuant to Section 404 of the U.S. Sarbanes-Oxley Act of 2002.
- (ii) Audit-related services include other assurance and related services that can be reasonably provided by the independent auditor. In 2012, the provisions of audit-related services mainly include professional services in relation to the issuance of debt securities including commercial papers.
- (iii) Other services include providing subsidiaries of the Company with permitted advisory services on the internal settlement system among departments, human resources service, translation service and providing the Company with access to an online database of global financial reporting literature regarding new pronouncements and guidance.

SHAREHOLDERS' RIGHTS

(1) Annual General Meeting

The Board endeavors to maintain an on-going dialogue with shareholders, and in particular, to communicate with shareholders through annual general meetings. Notices of annual general meeting are sent to shareholders at least 20 clear business days before the meeting. The Directors and representatives of the Board committees usually attend the

meetings and treasure the opportunities to communicate with shareholders at such meetings. At general meetings, the chairman of the meeting proposes individual resolutions in respect of each substantially separate matter. All matters at the Company's general meetings are resolved by poll and the relevant procedures are explained at the meeting. The Company also appoints external scrutineers to ensure that all votes are counted and recorded appropriately, and publishes the poll results in a timely manner.



The last annual general meeting of the Company was held on 29 May 2012, at which the following resolutions were passed:

- to receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2011
- to declare a final dividend for the year ended 31 December 2011
- to re-elect Mr. Chang Xiaobing, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson as Directors, and to authorise the Board to fix remuneration of the Directors for the year ending 31 December 2012
- to re-appoint PricewaterhouseCoopers as auditor and authorise the Board to fix their remuneration for the year ending 31 December 2012
- to grant a general mandate to issue new shares
- to grant a general mandate for share repurchase
- to extend the general mandate to issue new shares

The next annual general meeting will be held on 21 May 2013. Please refer to the "Notice of Annual General Meeting" on pages 78 to 80 for this annual report for details.

Putting Forward Resolutions at Annual General Meetings

Pursuant to Section 115A of the Companies Ordinance, the following persons may put forward a resolution at the next annual general meeting of the Company: (a) any number of shareholders, together holding not less than 2.5% of the total voting rights of all shareholders which have, as at the date of the requisition, a right to vote at the next annual general meeting, or (b) not less than 50 shareholders each holding shares paid up to an average sum of not less than HK\$2,000.

The resolution must be one which may be properly moved and is intended to be moved at the next annual general meeting. The requisition must be signed by the requisitionists and deposited at the registered office of the Company at least

six weeks before the annual general meeting, and provided that the requisitionists also deposit or tender a sum reasonably sufficient to meet the Company's expenses, the Company has a duty to give notice of such proposed resolution to all shareholders who are entitled to receive notice of the next annual general meeting. If an annual general meeting is called for a date six weeks or less after the requisition had been deposited, the requisition will be deemed to have complied with the timing requirement above.

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

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

(2) Extraordinary General Meeting

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



Convening Extraordinary General Meetings

Pursuant to Section 113 of the Companies Ordinance, shareholder(s) holding not less than 5% of the paid-up capital of the Company, carrying the right to vote at general meetings of the Company as at the date of deposit of the requisition, may request the Directors of the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company.

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

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

The last extraordinary general meeting of the Company was held on 21 December 2012, at which the independent shareholders passed by way of poll the resolution to approve the acquisition of Unicom New Horizon Telecommunications Company Limited.

Putting Forward Resolutions at Extraordinary General Meetings

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

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

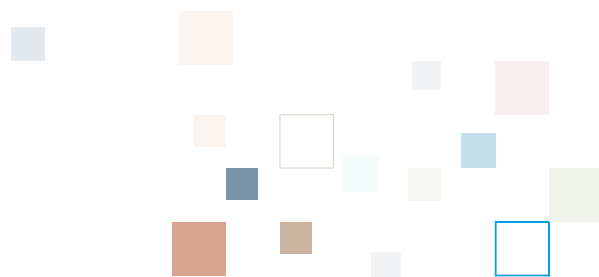
(3) Memorandum and Articles of Association

Rights of the shareholders are provided under the Memorandum and Articles of Association. In 2012, there is no significant change in the Memorandum and Articles of Association.

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

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

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



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

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



In 2012, the Company participated in the following investor conferences:

Date	Event	Location
9–10 January 2012	DB Access China Conference 2012	Beijing
10–11 January 2012	UBS Greater China Conference 2012	Shanghai
23 March 2012	Credit Suisse Asian Investment Conference	Hong Kong
26 April 2012	Nomura China Investor Forum 2012	Xiamen
22–23 May 2012	Morgan Stanley Hong Kong Investor Summit	Hong Kong
24 May 2012	UBS Pan-Asian Telco Conference 2012	Singapore
1 June 2012	Goldman Sachs Telco & Internet Corp Day 2012	Hong Kong
27 June 2012	DB Access China Corp Day	Hong Kong
13 September 2012	19th CLSA Investors' Forum 2012	Hong Kong
29 October 2012	Nomura Telecom & Technology Corporate Day 2012	Hong Kong
30 October 2012	Goldman Sachs Greater China CEO Summit 2012	Hong Kong
1 November 2012	BNP Paribas 19th China Conference	Kunming
1 November 2012	Citi Greater China Investor Conference 2012	Macau
7–8 November 2012	Bank of America Merrill Lynch China Conference	Beijing
7–9 November 2012	Morgan Stanley Asia Pacific Summit	Singapore
12–13 November 2012	JP Morgan Asia Pacific TMT Conference 2012	Hong Kong
27 November 2012	CIMB Hong Kong / China Conference	Hong Kong

In addition, through announcements and press releases, the Company disseminates the latest information regarding any significant business development in a timely and accurate manner. The website of the Company is also updated from time to time to provide investors and the public with information and news of the Company in all respects.

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

ENQUIRY ON THE COMPANY

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

China Unicom (Hong Kong) Limited

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

Tel: (852) 2126 2018

Fax: (852) 2126 2016

Website: www.chinaunicom.com.hk

General Enquiry

Email: info@chinaunicom.com.hk

Media Enquiry

Email: media@chinaunicom.com.hk

Investor Enquiry

Email: IR@chinaunicom.com.hk

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



The board of directors (the “Board”) of China Unicom (Hong Kong) Limited (the “Company”) is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the provision of cellular, fixed line and broadband services in China.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2012 are set out on pages 87 to 88 of this annual report.

In view of the Group’s performance during 2012, the Board recommends the payment of a final dividend of RMB0.12 per ordinary share (“2012 Final Dividend”), totaling approximately RMB2,828 million for the year ended 31 December 2012.

FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 167 to 168 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2012.

Please refer to the financial statements on pages 83 to 166 for the operating results of the Group for the year ended 31 December 2012 and the respective financial positions of the Group and the Company as at that date.

LOANS

Please refer to Notes 20, 27 and 40.1(c) to the financial statements for details of the borrowings of the Group.

PROMISSORY NOTES

Please refer to Note 21 to the financial statements for details of the promissory notes of the Group.

CONVERTIBLE BONDS

Please refer to Note 22 to the financial statements for details of the convertible bonds of the Group.

CORPORATE BONDS

Please refer to Note 23 to the financial statements for details of the corporate bonds of the Group.

COMMERCIAL PAPERS

Please refer to Note 26 to the financial statements for details of the commercial papers of the Group.

CAPITALISED INTEREST

Please refer to Note 6 to the financial statements for details of the interest capitalised by the Group for the year.

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 6 to the financial statements for movements in the property, plant and equipment of the Group and the Company for the year.

CHARGE ON ASSETS

As at 31 December 2012, no property, plant and equipment was pledged to banks as loan security (31 December 2011: Nil).

SHARE CAPITAL

Please refer to Note 18 to the financial statements for details of the share capital of the Company.

RESERVES

Please refer to pages 89 to 90 of this annual report for the movements in the reserves of the Group and the Company during the year ended 31 December 2012. As at 31 December 2012, the distributable reserve of the Company amounted to approximately RMB2,042 million (2011: approximately RMB2,451 million).

SUBSIDIARIES

Please refer to Note 11 to the financial statements for details of the Company's subsidiaries.

CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 89 of this annual report for the Consolidated Statement of Changes in Equity and page 90 for the Statement of Changes in Equity.

EMPLOYEE BENEFIT EXPENSES

Please refer to Note 30 to the financial statements for details of the employee benefit expenses provided to employees of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to its five largest customers for the year ended 31 December 2012 did not exceed 30% of the Group's total turnover for the year.

The Group's purchases from its largest supplier for the year ended 31 December 2012 represented approximately 15.28% of the Group's total purchases for the year. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2012 accounted for approximately 26.42% of the total purchases of the Group for the year.

SHARE OPTION SCHEMES OF THE COMPANY

1. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme, which was amended on 13 May 2002, 11 May 2007 and 26 May 2009 (the "Share Option Scheme"). The purpose of the Share Option Scheme was to provide incentives and rewards to employees who have made

contributions to the development of the Company. The Share Option Scheme was valid and effective for a period of 10 years commencing on 21 June 2000 and expired on 21 June 2010. Following the expiry of the Share Option Scheme, no further share option can be granted under the Share Option Scheme, but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Under the Share Option Scheme:

- (1) share options may be granted to employees including all directors (the "Directors") of the Company;
- (2) any grant of share options to a Connected Person (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options);
- (3) the maximum number of shares in respect of which share options may be granted must not exceed 10% of the issued share capital of the Company as at 13 May 2002;
- (4) the option period commences on any day after the date on which such share option is offered, but may not exceed 10 years from the offer date;
- (5) the subscription price shall not be less than the higher of:
 - (a) the nominal value of the shares;
 - (b) the closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on the offer date in respect of the share options; and

- (c) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the offer date;
- (6) the total number of shares in the Company issued and to be issued upon exercise of the share options granted to a participant of the Share Option Scheme (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and
- (7) the consideration payable for each grant is HKD1.00.

As at 31 December 2012, 202,040,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.86% of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. Among these share options, 1,896,000 share options were held by the Directors and their associates as at 31 December 2012. Please refer to the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" for details. All of the share options granted and outstanding as at 31 December 2012 are governed by the terms of the Share Option Scheme.

During the year ended 31 December 2012, 150,000 options granted under the Share Option Scheme were exercised at an exercise price of HKD6.35 for each option.

2. Special Purpose Share Option Scheme

On 16 September 2008, the Company adopted a special purpose share option scheme (the "Special Purpose Share Option Scheme") in connection with the merger of the Company and China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") by way of a scheme of arrangement (the "Scheme") of China Netcom under Section 166 of the Hong Kong Companies Ordinance. The Special Purpose Share Option Scheme provides the Company with a means to incentivise and retain the holders of share options (the "Netcom Options") granted

under the share option scheme adopted by China Netcom (the "Netcom Share Option Scheme"), who were middle to senior management staff of China Netcom and its subsidiaries, and to encourage them to contribute to increasing the value of the Company. The Special Purpose Share Option Scheme is valid and effective during the period commencing on 15 October 2008 and ending on 30 September 2014, being the date falling 10 years after the date on which the Netcom Share Option Scheme was adopted. The terms of the Special Purpose Share Option Scheme were amended on 26 May 2009. The principal terms of the Special Purpose Share Option Scheme are summarised below:

A. Grant of Special Unicom Options and Exercise Price

- (i) The maximum number of share options (the "Special Unicom Options") granted to each eligible participant (the "Eligible Participant") under the Special Purpose Share Option Scheme and the exercise price of such options are determined in accordance with the following formula:

$$\text{Number of Special Unicom Options} = X \times Y$$

$$\text{Exercise price of each Special Unicom Option} = Z/X$$

where:

X is the exchange ratio (the "Share Exchange Ratio") of 1.508 shares in the Company for each China Netcom share cancelled under the Scheme;

Y is the number of outstanding Netcom Options held by an Eligible Participant as at 5:00 p.m. (Hong Kong time) on 14 October 2008 (the "Scheme Record Time"); and

Z is the exercise price of an outstanding Netcom Option held by an Eligible Participant at the Scheme Record Time.

Fractions of Special Unicom Options were not granted to the Eligible Participants.

Based on the formulae set out above, the exercise price of a Special Purpose 2004 Unicom Option (as defined below) is HKD5.57 and the exercise price of a Special Purpose 2005 Unicom Option (as defined below) is HKD8.26. The Board has the right to make corresponding alterations to the number of shares involved in the Special Unicom Options and the exercise price in the event of a capitalization issue, rights issue, subdivision or consolidation of the Company's shares or reduction of capital. Such adjustments shall give the Eligible Participants the same proportion of the issued share capital to which they would have been entitled prior to such alteration, and shall not cause the Company's shares to be issued below its par value.

- (ii) No amount is payable on acceptance of the grant of a Special Unicom Option.

B. Exercise of Special Unicom Options

The Special Unicom Options are exercised in accordance with the following vesting schedules:

- (i) Special Unicom Options granted to the Eligible Participants in respect of the Netcom Options granted to them on 22 October 2004 (the "2004 Netcom Options") and held as at the Scheme Record Time (the "Special Purpose 2004 Unicom Options") are effective from 15 October 2008 until 16 November 2013 (as extended by the Board). Any Special Purpose 2004 Unicom Option not exercised by 16 November 2013 shall lapse automatically. The respective exercise periods of the Special Purpose 2004 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option

Scheme and the Special Purpose Share Option Scheme" below; and

- (ii) Special Unicom Options granted to Eligible Participants in respect of the Netcom Options granted to them on 6 December 2005 (the "2005 Netcom Options") and held by them as at the Scheme Record Time (the "Special Purpose 2005 Unicom Options") are effective from 15 October 2008 until 5 December 2013 (as extended by the Board). Any Special Purpose 2005 Unicom Option not exercised by 5 December 2013 shall lapse automatically. The respective exercise periods of the Special Purpose 2005 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" below.

Please refer to the Company's circular issued on 15 August 2008 for further details on the terms of the Special Purpose Share Option Scheme.

As at 31 December 2012, 189,291,158 share options had been granted and remained valid under the Special Purpose Share Option Scheme, representing approximately 0.80% of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. Among these share options, 723,840 share options were held by a Director as at 31 December 2012. All of the share options granted and outstanding as at 31 December 2012 are governed by the terms of the Special Purpose Share Option Scheme.

During the year ended 31 December 2012, no share option granted under the Special Purpose Share Option Scheme was exercised.

3. Interest of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme

	Capacity and Nature	Date of Grant ³	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2012 ¹	Movement During the Period			No. of Options Outstanding as at 31 December 2012 ¹
					Granted ¹	Exercised ¹	Lapsed ¹	
Directors								
Chang Xiaobing (Chairman and CEO)	Beneficial owner (Personal)	21 December 2004	6.20	526,000	–	–	–	526,000
		15 February 2006	6.35	746,000	–	–	–	746,000
								1,272,000
Lu Yimin	–	–	–	–	–	–	–	–
Tong Jilu	Beneficial owner (Personal)	20 July 2004	5.92	92,000	–	–	–	92,000
		15 February 2006	6.35	460,000	–	–	–	460,000
	Beneficial owner (Spouse)	20 July 2004	5.92	32,000	–	–	–	32,000
		15 February 2006	6.35	40,000	–	–	–	40,000
							624,000	
Li Fushen	Beneficial owner (Personal)	15 October 2008	5.57	723,840	–	–	–	723,840
Cesareo Alierta Izuel	–	–	–	–	–	–	–	–
Cheung Wing Lam Linus	–	–	–	–	–	–	–	–
Wong Wai Ming	–	–	–	–	–	–	–	–
John Lawson Thornton	–	–	–	–	–	–	–	–
Chung Shui Ming Timpson	–	–	–	–	–	–	–	–
Cai Hongbin	–	–	–	–	–	–	–	–
Law Fan Chiu Fun Fanny	–	–	–	–	–	–	–	–
Employees²								
		21 May 2003	4.30	8,956,000	–	–	–	8,956,000
		20 July 2004	5.92	40,900,000	–	–	–	40,900,000
		21 December 2004	6.20	128,000	–	–	–	128,000
		15 February 2006	6.35	150,310,000	–	150,000	–	150,160,000
		15 October 2008	5.57	99,637,850	–	–	–	99,637,850
		15 October 2008	8.26	88,929,468	–	–	–	88,929,468
								388,711,318 ²
Total				391,481,158				391,331,158

Notes:

- Each share option gives the holder the right to subscribe for one share.
- The share options outstanding as at 31 December 2012 include approximately 23,440,000 share options held by the option holders who were determined by the Board as “Transferred Personnel” under the applicable share option schemes due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring.

3. Particulars of share options are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Share Option Scheme:		
21 May 2003	4.30	21 May 2004 to 20 May 2013 (in respect of 40% of the options granted) 21 May 2005 to 20 May 2013 (in respect of 30% of the options granted) 21 May 2006 to 20 May 2013 (in respect of the remaining 30% of the options granted)
20 July 2004	5.92	20 July 2005 to 19 July 2014 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2014 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2014 (in respect of the remaining 30% of the options granted)
21 December 2004	6.20	21 December 2005 to 20 December 2014 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2014 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2014 (in respect of the remaining 30% of the options granted)
15 February 2006	6.35	15 February 2008 to 14 February 2015 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2015 (in respect of the remaining 50% of the options granted)
Options Granted under the Special Purpose Share Option Scheme:		
15 October 2008	5.57	15 October 2008 to 16 November 2014 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2006 to 16 November 2010; 17 May 2007 to 16 November 2010 and 17 May 2008 to 16 November 2010, respectively) 17 May 2009 to 16 November 2014 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2009 to 16 November 2010)
15 October 2008	8.26	15 October 2008 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2007 to 5 December 2011) 6 December 2008 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2008 to 5 December 2011) 6 December 2009 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2009 to 5 December 2011) 6 December 2011 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2010 to 5 December 2011)

* In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the Board as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" continued to be in force, the Board further extended the exercise periods of certain share options by one year in each of March 2010, 2011, 2012 and 2013 under the relevant terms of the Share Option Scheme. As at 31 December 2012, approximately 23,440,000 share options held by Transferred Personnel (as discussed in Note 2 above) remained valid.

Furthermore, in each of March 2010, 2011, 2012 and 2013, the expiry dates for certain share options were extended by one year by the Board pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable due to "Mandatory Moratorium", which is still in force, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

4. Details of share options exercised during the year ended 31 December 2012 are as follows:

Grant date	Exercise price HKD	Weighted average closing price per share at respective dates immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares
15 February 2006	6.35	13.34	952,500	150,000

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

SUBSTANTIAL INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

The following table sets out the interests and short positions of each person, other than a director or a chief executive of the Company, in the shares or underlying shares of the Company as notified to the Company and recorded in the register required to be kept under Section 336 of the Hong Kong Securities and Futures Ordinance (the "SFO") as at 31 December 2012:

		Ordinary Shares Held		Percentage of Total Issued Shares
		Directly	Indirectly	
(i)	China United Network Communications Group Company Limited ("Unicom Group") ^{1,2}	–	18,032,853,047	76.52%
(ii)	China United Network Communications Limited ("Unicom A Share Company") ¹	–	9,725,000,020	41.27%
(iii)	China Unicom (BVI) Limited ("Unicom BVI") ¹	9,725,000,020	–	41.27%
(iv)	China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI", formerly known as "China Netcom Group Corporation (BVI) Limited") ^{2,3}	8,082,130,236	225,722,791	35.25%
(v)	Telefónica S.A. ("Telefónica") ⁴	–	1,180,601,587	5.01%
(vi)	Telefónica Internacional S.A.U. ⁴	1,180,601,587	–	5.01%

Notes:

- Unicom Group and Unicom A Share Company directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of Unicom BVI, and in accordance with the SFO, the interests of Unicom BVI are deemed to be, and have therefore been included in, the respective interests of Unicom Group and Unicom A Share Company.
- Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. In accordance with the SFO, the interests of Unicom Group BVI are deemed to be, and have therefore been included in, the interests of Unicom Group.
- Unicom Group BVI holds 8,082,130,236 shares (representing 34.30% of the total issued shares) of the Company directly. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.96% of the total issued shares) of the Company held as trustee on behalf of a PRC shareholder.
- Telefónica Internacional S.A.U. is a wholly-owned subsidiary of Telefónica. In accordance with the SFO, the interests of Telefónica Internacional S.A.U. are deemed to be, and have therefore been included in, the interests of Telefónica.

Apart from the foregoing, as at 31 December 2012, no person had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

Please also refer to Note 18 to the consolidated financial statements for details of the share capital of the Company.

COMPOSITION OF THE BOARD

The Directors during the year were:

Executive Directors:

Chang Xiaobing (Chairman and CEO)
Lu Yimin
Tong Jilu
Li Fushen

Non-Executive Director:

Cesareo Alierta Izuel

Independent Non-Executive Directors:

Cheung Wing Lam Linus
Wong Wai Ming
John Lawson Thornton
Chung Shui Ming Timpson
Cai Hongbin
Law Fan Chiu Fun Fanny (appointed on 21 November 2012)

Pursuant to the Articles of Association, Mr. Tong Jilu, Mr. Li Fushen, Mr. Cesareo Alierta Izuel, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The personal biographies of the Directors proposed for re-election at the forthcoming annual general meeting (the "Directors for Re-Election") are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 39 to 43 of this annual report. Save as disclosed in the section headed "Biographical Details of Directors and Senior Management", the Directors for Re-Election have not held any other directorship in any listed public companies in the last three years. In addition, save as disclosed in the section headed "Biographical Details of Directors and Senior Management", the Directors for Re-Election do not have any other relationship with any Director, senior management or substantial or controlling shareholders of the Company. Save as disclosed in this section, the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and Special Purpose Share Option Scheme" and "Directors' Interests and Short Positions in Shares, Underlying Shares or Debentures", Directors for Re-Election do not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between the Directors for Re-Election and the Company neither specify the length of service nor require the Company to give more than one year's prior notice or to make payments equivalent to more than one year's emoluments to terminate the service (other than statutory compensation). However, they are subject to retirement by rotation at annual general meetings in accordance with the Articles of Association.

The proposed remuneration package of each of Mr. Tong Jilu and Mr. Li Fushen includes a basic annual salary of RMB250,000 and a discretionary bonus of approximately RMB600,000 (subject to adjustment as recommended by the Remuneration Committee and approved by the Board). The proposed remuneration package of each of Mr. Tong Jilu and Mr. Li Fushen has been determined with reference to his duties and responsibilities in the Company, his respective experience and performance and the prevailing market conditions. The proposed remuneration package of each of Mr. Cesareo Alierta Izuel, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny includes an annual fee of HKD300,000 for being a non-executive director. Furthermore, the proposed remuneration package of Mr. Cai Hongbin includes an annual fee of HKD40,000, HKD20,000 and HKD70,000 for being the Chairman of the Nomination Committee and a member of the Remuneration Committee and the Audit Committee, respectively; the proposed remuneration package of Mrs. Law Fan Chiu Fun Fanny includes an annual fee of HKD70,000 for being a member of the Audit Committee. The proposed remuneration package of each of Mr. Cesareo Alierta Izuel, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny has been determined with reference to his or her duties and the prevailing market conditions.

Save as disclosed in this annual report, each of the Directors for Re-Election has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company nor there is any other information to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors the annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive directors (including Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny, each a Director for Re-Election) are currently independent.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" were as follows:

Director	Capacity	Ordinary Shares Held	Percentage of Total Issued Shares
Cheung Wing Lam Linus	Beneficial owner (Personal)	400,000	0.0017%
Chung Shui Ming Timpson	Beneficial owner (Personal)	6,000	0.0000%

Please refer to the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" hereinabove for the interests and rights to acquire shares held by the Directors and the chief executive of the Company as at 31 December 2012 under the Share Option Scheme and the Special Purpose Share Option Scheme.

Apart from those disclosed herein, at no time during the year ended 31 December 2012 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of acquiring shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

Furthermore, apart from those disclosed herein, as at 31 December 2012, none of the Directors or the chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

DIRECTORS' INTEREST IN CONTRACTS

Save for (i) the service agreements between the Company and the executive directors and (ii) the share acquisition agreement and the transfer agreement in relation to the acquisition of the 100% equity interest in Unicom New Horizon Telecommunications Company Limited ("Unicom New Horizon", a wholly-owned subsidiary of Unicom Group) by China United Network Communications Corporation Limited ("CUCL") from Unicom Group (where Mr. Chang Xiaobing, Mr. Lu Yimin, Mr. Tong Jilu and Mr. Li Fushen abstained from voting on the board resolution to approve such agreements due to their cross-directorship in the Company and Unicom Group and details of which are set out in the section headed "Acquisition of Unicom New Horizon Telecommunications Company Limited" on page 75 of this annual report), as at 31 December 2012, the Directors did not have any material interest, whether directly or indirectly, in any significant contracts entered into by the Company.

None of the Directors for Re-Election at the forthcoming annual general meeting has an unexpired service agreement which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESSES

Unicom Group and the A Share Company are engaged in telecommunications business and other related businesses in China that are similar to and/or compete with those of the Company. Executive directors of the Company also hold executive positions with Unicom Group and the A Share Company. Please refer to the section headed "Biographical Details of Directors and Senior Management" on pages 38 to 39 of this annual report for further details.

In addition, Mr. Chang Xiaobing, Chairman and Chief Executive Officer of the Company, has served as a director of Telefónica since May 2011. Mr. Cesareo Alierta Izuel, a Non-Executive Director of the Company, is a director of Telefónica and has served as an Executive Chairman of Telefónica since July 2000. Furthermore, Mr. Cesareo Alierta Izuel is a director of Telecom Italia.

Mr. Lu Yimin, an Executive Director and President of the Company, has served as a Non-Executive Director of PCCW Limited ("PCCW") since May 2008 and the Deputy Chairman of the Board of PCCW since November 2011. Mr. Lu has also served as a Non-Executive Director of HKT Limited and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011. Mr. Li Fushen, an Executive Director and Chief Financial Officer of the Company since March 2011, has served as a Non-Executive Director of PCCW since July 2007 and as a Non-Executive Director of HKT Limited and HKT Management Limited (the trustee-manager of the HKT Trust) since November 2011.

Mr. Chung Shui Ming Timpson, an Independent Non-Executive Director of the Company, has served as an Outside Director of China Mobile Communications Corporation during the period from September 2011 to January 2013.

Each of Telefónica, Telecom Italia, PCCW, HKT Limited, HKT Management Limited and China Mobile Communications Corporation, is engaged in the telecommunications business and other related businesses that may compete with those of the Company.

Apart from the above, there are no competing interests of directors which are disclosable under Rule 8.10(2)(b) of the Listing Rules at any time during the year of 2012 up to and including the date of this annual report.

EMOLUMENTS OF THE DIRECTORS

Please refer to Note 30 to the financial statements for details of the emoluments of the Directors.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group had approximately 218,340 employees, 190 employees and 70 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 70,400 temporary staff in Mainland China. For the year ended 31 December 2012, employee benefit expenses were approximately RMB28.778 billion (for the year ended 31 December 2011: RMB26.601 billion). The Group endeavors to maintain its employees' remuneration in line with the market trend and to remain competitive. Employees' remuneration is determined in accordance with the Group's remuneration and bonus policies based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits and internal and external training programmes, tailored in accordance with individual needs.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

As at 31 December 2012, Unicom Group is the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

On 1 January 2009, the merger by absorption of China Netcom (Group) Company Limited ("CNC China") by China CUCL (both being wholly-owned subsidiaries of the Company) became effective. On 6 January 2009, the merger by absorption of China Network Communications Group Corporation ("Netcom Group") by Unicom Group (being the respective parent companies of Unicom BVI and Unicom Group BVI, which are the Company's substantial shareholders) became effective. As a result of the above two mergers by absorption, the continuing connected transactions (and all associated rights and obligations thereunder) of Netcom Group and CNC China were assumed by Unicom Group and CUCL, respectively.

On 16 December 2008, CUCL, Unicom Group, Netcom Group and Unicom New Horizon entered into a network lease agreement in relation to the lease of the telecommunications networks of the 21 provinces in Southern China by CUCL from Unicom New Horizon on an exclusive basis for an initial term of two years effective from 1 January 2009 to 31 December 2010. On 29 October 2010, CUCL and Unicom New Horizon renewed the network lease agreement for a further term of two years until 31 December 2012. For the year ended 31 December 2012, the annual leasing fee paid by CUCL was RMB2.6 billion. On 27 December 2012, CUCL completed its acquisition of a 100% equity interest in Unicom New Horizon and the above network lease ceased to be a continuing connected transaction. Please refer to the subsection headed "Acquisition of Unicom New Horizon Telecommunications Company Limited" hereinafter for details.

On 6 November 2007 and 12 August 2008, CUCL and/or CNC China with Unicom Group, Unicom New Horizon and/or Netcom Group entered into a series of agreements for continuing connected transactions, which expired on 31 December 2010. On 29 October 2010, CUCL and Unicom Group entered into an integrated service agreement (the "2010 Integrated Service Agreement") to renew certain continuing connected transactions. Pursuant to the 2010 Integrated Service Agreement, CUCL and Unicom Group shall provide certain services and facilities to each other and the receiving party shall pay the corresponding service fees in a timely manner. The 2010 Integrated Service Agreement is valid for a term of three years starting from 1 January 2011 and ending on 31 December 2013.

Details of the continuing connected transactions under the 2010 Integrated Service Agreement are as follows:

Agreement	Nature of Transactions	Consideration and Terms
(1) Telecommunications Resources Leasing	<p>Unicom Group agrees to lease to CUCL:</p> <p>(a) certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities); and</p> <p>(b) certain other telecommunications facilities required by CUCL for its operations.</p>	<p>The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and telecommunications facilities provided that such charges would not be higher than market rates. CUCL shall be responsible for the on-going maintenance of such international telecommunications resources.</p> <p>CUCL and Unicom Group shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in (b). Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group is responsible for maintaining any telecommunications facilities referred to in (b), CUCL shall pay to Unicom Group the relevant maintenance service charges which shall be determined with reference to market rates, or where there is no market rates, be agreed between the parties and determined on a cost-plus basis.</p> <p>CUCL and Unicom Group agree to settle the net rental charges and service charges due to Unicom Group on a quarterly basis.</p> <p>For the year ended 31 December 2012, the total charges paid by CUCL to Unicom Group amounted to approximately RMB293 million.</p>
(2) Property Leasing	<p>CUCL and Unicom Group agree to lease each other properties and ancillary facilities belonging to CUCL or Unicom Group (including their respective branch companies and subsidiaries).</p>	<p>The rental charges payable by CUCL and by Unicom Group are based on market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The rental charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year.</p> <p>For the year ended 31 December 2012, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB922 million, and the rental charges paid by Unicom Group to CUCL was negligible.</p>
(3) Provision of Value-added Telecommunications Services	<p>Unicom Group (or its subsidiaries) agrees to provide the customers of CUCL with various types of value-added telecommunications services.</p>	<p>CUCL shall settle the revenue generated from the value-added telecommunications services with the branches of Unicom Group (or its subsidiaries) on the condition that such settlement will be based on the average revenue for independent value-added telecommunications content providers who provide value-added telecommunications content to CUCL in the same region. The revenue shall be settled on a monthly basis.</p> <p>For the year ended 31 December 2012, the total revenue allocated to Unicom Group in relation to value-added telecommunications services amounted to approximately RMB13 million.</p>

Agreement	Nature of Transactions	Consideration and Terms
<p>(4) Provision of Equipment Procurement Services</p>	<p>Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications equipment and other domestic non-telecommunications equipment to CUCL.</p> <p>Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services.</p> <p>In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above equipment and materials procurement.</p>	<p>Charges for the provision of equipment procurement services are calculated at the rate of:</p> <ul style="list-style-type: none"> (a) up to 3% of the contract value of those procurement contracts in the case of domestic equipment procurement; and (b) up to 1% of the contract value of those procurement contracts in the case of imported equipment procurement. <p>The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles (the "Pricing Principles"):</p> <ul style="list-style-type: none"> (a) the government fixed price; (b) where there is no government fixed price but a government guidance price exists, the government guidance price; (c) where there is neither a government fixed price nor a government guidance price, the market price; or (d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis. <p>The charges for the provision of storage and logistics services are determined by reference to the market price, which is determined by reference to the following:</p> <ul style="list-style-type: none"> (a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or (b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction. <p>The service charges due to Unicom Group will be settled on a monthly basis.</p> <p>For the year ended 31 December 2012, the total charges paid by CUCL to Unicom Group amounted to approximately RMB394 million.</p>

Agreement	Nature of Transactions	Consideration and Terms
(5) Provision of Engineering Design and Construction Services	Unicom Group agrees to provide to CUCL engineering design, construction and supervision services and IT services. Engineering design services include planning and design, engineering inspection, telecommunications electronic engineering, telecommunications equipment engineering and corporate telecommunications engineering. Construction services include services relating to telecommunications equipment, telecommunications routing, power supplies, telecommunications conduit, and technical support systems. IT services include services relating to office automation, software testing, network upgrading, research and development of new business, and development of support systems.	<p>The charges for the provision of engineering design and construction services are determined by reference to the market price, which is determined by reference to the following:</p> <ul style="list-style-type: none"> (a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or (b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction. <p>The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided.</p> <p>For the year ended 31 December 2012, the total charges paid by CUCL to Unicom Group amounted to approximately RMB2,890 million.</p>
(6) Provision of Ancillary Telecommunications Services	Unicom Group agrees to provide to CUCL ancillary telecommunications services, including certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers' acquisitions and servicing and other customers' services.	<p>The charges payable are determined by reference to the Pricing Principles and are settled between CUCL and Unicom Group as and when the relevant services are provided.</p> <p>For the year ended 31 December 2012, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB1,447 million.</p>
(7) Provision of Comprehensive Support Services	Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (other than facilities covered under the Telecommunications Resources Leasing above), vehicles services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff training, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services).	<p>The charges payable are determined by reference to the Pricing Principles and are settled between CUCL and Unicom Group as and when the relevant services are provided.</p> <p>For the year ended 31 December 2012, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB240 million, and the total services charges paid by Unicom Group to CUCL was RMB93 million.</p>

Agreement	Nature of Transactions	Consideration and Terms
(8) Provision of Shared Services	<p>Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following:</p> <p>(a) CUCL will provide headquarter human resources services to Unicom Group;</p> <p>(b) Unicom Group and CUCL will provide central business support services to each other;</p> <p>(c) CUCL will provide trust services related to the services referred to in (a) and (b) above to Unicom Group; and</p> <p>(d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters.</p> <p>In relation to the services referred to in (b) above, CUCL will provide support services, such as billing and settlement services provided by the business support centre and operational statistics reports.</p> <p>Unicom Group will provide support services, including telephone card production, development and related services, maintenance and technical support and management services in relation to the telecommunications card operational system.</p>	<p>Unicom Group and CUCL shall share the costs related to the shared services proportionately in accordance with their respective total assets value, except that the total assets value of the overseas subsidiaries and the listed company of Unicom Group will be excluded from the total asset value of Unicom Group. The shared costs proportion will be agreed between Unicom Group and CUCL in accordance with the total assets value set out in the financial statements provided to each other, as adjusted in accordance with their respective total assets value on an annual basis.</p> <p>For the year ended 31 December 2012, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB186 million, and the total services charges paid by Unicom Group to CUCL was negligible.</p>

Furthermore, the aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's independent auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 70 to 74 of this annual report in accordance with paragraph 14A.38 of the Listing Rules. A copy of the independent auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Acquisition of Unicom New Horizon Telecommunications Company Limited

On 21 November 2012, CUCL agreed to acquire from Unicom Group a 100% equity interest in Unicom New Horizon, which owns fixed-line telecommunications network assets located in 21 provinces and cities in southern China (the "Proposed Acquisition") for a consideration of RMB12,165,750,000 (equivalent to approximately HK\$14,987,990,000). Unicom Group is a connected person of the Company and the Proposed Acquisition constituted a connected transaction of the Company that is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The Proposed Acquisition was approved by the independent shareholders of the Company at a shareholders' meeting held on 21 December 2012.

All of the conditions precedent to the completion of the Proposed Acquisition were satisfied (or, if applicable, waived) on 26 December 2012 and completion of the Proposed Acquisition took place on the same day. Following the completion of the Proposed Acquisition, Unicom New Horizon is now a wholly-owned subsidiary of CUCL and an indirect wholly-owned subsidiary of the Company.

Please refer to the Company's announcements dated 21 November 2012, 21 December 2012 and 27 December 2012 and the circular dated 29 November 2012 for details.

The Company confirms that it has complied with the requirements of Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which any Group member was a party during 2012. Please refer to Note 40 to the financial statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

Report on the Company's corporate governance is set out in "Corporate Governance Report" on pages 46 to 59.

MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2012, the Company had not been involved in any material litigation, arbitration or administrative proceedings. So far as the Company is aware of, no such litigation, arbitration or administrative proceedings were pending or threatened as at 31 December 2012.

PUBLIC FLOAT

Based on publicly available information and so far as Directors are aware, the Company has maintained the specified amount of public float as required by the Hong Kong Stock Exchange during the year and as at the date of this annual report.

DONATIONS

For the year ended 31 December 2012, the Group made charitable and other donations in an aggregate amount of approximately RMB8.37 million.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (1) from 16 May 2013 to 21 May 2013, both days inclusive, for the purpose of ascertaining the shareholders' rights to attend and vote at the Annual General Meeting of the Company to be held on 21 May 2013 (and any adjournment thereof) (the "AGM"). In order to qualify for attendance and voting at the AGM, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than 4:30 p.m. of 15 May 2013; and
- (2) from 27 May 2013 to 29 May 2013, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the 2012 Final Dividend. In order to qualify for the proposed 2012 Final Dividend, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than 4:30 p.m. of 24 May 2013. Subject to the approval by shareholders at the AGM, the 2012 Final Dividend is expected to be paid in Hong Kong dollars on or about 13 June 2013 to those members registered in the Company's register of members as at 29 May 2013 (the "Dividend Record Date").

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2012 FINAL DIVIDEND

Pursuant to (i) the "Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management" (the "Notice") issued by the State Administration of Taxation of the People's Republic of China (the "SAT"); (ii) the "Enterprise Income Tax Law of the People's Republic of China" (the "Enterprise Income Tax Law") and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"); and (iii) information obtained from the SAT, the Company is required to withhold and pay enterprise income tax when it pays the 2012 Final Dividend to its non-resident enterprise shareholders. The enterprise income tax is 10% on the amount of dividend paid to non-resident enterprise shareholders (the "Enterprise Income Tax"), and the withholding and payment obligation lies with the Company.

As a result of the foregoing, in respect of any shareholders whose names appear on the Company's register of members on the Dividend Record Date and who are not individuals (including HKSCC Nominees Limited, other custodians, corporate nominees and trustees such as securities companies and banks, and other entities or organisations), the Company will distribute the 2012 Final Dividend payable to them after deducting the amount of Enterprise Income Tax payable on such dividend.

In respect of any shareholders whose names appear on the Company's register of members on the Dividend Record Date and who are individual shareholders, there will be no deduction of Enterprise Income Tax from the dividend that such shareholder is entitled to.

Shareholders who are not individual shareholders listed on the Company's register of members and who (i) are resident enterprises of the People's Republic of China (the "PRC") (as defined in the Enterprise Income Tax Law), or (ii) are enterprises deemed to be resident enterprises of the PRC in accordance with the Notice, and who, in each case, do not desire to have the Company withhold Enterprise Income Tax from their 2012 Final Dividend, should lodge with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, at or before 4:30 p.m. of 24 May 2013, and present the documents from such shareholder's governing tax authority in the PRC confirming that the Company is not required to withhold and pay Enterprise Income Tax in respect of the dividend that such shareholder is entitled to.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the Enterprise Income Tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government agencies and adhere strictly to the information set out in the Company's register of members on the Dividend Record Date. The Company assumes no liability whatsoever in respect of and will not process any claims, arising from any delay in, or inaccurate determination of, the status of the shareholders, or any disputes over the mechanism of withholding.

INDEPENDENT AUDITOR

PricewaterhouseCoopers was the independent auditor of the Company for the year ended 31 December 2012 and has audited the accompanying financial statements.

The Board, as recommended and approved by the Audit Committee, has resolved to appoint KPMG as the independent auditor of the Company for the year ending 31 December 2013, of which appointment is subject to the approval of the shareholders of the Company at the AGM. Please refer to the Company's announcement dated 21 March 2013 for details.

By Order of the Board

Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong, 21 March 2013

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (the "Meeting") of China Unicom (Hong Kong) Limited (the "Company") will be held on 21 May 2013 at 3:00 p.m. at Ballroom A, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong for the following purposes:

AS ORDINARY BUSINESS:

1. To receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2012.
2. To declare a final dividend for the year ended 31 December 2012.
3. To re-elect Directors and to authorise the Board of Directors to fix the remuneration of the Directors for the year ending 31 December 2013.
4. To appoint KPMG as auditor, and to authorise the Board of Directors to fix their remuneration for the year ending 31 December 2013.

And as Special Business, to consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

5. **"THAT:**
 - (A) subject to paragraphs (B) and (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HKD0.10 each in the capital of the Company including any form of depositary receipts representing the right to receive such shares ("Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange in accordance with all applicable laws including the Code on Share Repurchases and the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time be and is hereby generally and unconditionally approved;
 - (B) the aggregate nominal amount of Shares which may be purchased or agreed conditionally or unconditionally to be purchased by the Directors pursuant to the approval in paragraph (A) above shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;
 - (C) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until the earlier of:

 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiry of the period within which the next annual general meeting of the Company is required by the Company's articles of association (the "Articles of Association") or the Companies Ordinance to be held; and
 - (iii) the revocation or variation of the authority given to the Directors under this Resolution by ordinary resolution of the Company's shareholders in general meeting."

6. **“THAT:**

- (A) subject to paragraph (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional Shares and to make or grant offers, agreements and options which might require the exercise of such powers be and are hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (A), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) the exercise of options granted under any share option scheme adopted by the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, shall not exceed the aggregate of (aa) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, plus (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum amount equivalent to 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly; and
- (D) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiry of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance to be held; and
- (iii) the revocation or variation of the authority given to the Directors under this Resolution by ordinary resolution of the Company's shareholders in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares on such record date (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company) and an offer, allotment or issue of shares by way of rights shall be construed accordingly.”

7. “**THAT** the Directors be and are hereby authorised to exercise the powers of the Company referred to in paragraph (A) of Resolution 6 in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (C) of such resolution.”

By Order of the Board of
China Unicom (Hong Kong) Limited
Chu Ka Yee
Company Secretary

Hong Kong, 5 April 2013

Note :

1. Any member entitled to attend and vote at the Meeting is entitled to appoint one or not exceeding two proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's registered office at 75th Floor, The Center, 99 Queen's Road Central, Hong Kong, at least 48 hours before the time for holding the Meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person if he is subsequently able to be present.
3. The Directors have recommended a final dividend for the year ended 31 December 2012 of RMB0.12 per share (the “2012 Final Dividend”) and subject to the passing of the Resolution 2 above, the 2012 Final Dividend is expected to be paid in Hong Kong dollars on or about 13 June 2013 to those shareholders whose names appear on the Company's register of shareholders on 29 May 2013.
4. The register of members of the Company will be closed during the following periods:
 - (1) from 16 May 2013 to 21 May 2013, both days inclusive, for the purpose of ascertaining the shareholders' rights to attend and vote at the Meeting (and any adjournment thereof). In order to qualify for attendance and voting at the Meeting, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712- 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than 4:30 p.m. of 15 May 2013; and
 - (2) from 27 May 2013 to 29 May 2013, both days inclusive, for the purpose of ascertaining the shareholders' entitlement to the 2012 Final Dividend. In order to qualify the proposed 2012 Final Dividend, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712- 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, by no later than 4:30 p.m. of 24 May 2013.
5. In relation to the Ordinary Resolution set out in item 3 of the Notice, Mr. Tong Jilu, Mr. Li Fushen, Mr. Cesareo Alierta Izuel, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny will retire by rotation at the Meeting and, being eligible, offer themselves for re-election. Personal particulars of the Directors for re-election and their proposed remuneration are set out in the 2012 annual report of the Company.
6. The information in relation to the Ordinary Resolution set out in item 4 of the Notice will be set out in a separate circular from the Company to be enclosed with the 2012 annual report.
7. In relation to the Ordinary Resolution set out in item 5 of the Notice, the Directors wish to state that they will exercise the powers conferred thereby to repurchase Shares in circumstances which they deem appropriate or for the benefit of the shareholders. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own Shares, as required by the Listing Rules, will be set out in a separate circular from the Company to be enclosed with the 2012 annual report.
8. The votes to be taken at the Meeting will be taken by poll, the results of which will be published on the Company's and the Stock Exchange's websites after the Meeting.
9. Shareholders are suggested to telephone the Company's hotline on (852) 2126 2018 for arrangements of the Meeting in the event that a No. 8 (or above) typhoon or black rainstorm warning is hoisted on the day of the Meeting.

Independent Auditor's Report

TO THE SHAREHOLDERS OF CHINA UNICOM (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 83 to 166, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 March 2013

Consolidated Balance Sheet

(All amounts in Renminbi ("RMB") millions)

	Note	As at 31 December	
		2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	430,997	381,859
Lease prepayments	7	7,601	7,657
Goodwill	8	2,771	2,771
Deferred income tax assets	9	6,534	5,091
Financial assets at fair value through other comprehensive income	10	5,567	6,951
Other assets	12	14,480	13,101
		467,950	417,430
Current assets			
Inventories and consumables	13	5,803	4,651
Accounts receivable	14	13,753	11,412
Prepayments and other current assets	15	9,580	6,127
Amounts due from related parties	40.1	18	22
Amounts due from domestic carriers	40.2	738	1,181
Short-term bank deposits	16	32	304
Cash and cash equivalents	17	18,250	15,106
		48,174	38,803
Total assets		516,124	456,233
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	2,311	2,311
Share premium	18	173,473	173,472
Reserves	19	(20,509)	(20,016)
Retained profits			
– Proposed final dividend	37	2,828	2,356
– Others		51,402	47,775
Total equity		209,505	205,898

As at 31 December

	Note	2012	2011
LIABILITIES			
Non-current liabilities			
Long-term bank loans	20	536	1,384
Promissory notes	21	–	15,000
Convertible bonds	22	–	11,118
Corporate bonds	23	2,000	7,000
Deferred income tax liabilities	9	20	17
Deferred revenue		1,412	1,801
Other obligations	24	331	88
		4,299	36,408
Current liabilities			
Accounts payable and accrued liabilities	25	108,486	95,252
Taxes payable		1,820	1,232
Amounts due to ultimate holding company	40.1	567	342
Amounts due to related parties	40.1	4,767	5,707
Amounts due to domestic carriers	40.2	1,163	1,344
Commercial papers	26	38,000	38,000
Short-term bank loans	27	69,175	32,322
Convertible bonds	22	11,215	–
Current portion of long-term bank loans	20	850	50
Current portion of promissory notes	21	15,000	–
Current portion of corporate bonds	23	5,000	–
Dividend payable		561	488
Current portion of deferred revenue		729	882
Current portion of other obligations	24	2,642	2,586
Advances from customers		42,345	35,722
		302,320	213,927
Total liabilities		306,619	250,335
Total equity and liabilities		516,124	456,233
Net current liabilities		(254,146)	(175,124)
Total assets less current liabilities		213,804	242,306

The notes on pages 93 to 166 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 21 March 2013 and signed on behalf of the Board by

Chang Xiaobing
Director

Li Fushen
Director

Balance Sheet

(All amounts in RMB millions)

	Note	As at 31 December	
		2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	24	28
Investments in subsidiaries	11(a)	159,789	159,774
Deferred income tax assets	9	1,221	820
Loan to a subsidiary	11(b)	21,452	11,480
Financial assets at fair value through other comprehensive income	10	5,442	6,837
		187,928	178,939
Current assets			
Loans to subsidiaries	11(b)	6,325	6,340
Amounts due from subsidiaries	11(c)	4,738	4,621
Dividend receivable		21,455	18,305
Prepayments and other current assets	15	23	6
Cash and cash equivalents	17	153	496
		32,694	29,768
Total assets		220,622	208,707
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	2,311	2,311
Share premium	18	173,473	173,472
Reserves	19	(2,596)	(1,454)
Retained profits			
– Proposed final dividend	37	2,828	2,356
– Others		2,461	2,200
Total equity		178,477	178,885

	Note	As at 31 December	
		2012	2011
LIABILITIES			
Non-current liabilities			
Loan from a subsidiary	11(b)	11,452	11,480
Current liabilities			
Loan from a subsidiary	11(b)	37	–
Accounts payable and accrued liabilities	25	465	292
Short-term bank loans	27	29,395	15,112
Amounts due to subsidiaries	11(c)	177	176
Taxes payable		67	127
Dividend payable	37	552	479
Amounts due to related parties	40.1	–	2,156
		30,693	18,342
Total liabilities		42,145	29,822
Total equity and liabilities		220,622	208,707
Net current assets		2,001	11,426
Total assets less current liabilities		189,929	190,365

The notes on pages 93 to 166 are an integral part of this financial statement.

Approved by the Board of Directors on 21 March 2013 and signed on behalf of the Board by:

Chang Xiaobing
Director

Li Fushen
Director

Consolidated Statement of Income

(All amounts in RMB millions, except per share data)

	Note	Year ended 31 December	
		2012	2011
Revenue	28	248,926	209,167
Interconnection charges		(18,681)	(16,380)
Depreciation and amortisation		(61,057)	(58,021)
Networks, operations and support expenses	29	(32,516)	(29,449)
Employee benefit expenses	30	(28,778)	(26,601)
Costs of telecommunications products sold	31	(45,040)	(29,739)
Other operating expenses	32	(51,252)	(43,586)
Finance costs	33	(3,664)	(1,474)
Interest income		240	230
Other income – net	35	1,343	1,451
Profit before income tax		9,521	5,598
Income tax expenses	9	(2,425)	(1,371)
Profit for the year		7,096	4,227
Profit attributable to:			
Owners of the parent		7,096	4,227
Earnings per share for profit attributable to owners of the parent during the year:			
Basic earnings per share (RMB)	38	0.30	0.18
Diluted earnings per share (RMB)	38	0.30	0.18

Details of dividends attributable to owners of the parent for the years ended 31 December 2012 and 2011 are set out in Note 37.

The notes on pages 93 to 166 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(All amounts in RMB millions)

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	Year ended 31 December	
	2012	2011
Profit for the year	7,096	4,227
Other comprehensive loss:		
Changes in fair value of financial assets through other comprehensive income	(1,530)	(2,629)
Tax effect on changes in fair value of financial assets through other comprehensive income	384	656
Changes in fair value of financial assets through other comprehensive income, net of tax	(1,146)	(1,973)
Currency translation differences	(2)	(17)
Other comprehensive loss for the year, net of tax	(1,148)	(1,990)
Total comprehensive income for the year	5,948	2,237
Total comprehensive income attributable to:		
Owners of the parent	5,948	2,237

The notes on pages 93 to 166 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB millions)

	Attributable to owners of the parent									
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Statutory reserve	Convertible bonds reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2011	2,310	173,436	79	623	(1,334)	24,830	572	(42,970)	48,115	205,661
Total comprehensive (loss)/income for the year	-	-	-	-	(1,973)	-	-	(17)	4,227	2,237
Consideration for 2011 Business Combination under common control	-	-	-	-	-	(5)	-	(121)	(32)	(158)
Transfer of profits of entity under common control to Unicom Group in relation to 2011 Business Combination	-	-	-	-	-	-	-	-	(9)	(9)
Transfer to statutory reserves	-	-	-	-	-	15	-	-	(15)	-
Appropriation to statutory reserves	-	-	-	-	-	271	-	-	(271)	-
Equity-settled share option schemes:										
– Value of employee services	-	-	-	17	-	-	-	-	-	17
– Issuance of shares upon exercise of options	1	36	-	(2)	-	-	-	-	-	35
– Transfer between reserves upon lapsing of options	-	-	-	(1)	-	-	-	-	1	-
Dividends relating to 2010	-	-	-	-	-	-	-	-	(1,885)	(1,885)
Balance at 31 December 2011	2,311	173,472	79	637	(3,307)	25,111	572	(43,108)	50,131	205,898
Total comprehensive (loss)/income for the year	-	-	-	-	(1,146)	-	-	(2)	7,096	5,948
Appropriation to statutory reserves	-	-	-	-	-	641	-	-	(641)	-
Equity-settled share option schemes:										
– Value of employee services	-	-	-	14	-	-	-	-	-	14
– Issuance of shares upon exercise of options	-	1	-	-	-	-	-	-	-	1
Dividends relating to 2011 (Note 37)	-	-	-	-	-	-	-	-	(2,356)	(2,356)
Balance at 31 December 2012	2,311	173,473	79	651	(4,453)	25,752	572	(43,110)	54,230	209,505

The notes on pages 93 to 166 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

(All amounts in RMB millions)

	The Company							
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Convertible bonds reserve	Retained profits	Total equity
Balance at 1 January 2011	2,310	173,436	79	1,241	(1,398)	572	2,172	178,412
Total comprehensive (loss)/income for the year	-	-	-	-	(1,962)	-	4,268	2,306
Equity-settled share option schemes:								
– Value of employee services	-	-	-	17	-	-	-	17
– Issuance of shares upon exercise of options	1	36	-	(2)	-	-	-	35
– Transfer between reserves upon lapsing of options	-	-	-	(1)	-	-	1	-
Dividends relating to 2010	-	-	-	-	-	-	(1,885)	(1,885)
Balance at 31 December 2011	2,311	173,472	79	1,255	(3,360)	572	4,556	178,885
Total comprehensive (loss)/income for the year	-	-	-	-	(1,156)	-	3,089	1,933
Equity-settled share option schemes:								
– Value of employee services	-	-	-	14	-	-	-	14
– Issuance of shares upon exercise of options	-	1	-	-	-	-	-	1
Dividends relating to 2011 (Note 37)	-	-	-	-	-	-	(2,356)	(2,356)
Balance at 31 December 2012	2,311	173,473	79	1,269	(4,516)	572	5,289	178,477

The notes on pages 93 to 166 are an integral part of this financial statement.

Consolidated Statement of Cash Flows

(All amounts in RMB millions)

	Note	Year ended 31 December	
		2012	2011
Cash flows from operating activities			
Cash generated from operations	(a)	76,429	70,362
Interest received		242	230
Interest paid		(4,372)	(3,205)
Income tax paid		(1,679)	(896)
Net cash inflow from operating activities		70,620	66,491
Cash flows from investing activities			
Purchase of property, plant and equipment		(86,783)	(77,861)
Proceeds from disposal of property, plant and equipment and other assets		1,086	1,431
Dividends received from financial assets at fair value through other comprehensive income		242	816
Payment for investment in Telefónica S.A.		–	(3,367)
Consideration paid for the acquisition of Unicom New Horizon Telecommunications Company Limited, net of cash acquired	2.2(a)	(10,314)	–
Decrease/(increase) in short-term bank deposits		272	(31)
Purchase of other assets		(3,983)	(3,958)
Net cash outflow from investing activities		(99,480)	(82,970)
Cash flows from financing activities			
Proceeds from exercise of share options		1	35
Proceeds from commercial papers		67,797	61,867
Proceeds from short-term bank loans		87,111	55,242
Proceeds from related party loans		–	219
Repayment of commercial papers		(68,000)	(47,000)
Repayment of short-term bank loans		(50,285)	(59,132)
Repayment of long-term bank loans		(48)	(43)
Repayment of related parties loans		(2,170)	–
Repayment of capital element of finance lease		(119)	(130)
Dividends paid to owners of the parent	37	(2,283)	(2,070)
Net cash inflow from financing activities		32,004	8,988
Net increase/(decrease) in cash and cash equivalents		3,144	(7,491)
Cash and cash equivalents, beginning of year		15,106	22,597
Cash and cash equivalents, end of year	17	18,250	15,106
Analysis of the balances of cash and cash equivalents:			
Cash balances		5	6
Bank balances		18,245	15,100
		18,250	15,106

The notes on pages 93 to 166 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB millions)

(a) The reconciliation of profit before income tax to cash generated from operations is as follows:

	Year ended 31 December	
	2012	2011
Profit before income tax	9,521	5,598
Adjustments for:		
Depreciation and amortisation	61,057	58,021
Interest income	(240)	(230)
Finance costs	3,326	1,266
Gain on disposal of property, plant and equipment and other assets	(617)	(429)
Share-based compensation costs	14	17
Provision for doubtful debts	3,150	2,645
Dividends from financial assets at fair value through other comprehensive income	(415)	(867)
Changes in working capital:		
Increase in accounts receivable	(4,841)	(4,753)
Increase in inventories and consumables	(1,151)	(923)
Decrease in other assets	354	230
Increase in prepayments and other current assets	(3,308)	(1,004)
Decrease in amounts due from related parties	4	27
Decrease in amounts due from domestic carriers	443	80
Increase in accounts payable and accrued liabilities	4,245	3,574
(Decrease)/increase in taxes payable	(532)	13
Increase in advances from customers	6,623	6,815
Decrease in deferred revenue	(542)	(530)
Increase in other obligations	33	–
Increase/(decrease) in amounts due to ultimate holding company	200	(45)
(Decrease)/increase in amounts due to related parties	(714)	386
(Decrease)/increase in amounts due to domestic carriers	(181)	471
Cash generated from operations	76,429	70,362

Notes to the Consolidated Financial Statements

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the “Company”) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of Company’s subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice and related value-added services are referred to as the “mobile business”, the services aforementioned other than the mobile business are hereinafter collectively referred to as the “fixed-line business”. The Company and its subsidiaries are hereinafter referred to as the “Group”. The address of the Company’s registered office is 75th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited (“SEHK”) on 22 June 2000 and the American Depository Shares (“ADS”) of the Company were listed on the New York Stock Exchange on 21 June 2000.

The substantial shareholders of the Company are China Unicom (BVI) Limited (“Unicom BVI”) and China Unicom Group Corporation (BVI) Limited (“Unicom Group BVI”, formerly known as China Netcom Group Corporation (BVI) Limited). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited (“A Share Company”, a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in A Share Company is owned by China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as “Unicom Group”). Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. As a result, the directors of the Company consider Unicom Group to be the ultimate holding company.

Acquisition of Unicom New Horizon Telecommunications Company Limited

On 21 November 2012, China United Network Communications Corporation Limited (“CUCL”, a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Unicom Group, pursuant to which CUCL agreed to acquire the entire equity interest of Unicom New Horizon Telecommunications Company Limited (“Unicom New Horizon”) from Unicom Group for a total cash consideration of approximately RMB12,166 million. The principal activity of Unicom New Horizon is to lease its fixed-line telecommunications networks of the 21 provinces in Southern China (“Telecommunications Networks in Southern China”) to CUCL. The acquisition was completed on 26 December 2012.

Acquisition of China Unicom NewSpace Limited (hereinafter referred to as the “2011 Business Combination”)

On 1 December 2011, China Unicom Broadband Online Limited Corporation (“Broadband Online”, a wholly-owned subsidiary of CUCL) entered into an equity interest transfer agreement with Unicom Group, pursuant to which Broadband Online agreed to acquire the entire equity interest of China Unicom NewSpace Limited (“Unicom NewSpace”) from Unicom Group for a total cash consideration of approximately RMB158 million. The acquisition was completed on 1 December 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of Compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the IASB. Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), are consistent with IFRSs. These financial statements also comply with HKFRSs as well as the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK and the requirements of the Hong Kong Companies Ordinance.

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income which are carried at fair value. The consolidated financial statements prepared by the PRC subsidiaries for PRC statutory reporting purposes are based on the Chinese Accounting Standards for Business Enterprises (“CAS”) issued by the Ministry of Finance of the PRC, which became effective from 1 January 2007 with certain transitional provisions. There are certain differences between the Group’s IFRSs/HKFRSs financial statements and PRC statutory financial statements. The principal adjustments made to the PRC statutory financial statements to conform to IFRSs/HKFRSs include the following:

- reversal of the revaluation surplus or deficit and related depreciation and amortisation charges arising from the revaluation of prepayments for the leasehold land and buildings performed by independent valuers for the purpose of reporting to relevant PRC government authorities;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005;
- additional capitalisation of borrowing costs and corresponding impact on depreciation prior to the adoption of CAS on 1 January 2007; and
- adjustments for deferred taxation in relation to IFRSs/HKFRSs adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(a) Acquisition of Unicom New Horizon

As stated in Note 1, on 26 December 2012, CUCL completed the acquisition of Unicom New Horizon from Unicom Group with a total cash consideration of approximately RMB12,166 million.

In accordance with IFRS/HKFRS 3 (Revised), a business generally consists of inputs, processes applied to those inputs and outputs. The business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing an economic return.

Unicom New Horizon did not meet the definition of a business because it only comprised the telecommunications network assets, cash, and related assets and liabilities. It did not have other inputs and processes such as license, subscriber base, management team and operating workforce etc to operate the fixed-line telecommunications business. Instead of operating the fixed-line telecommunications business, Unicom New Horizon could be able to generate economic returns by entering into lease arrangements for the telecommunications network assets. However, new lessees are not readily available in the market.

Accordingly, the Group accounted for the acquisition of Unicom New Horizon as an asset purchase transaction in accordance with IAS/HKAS 16, "Property, plant and equipment" in the period of purchase. The assets and liabilities acquired from Unicom New Horizon as at the completion date were as follows:

Cash and cash equivalents	1,852
Other current assets	735
Property, plant and equipment	12,127
Deferred income tax assets	780
Other non-current assets	144
Accounts payable and accrued liabilities	(1,310)
Amounts due to ultimate holding company	(25)
Amounts due to related parties	(1,935)
Other current liabilities	(17)
	12,351
Transfer of profit to Unicom Group in relation to the acquisition of Unicom New Horizon	(185)
Total consideration	12,166

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(b) Business Combination of Entity and Business under Common Control

The 2011 Business Combination was considered a business combination of entity and business under common control as Unicom NewSpace was under the control of Unicom Group, the Group's ultimate holding company before and after the acquisition.

Under HKFRSs, the 2011 Business Combination was accounted for using merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the HKICPA. Upon the adoption of IFRSs by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method, which is consistent with HKFRSs. Accordingly, the acquired assets and liabilities are stated at predecessor values, and were included in the consolidated financial statements from the beginning of the earliest period presented as if the entities and businesses acquired had always been part of the Group considering the acquired entity had always been under common control during all the periods presented.

(c) Going Concern Assumption

As at 31 December 2012, current liabilities of the Group exceeded current assets by approximately RMB254.1 billion (2011: approximately RMB175.1 billion). Given the current global economic conditions and the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflows from operating activities;
- Approximately RMB223.5 billion of revolving banking facilities and registered quota of commercial papers, of which approximately RMB116.3 billion was unutilised as at 31 December 2012; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group believes it has the ability to raise funds from the short, medium and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2012 have been prepared on a going concern basis.

(d) Critical Accounting Estimates and Judgment

The preparation of the consolidated financial statements in conformity with IFRSs/HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(e) New Accounting Standards, Amendments and Interpretations Pronouncements

- (i) The following amended standards are adopted by the Group as at 1 January 2012, the adoption of these standards did not have any significant impact on the Group's consolidated financial statements.
- IFRS/HKFRS 7 (amendment), "Financial instruments: disclosures". This amendment promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.
 - IAS/HKAS 12 (amendment), "Income taxes". Currently IAS/HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. As a result of the amendments, SIC/HK(SIC) 21, "Income taxes – recovery of revalued non-depreciable assets", would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS/HKAS 12 the remaining guidance previously contained in SIC/HK(SIC) 21, which is accordingly withdrawn.
- (ii) The following new and amended standards are not yet effective and have not been early adopted by the Group:
- IAS/HKAS 1 (amendment), "Financial statements presentation". This amendment requires entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group does not expect the adoption of IAS/HKAS 1 (amendment) will have significant impact on the Group's financial statements presentation.
 - IFRS/HKFRS 10, "Consolidated financial statements". This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group does not expect the adoption of IFRS/HKFRS 10 will have significant impact on the Group's consolidated financial statements.
 - IFRS/HKFRS 13, "Fair value measurements". This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs/HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs/HKFRSs. The Group does not expect the adoption of IFRS/HKFRS 13 will have significant impact on the Group's financial statements.

These new and amended standards will be effective on 1 January 2013. The Group will adopt the relevant new and amended standards in the subsequent periods as required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

The Group adopted the purchase method of accounting to account for business combination of entities and businesses under common control before 2005. Under the purchase method of accounting in force at the date of the acquisition, the cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference was recognised directly in the statement of income. IFRS/HKFRS 3 (Revised) "Business Combination" will be applied to any business combinations (other than business combinations under common control) in the future.

Upon the adoption of IFRSs in 2008, the Group 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 HKFRSs.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments regularly, has been identified as the Executive Directors of the Company that makes strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity into other reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on disposal.

2.6 Property, Plant and Equipment

(a) Construction-in-progress

Construction-in-progress ("CIP") represents buildings, plant and equipment under construction and pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the construction period. No provision for depreciation is made on CIP until such time as the assets are completed and ready for use. When the asset being constructed becomes available for use, the CIP is transferred to the appropriate category of property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, Plant and Equipment (Continued)

(b) Property, plant and equipment

Property, plant and equipment held by the Group are stated at cost less accumulated depreciation and accumulated impairment losses, and are depreciated over their expected useful lives.

Property, plant and equipment comprise buildings, telecommunications equipment, leasehold improvements, office furniture, fixtures, motor vehicles and others. The cost of an asset, except for those acquired in exchange for a non-monetary asset or assets, comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

If an item of property, plant and equipment is acquired in exchange for another item of property, plant and equipment, the cost of such an item of property, plant and equipment is measured at fair value unless (i) the exchange transactions lacks commercial substance or (ii) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable at the time the costs are incurred that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

(c) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

	Depreciable life	Residual rate
Buildings	10–30 years	3–5%
Telecommunications equipment	5–10 years	3–5%
Office furniture, fixtures, motor vehicles and others	5–10 years	3–5%

Leasehold improvements are depreciated over the shorter of their estimated useful lives and the lease periods.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

(d) Gain or loss on disposal of property, plant or equipment

Gains or losses on disposal of property, plant or equipment are determined by comparing the net sales proceeds with the carrying amounts, and are recognised in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition before the adoption of IFRS/HKFRS 3 (Revised). Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Lease Prepayments

Lease prepayments represent payments for land use rights. Lease prepayments for land use rights are stated at cost initially and expensed on a straight-line basis over the lease period.

2.9 Other Assets

Other assets mainly represent (i) computer software; (ii) prepaid rental for premises, leased lines and electricity cables; (iii) capitalised installation costs of fixed-line services and (iv) capitalised direct incremental costs for activating mobile subscribers.

- (i) Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives on a straight-line basis.
- (ii) Long-term prepaid rental for premises, leased lines and electricity cables lines are amortised using a straight-line method over the lease period.
- (iii) Capitalised installation costs of fixed-line services are deferred and expensed to the statement of income over the expected customer service period of 10 years except when the direct incremental costs exceed the corresponding installation fees. In such cases, the excesses of the direct incremental costs over the installation fees are recorded immediately as expenses in the statement of income.
- (iv) Capitalised direct incremental costs for activating mobile subscribers, including costs of SIM/USIM cards and commissions which are directly associated with upfront non-refundable revenue received upon activation of mobile services, are deferred and amortised over the expected customer service periods of 3 years except when the direct incremental costs exceed the corresponding upfront non-refundable revenue. In such cases, the excesses of the direct incremental costs over the non-refundable revenue are recorded immediately as expenses in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial Assets

The Group classifies its financial assets into two measurement categories: those measured at amortised cost and those measured at fair value. The determination is made at initial recognition and the classification depends on the entity's business model for managing its financial instruments and the contractual cash flows characteristics of the instrument.

Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Bank deposits, accounts receivable and other deposits are also classified under this category.

Financial assets under this category are carried at amortised cost using effective interest method less provision for impairment. Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in the statement of income. Interest income is recognised in the statement of income using the effective interest method and disclosed as interest income.

Financial assets measured at fair value

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Financial assets under this category are equity investments carried at fair value. Gains and losses arising from changes in fair value are included in the statement of income or the statement of comprehensive income in cases where an irrevocable election is made by the Group to recognise changes in fair value of an equity investment measured at fair value through the statement of income or the statement of comprehensive income, in the period in which they arise. Upon disposal of the investments, the differences between the net sale proceeds and the carrying values are included in the statement of income or the statement of comprehensive income. Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

Purchases and sales of financial assets are recognised on the trade date. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of Non-Financial Assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested for impairment at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Impairment of Financial Assets Carried at Amortised Costs

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.13 Inventories and Consumables

Inventories, which primarily comprise handsets, SIM/USIM cards and accessories, are stated at the lower of cost and net realisable value. Cost is based on the first-in-first-out method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value for all the inventories is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Consumables consist of materials and supplies used in maintaining the Group's telecommunications networks and are charged to the statement of income when brought into use. Consumables are stated at cost less any provision for obsolescence.

2.14 Accounts Receivable and Other Receivables

Accounts receivable are amounts due from customers for services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.15 Short-term Bank Deposits

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to 1 year.

2.16 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Convertible Bonds

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of convertible bonds is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the convertible bonds as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of convertible bonds is measured at amortised cost using the effective interest method. The equity component of a convertible bond is not re-measured subsequent to initial recognition except on conversion, expiry or redemption.

2.18 Deferred Revenue, Advances from Customers and Subscriber Point Rewards Program

(a) Deferred revenue

Deferred revenue mainly represents upfront non-refundable revenue, including upfront connection fees and installation fees of fixed-line business and receipts from the activation of SIM/USIM cards relating to the mobile business, which are deferred and recognised over the expected customer service period. Deferred revenue expected to be recognised in one year or less is classified as current liabilities. If not, they are presented as non-current liabilities.

(b) Advances from customers

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

(c) Subscriber point rewards program

The fair value of providing telecommunications services and the subscriber points reward is allocated based on their relative fair values. The allocated portion of fair value for the subscriber points reward is recorded as deferred revenue when the rewards are granted and recognised as revenue when the points are redeemed or expired. The fair value of deferred revenue is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each balance sheet date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax) is deducted from equity attributable to owners of the parent and no gain or loss shall be recognised in the statement of income. The par value of the Company's shares cancelled is transferred from share capital to the capital redemption reserve.

2.21 Employee Benefits

(a) Retirement benefits

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a reduction in the future payments is available.

(b) Medical insurance

The Group's contributions to basic and supplementary medical insurances are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

(c) Housing benefits

One-off cash housing subsidies paid to PRC employees are charged to the statement of income in the year in which it is determined that the payment of such subsidies is probable and the amounts can be reasonably estimated.

The Group's contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

(d) Share-based compensation costs

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted at the grant date excluding the impact of any non-market vesting conditions (for example, revenue and profit targets) and is not subsequently remeasured. However, non-market vesting conditions are considered in determining the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the statement of income of the period in which the revision occurs, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the share options are exercised. The corresponding employee share-based compensation reserve is transferred to share premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Accounts Payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the pre-tax amount of expenditures expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue Recognition

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

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

Sales of services and goods

- Usage fees and monthly fees are recognised when the service is rendered;
- Revenue from the provision of broadband, data and other Internet-related services is recognised when the services are provided to customers;
- Lease income from leasing of lines and customer-end equipment is treated as operating leases with rental income recognised on a straight-line basis over the lease term;
- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalised ring, caller number display and secretarial services to subscribers, is recognised when service is rendered;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue Recognition (Continued)

Sales of services and goods (Continued)

- Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognised when title has been passed to the buyers;
- The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition;
- Revenue from information communications technology services is recognised when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided will be recoverable, services revenue should be recognised only to the extent of recoverable costs incurred, and costs should be recognised as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognised as current expenses immediately and services revenue should not be recognised.

2.25 Interest income

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

2.26 Dividend income

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

2.27 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including long-term prepayment for land use rights, are expensed in the statement of income on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. The interest element implicit in the lease payment is recognised in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Borrowing Costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised up to the date when the project is completed and ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognised as expenses when incurred.

2.29 Taxation

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of the amount expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.31 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, the liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

2.32 Earnings per Share

Basic earnings per share is computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year, after adjusting for the effects of the dilutive potential ordinary shares.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's operating activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk, cash flow risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the Group's finance department at its headquarters, following the overall direction determined by the Executive Directors of the Company. The Group's finance department at its headquarter identifies and evaluates financial risks in close co-operation with the Group's operating units.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars, HK dollars and Euro. Exchange risk mainly exists with respect to the repayment of indebtedness to foreign lenders and payables to equipment suppliers and contractors.

The Group's finance department at its headquarters is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years of 2012 and 2011, the Group had not entered into any forward exchange contracts or currency swap contracts.

As at 31 December 2012 and 2011, the Group had cash and cash equivalents and short-term bank deposits denominated in foreign currencies amounting to approximately RMB762 million and RMB974 million, respectively. As at 31 December 2012 and 2011, the Group had borrowings, convertible bonds and other obligations under finance lease included in other obligations denominated in foreign currencies amounting to approximately RMB41,540 million and RMB28,498 million, respectively.

As at 31 December 2012, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars and Euro, while all other variables are held constant, the Group would have recognised additional exchange gains/losses of approximately RMB4,078 million (2011: exchange gains/losses of approximately RMB2,752 million) for cash and cash equivalents, short-term bank deposits, borrowings, convertible bonds and other obligations under finance lease included in other obligations denominated in foreign currencies.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified in the consolidated balance sheet as financial assets at fair value through other comprehensive income.

The financial assets at fair value through other comprehensive income comprise primarily equity securities of Telefónica S.A. ("Telefónica"). As at 31 December 2012, if the share price of Telefónica had increased/decreased by 10%, while the exchange rate of RMB against Euro is held constant, the Group would have recorded additional change in fair value of approximately RMB544 million (2011: approximately RMB684 million).

(iii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by bank deposits. Management does not expect the changes in market deposit interest rates will have significant impact on the financial statements as the deposits are all short-term in nature and the interest involved will not be significant.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk (Continued)

The Group's interest rate risk mainly arises from interest-bearing borrowings including bank loans, commercial papers, promissory notes, convertible bonds, corporate bonds and related parties loans. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2012 and 2011, the Group's borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2012 and 2011.

As at 31 December 2012, the Group had approximately RMB111,581 million (2011: approximately RMB72,830 million) of bank loans, commercial papers, promissory notes, convertible bonds and corporate bonds at fixed rates and approximately RMB30,539 million (2011: approximately RMB34,278 million) of bank loans and other obligations under finance lease at floating rates.

For the year ended 31 December 2012, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables are held constant, the interest expenses of the Group would have increased/decreased by approximately RMB50 million (2011: approximately RMB135 million).

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and short-term bank deposits with banks, as well as credit exposures to corporate customers, individual subscribers, related parties and other operators.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The table below shows the bank deposits and cash and cash equivalents balances held at the major banks by the Group as at 31 December 2012 and 2011:

	2012	2011
Short-term bank deposits		
State-owned banks in the PRC	32	177
Other banks	–	127
	32	304
Cash and cash equivalents		
State-owned banks in the PRC	17,945	14,359
Other banks	305	747
	18,250	15,106

The Group expects that there is no significant credit risk associated with the bank deposits and cash and cash equivalents since the state-owned banks have support from the government and other banks are medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has no significant concentrations of credit risk with respect to corporate customers and individual subscribers. The extent of the Group's credit exposure is mainly represented by the fair value of accounts receivable for services (Note 14) and receivable for the sales of mobile handsets (Note 15). The Group has policies to limit the credit exposure on accounts receivable for services. The Group assesses the credit quality of and sets credit limits on all its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. The utilisation of credit limits and the settlement pattern of the customers are regularly monitored by the Group.

Credit risk relating to amounts due from related parties and other operators is not considered to be significant as these companies are reputable and their receivables are settled on a regular basis.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funds including the raising of bank loans and issuance of commercial papers, promissory notes, corporate bonds and convertible bonds. Due to the dynamic nature of the underlying business, the Group's finance department at its headquarters maintains flexibility in funding through having adequate amount of cash and cash equivalents and utilising different sources of financing when necessary.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The following tables show the undiscounted balances of the financial liabilities (including interest expense) categorised by time period from the balance sheet date to the contractual maturity date:

The Group	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between Over 5 years
At 31 December 2012				
Long-term bank loans	886	53	154	352
Corporate bonds	5,268	90	2,219	–
Convertible bonds	87	87	11,627	–
Promissory notes	15,309	–	–	–
Other obligations	2,652	141	113	85
Accounts payable and accrued liabilities	104,514	–	–	–
Amounts due to related parties	4,767	–	–	–
Amounts due to ultimate holding company	567	–	–	–
Amounts due to domestic carriers	1,163	–	–	–
Commercial papers	39,057	–	–	–
Short-term bank loans	70,249	–	–	–
	244,519	371	14,113	437
At 31 December 2011				
Long-term bank loans	101	898	163	391
Corporate bonds	355	5,268	270	2,039
Convertible bonds	87	87	11,742	–
Promissory notes	509	15,311	–	–
Other obligations	2,588	6	17	65
Accounts payable and accrued liabilities	91,735	–	–	–
Amounts due to related parties	5,719	–	–	–
Amounts due to ultimate holding company	342	–	–	–
Amounts due to domestic carriers	1,344	–	–	–
Commercial papers	39,150	–	–	–
Short-term bank loans	32,877	–	–	–
	174,807	21,570	12,192	2,495

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The Company	Note	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2012					
Short-term bank loans		29,734	–	–	–
Amounts due to subsidiaries		177	–	–	–
Loan from a subsidiary		304	267	11,663	–
Financial guarantee	41.4	87	87	11,627	–
		30,302	354	23,290	–
At 31 December 2011					
Short-term bank loans		15,305	–	–	–
Amounts due to related parties		2,168	–	–	–
Amounts due to subsidiaries		176	–	–	–
Loan from a subsidiary		268	268	11,959	–
Financial guarantee	41.4	87	87	11,742	–
		18,004	355	23,701	–

Regarding the Group's use of the going concern basis for the preparation of its financial statements, please refer to Note 2.2(c) for details.

3.2 Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.
- To support the Group's stability and growth.
- To provide capital for the purpose of strengthening the Group's risk management capability.

In order to maintain or adjust the capital structure, the Group reviews and manages its capital structure actively and regularly to ensure optimal capital structure and shareholder returns, taking into account the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital on the basis of the debt-to-capitalisation ratio. This ratio is calculated as interest-bearing debts over interest-bearing debts plus total equity. Interest-bearing debts represent commercial papers, short-term bank loans, long-term bank loans, promissory notes, convertible bonds, corporate bonds, obligations under finance lease included in other obligations, and certain amounts due to related parties, as shown in the consolidated balance sheet. Total equity represents equity attributable to owners of the parent as shown in the consolidated balance sheet.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (Continued)

The Group's debt-to-capitalisation ratios are as follows:

	2012	2011
Interest-bearing debts:		
– Commercial papers	38,000	38,000
– Short-term bank loans	69,175	32,322
– Promissory notes	–	15,000
– Long-term bank loans	536	1,384
– Convertible bonds	11,215	11,118
– Corporate bonds	2,000	7,000
– Obligations under finance lease included in other obligations	217	–
– Amounts due to related parties	–	2,156
– Current portion of long-term bank loans	850	50
– Current portion of promissory notes	15,000	–
– Current portion of corporate bonds	5,000	–
– Current portion of obligations under finance lease	127	78
	142,120	107,108
Total equity:		
– Equity attributable to owners of the parent	209,505	205,898
Interest-bearing debts plus total equity	351,625	313,006
Debt-to-capitalisation ratio	40.4%	34.2%

The increase in debt-to-capitalisation ratio during 2012 resulted primarily from the raising of short-term bank loans to finance the telecommunications networks and the acquisition of Unicom New Horizon.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets that are measured at fair value at 31 December 2012:

	The Group			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
– Equity securities	5,567	–	–	5,567

The following table presents the Group's assets that are measured at fair value at 31 December 2011:

	The Group			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income				
– Equity securities	6,951	–	–	6,951

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprise primarily equity securities of Telefónica which are classified as financial assets at fair value through other comprehensive income.

During the years ended 31 December 2012 and 2011, there were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation on property, plant and equipment

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

(b) Impairment of non-financial assets

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

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

(c) Income tax and deferred taxation

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Income tax and deferred taxation (Continued)

For temporary differences which give rise to deferred tax assets, the Group has assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to unrecognised revaluation surplus on prepayments for the leasehold land and buildings determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, changes in fair value on financial assets through other comprehensive income and provision for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to approximately RMB6,534 million as at 31 December 2012 (2011: approximately RMB5,091 million). Deferred tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

The Group believes it has recorded adequate current tax provision and deferred taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxation may be necessary which would impact the Group's results or financial position.

4.2 Critical judgments in applying the Group's accounting policies

(a) Recognition of upfront non-refundable revenue and direct incremental costs

The Group defers and amortises upfront activation fees of SIM/USIM cards of the mobile business over the expected customer service period of 3 years (2011: approximately 3 years). The related direct incremental costs of acquiring and activating mobile subscribers, including costs of SIM/USIM cards and commissions, are also deferred and amortised over the same expected customer service period of 3 years.

The Group defers and amortises customer installation fees of the fixed-line business over the expected customer service period of 10 years (2011: approximately 10 years). The related direct incremental installation costs are deferred and amortised over the same expected customer service period of 10 years.

The Group only defers costs to the extent that they will generate future economic benefits. The excess of the direct incremental costs over the corresponding upfront non-refundable revenue, if any, are expensed to the statement of income immediately.

The Group estimates the expected customer service period based on the historical customer retention experience and after factoring in the expected level of future competition, the risk of technological or functional obsolescence to the Group's services, technological innovation, and the expected changes in the regulatory and social environment. If the Group's estimate of the expected customer service period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenue and direct incremental costs may change for future periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Critical judgments in applying the Group's accounting policies (Continued)

(b) Lease of Telecommunications Networks in Southern China

On 16 December 2008, CUCL, Unicom Group, China Network Communications Group Corporation ("Netcom Group", which merged with Unicom Group in January 2009) and Unicom New Horizon entered into an agreement (the "Network Lease Agreement") in relation to the lease (the "Lease") of the Telecommunications Networks in Southern China by CUCL from Unicom New Horizon on an exclusive basis. Under the Network Lease Agreement, CUCL shall pay annual leasing fees of RMB2.0 billion and RMB2.2 billion for the two financial years ended 31 December 2009 and 2010, respectively. The initial term of the Lease is two years effective from January 2009 and the Lease is 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 would remain subject to further negotiations between the parties, taking into account, among others, the then prevailing market conditions in Southern China. Moreover, in connection with the Lease, Unicom New Horizon has granted CUCL an option to purchase the Telecommunications Networks in Southern China and the purchase price would be referenced to the then appraised value of the networks determined by an independent appraiser. On 29 October 2010, CUCL and Unicom New Horizon entered into a new network lease agreement ("2011-2012 Network Lease Agreement") to renew the Lease. The 2011-2012 Network Lease Agreement has a term of two years expiring on 31 December 2012 on the same terms and conditions as the Network Lease Agreement, except that the annual fee payable by CUCL for such Lease for the two years ended 31 December 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively.

At the time of entering into the 2011-2012 Network Lease Agreement, the Group reassessed the appropriate classification of the lease. The Group believed the uncertainties of the fixed-line business in Southern China continue to exist, particularly due to the fact that (i) the growth of the fixed-line business in Southern China was not significant; (ii) the uncertainty of the future success of fixed-line business in Southern China arising from keen market competition; and (iii) the uncertainty in the future changes in technology, technological standards and government regulatory environment. Accordingly, at the inception of the 2011-2012 Network Lease Agreement, the Group was unable to determine whether it would renew the lease after the two-year lease term or whether it would exercise the purchase option. As a result, the Group considered the risks associated with the ownership of the Telecommunications Networks in Southern China still substantially remained with Unicom New Horizon, and concluded the leasing of Telecommunications Networks in Southern China in accordance with the 2011-2012 Network Lease Agreement was accounted for as an operating lease.

The operating lease expenses of RMB2.4 billion and RMB2.6 billion were recorded in the consolidated statement of income for the years ended 31 December 2011 and 2012, respectively. The carrying value of the Telecommunications Networks in Southern China and the related liabilities were not reflected in the consolidated balance sheet as at 31 December 2011, but were reflected in the consolidated balance sheet as at 31 December 2012 upon the completion of the acquisition of Unicom New Horizon on 26 December 2012 (Note 2.2(a)).

5. SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the CODM. Operating segments are identified on the basis of internal reports that the CODM reviews regularly in allocating resources to segments and in assessing their performances.

Prior to 1 January 2012, the mobile business and the fixed-line business were identified as the major operating segments of the Group and the CODM evaluated the results of operating segments based on revenue and costs that were directly attributable to them.

Considering the in-depth development of the integrated telecommunications business model and that the mobile business and the fixed-line business have increasingly significant common costs and expenses, in 2012 the Group changed its management structure by centralised functions instead of business lines. Under the integrated business model with the enhancement of operations through functional departments, the CODM no longer evaluated the results of mobile business and fixed-line business separately based on revenue and costs that were directly attributable to them. Since 1 January 2012, the CODM has started to make resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group primarily operates in Mainland China and accordingly, no geographic information is presented. No single external customer accounted for 10 percent or more of the Group's revenue in all periods presented.

Notes to the Consolidated Financial Statements

(All amounts in RMB millions unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended 31 December 2012 and 2011 is as follows:

	The Group					
	2012					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	56,782	688,626	44,014	2,754	54,682	846,858
Additions through the acquisition of Unicom New Horizon (Note 2.2(a))	20	11,918	153	28	8	12,127
Additions	69	699	122	57	95,115	96,062
Transfer from CIP	3,973	81,581	1,567	769	(87,890)	–
Disposals	(70)	(12,402)	(620)	(312)	–	(13,404)
End of year	60,774	770,422	45,236	3,296	61,915	941,643
Accumulated depreciation and impairment:						
Beginning of year	(18,818)	(412,435)	(32,316)	(1,414)	(16)	(464,999)
Charge for the year	(2,566)	(51,132)	(4,338)	(551)	–	(58,587)
Disposals	66	11,819	591	312	–	12,788
Impairment transfer out	–	152	–	–	–	152
End of year	(21,318)	(451,596)	(36,063)	(1,653)	(16)	(510,646)
Net book value:						
End of year	39,456	318,826	9,173	1,643	61,899	430,997
Beginning of year	37,964	276,191	11,698	1,340	54,666	381,859

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	The Group					
	2011					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	53,797	633,718	42,900	2,321	59,245	791,981
Additions	30	179	25	32	72,645	72,911
Transfer from CIP	3,089	71,554	1,995	570	(77,208)	-
Disposals	(134)	(16,825)	(906)	(169)	-	(18,034)
End of year	56,782	688,626	44,014	2,754	54,682	846,858
Accumulated depreciation and impairment:						
Beginning of year	(16,674)	(379,777)	(28,800)	(1,060)	(16)	(426,327)
Charge for the year	(2,272)	(48,553)	(4,389)	(523)	-	(55,737)
Disposals	128	15,884	873	169	-	17,054
Impairment transfer out	-	11	-	-	-	11
End of year	(18,818)	(412,435)	(32,316)	(1,414)	(16)	(464,999)
Net book value:						
End of year	37,964	276,191	11,698	1,340	54,666	381,859
Beginning of year	37,123	253,941	14,100	1,261	59,229	365,654

As at 31 December 2012, the net book value of assets held under finance leases was approximately RMB539 million (2011: approximately RMB197 million).

For the year ended 31 December 2012, interest expense of approximately RMB1,498 million (2011: approximately RMB1,151 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 4.08% to 5.16% for the year ended 31 December 2012 (2011: 3.84% to 5.04%).

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the year ended 31 December 2012, the Group recognised a gain on disposal of property, plant and equipment of approximately RMB612 million (2011: a gain of approximately RMB418 million).

	The Company		Total
	Telecommunications equipment	Office furniture, fixtures, motor vehicles and others	
Cost:			
At 1 January 2012	51	7	58
Additions	–	1	1
At 31 December 2012	51	8	59
Accumulated depreciation:			
At 1 January 2012	(26)	(4)	(30)
Charge for the year	(3)	(2)	(5)
At 31 December 2012	(29)	(6)	(35)
Net book value:			
At 31 December 2012	22	2	24
Cost:			
At 1 January 2011	54	7	61
Additions	–	2	2
Disposals	(3)	(2)	(5)
At 31 December 2011	51	7	58
Accumulated depreciation:			
At 1 January 2011	(24)	(5)	(29)
Charge for the year	(3)	(1)	(4)
Disposals	1	2	3
At 31 December 2011	(26)	(4)	(30)
Net book value:			
At 31 December 2011	25	3	28

7. LEASE PREPAYMENTS – GROUP

The Group's long-term prepayment for land use rights represents prepaid operating lease payments for land use rights in Mainland China and their net book value is analysed as follows:

	The Group	
	2012	2011
Held on:		
Leases of between 10 to 50 years	7,424	7,536
Leases of less than 10 years	177	121
	7,601	7,657

For the year ended 31 December 2012, the long-term prepayment for land use rights expensed in the statement of income amounted to approximately RMB248 million (2011: approximately RMB239 million).

8. GOODWILL – GROUP

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Group in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group's shares of the fair values of the separately identifiable net assets acquired prior to the adoption of HKFRSs and AG 5 in 2005.

Goodwill is allocated to the Group's cash-generating units ("CGU"). The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, including revenue annual growth rate of 6% and the applicable discount rate of 12%. Management determined expected growth rates and operating results based on past performance and its expectations in relation to market developments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2012 and 2011 and no reasonable change to the assumptions would lead to an impairment charge.

9. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates, the Company's subsidiaries mainly operated in the PRC and the applicable standard enterprise income tax rate is 25% (2011: 25%).

	Note	The Group	
		2012	2011
Provision for income tax on the estimated taxable profits for the year			
– Hong Kong		24	20
– Outside Hong Kong		2,604	734
Adjustments to prior years' current tax outside Hong Kong	(i)	73	117
		2,701	871
Deferred taxation		(276)	500
Income tax expenses		2,425	1,371

Reconciliation between applicable statutory tax rate and the effective tax rate:

	Note	The Group	
		2012	2011
Applicable PRC statutory tax rate		25.0%	25.0%
Non-deductible expenses		1.6%	1.3%
Effect of withholding income tax for interest receivable from inter-company loans		0.3%	0.5%
Adjustments to prior years' current tax	(i)	0.8%	2.1%
Non-taxable income			
– Installation fees		(0.2%)	(0.5%)
Impact of PRC preferential tax rates and tax holiday		(1.2%)	(2.4%)
Others		(0.8%)	(1.5%)
Effective tax rate		25.5%	24.5%

- (i) This item included certain non-deductible prior years' expenses found during the regular examination by tax bureaus and the difference resulted from prior years' accruals and actual settlement upon the completion of the tax filing during the year.

9. TAXATION (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities are as follow:

	The Group	
	2012	2011
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	4,128	3,126
– Deferred tax asset to be recovered within 12 months	2,914	2,666
	7,042	5,792
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(356)	(554)
– Deferred tax liabilities to be settled within 12 months	(152)	(147)
	(508)	(701)
Net deferred tax assets after offsetting	6,534	5,091
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	–	–
– Deferred tax asset to be recovered within 12 months	–	–
	–	–
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(18)	(14)
– Deferred tax liabilities to be settled within 12 months	(2)	(3)
	(20)	(17)
Net deferred tax liabilities after offsetting	(20)	(17)
	The Company	
	2012	2011
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	1,531	1,130
– Deferred tax asset to be recovered within 12 months	–	–
	1,531	1,130
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(310)	(310)
– Deferred tax liabilities to be settled within 12 months	–	–
	(310)	(310)
Net deferred tax assets after offsetting	1,221	820

9. TAXATION (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities are as follow: (Continued)

Upon the completion of acquisition of Unicom New Horizon, the Group did not recognise deferred tax assets of approximately RMB1,512 million for the deductible tax losses of Unicom New Horizon amounting to approximately RMB6,047 million. The deductible tax losses of Unicom New Horizon amounting to approximately RMB1,317 million, RMB3,809 million, RMB416 million and RMB505 million will expire in 2013, 2014, 2015 and 2016 respectively.

The movement of the net deferred tax assets/liabilities is as follows:

	The Group	
	2012	2011
Net deferred tax assets after offsetting:		
– Beginning of year	5,091	4,940
– Deferred tax credited/(charged) to the statement of income	279	(493)
– Deferred tax credited to other comprehensive income	384	644
– Additions through the acquisition of Unicom New Horizon (Note 2.2(a))	780	–
– End of year	6,534	5,091
Net deferred tax liabilities after offsetting:		
– Beginning of year	(17)	(22)
– Deferred tax charged to the statement of income	(3)	(7)
– Deferred tax credited to other comprehensive income	–	12
– End of year	(20)	(17)
	The Company	
	2012	2011
Net deferred tax assets after offsetting:		
– Beginning of year	820	165
– Deferred tax credited to the statement of income	16	1
– Deferred tax credited to other comprehensive income	385	654
– End of year	1,221	820

9. TAXATION (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	The Group						Total
	Provision for doubtful debts	Impairment loss on property, plant and equipment	Unrecognised revaluation surplus on prepayments for the leasehold land and buildings determined under PRC regulations (Note (ii))	Accruals of expenses not yet deductible for tax purpose	Changes in fair value on financial assets through other comprehensive income	Others	
Deferred tax assets:							
At 1 January 2011	1,047	1,196	1,811	709	467	703	5,933
(Charged)/credited to the statement of income	(72)	(1,179)	(64)	479	–	41	(795)
Credited to other comprehensive income	–	–	–	–	654	–	654
At 31 December 2011	975	17	1,747	1,188	1,121	744	5,792
Credited/(charged) to the statement of income	117	(1)	(64)	(153)	–	186	85
Credited to other comprehensive income	–	–	–	–	385	–	385
Additions through the acquisition of Unicom New Horizon (Note 2.2(a))	–	–	–	–	–	780	780
At 31 December 2012	1,092	16	1,683	1,035	1,506	1,710	7,042

	The Group						Total
	Capitalisation and amortisation of direct incremental costs	Capitalised interest already deducted for tax purpose	Realised gain on changes in fair value of derivative financial instrument in 2009	Changes in fair value on financial assets through other comprehensive income	Others		
Deferred tax liabilities:							
At 1 January 2011	(106)	(525)	(310)	(12)	(62)	(1,015)	
Credited to the statement of income	8	272	–	–	15	295	
Credited to other comprehensive income	–	–	–	2	–	2	
At 31 December 2011	(98)	(253)	(310)	(10)	(47)	(718)	
Credited to the statement of income	45	124	–	–	22	191	
Charged to other comprehensive income	–	–	–	(1)	–	(1)	
At 31 December 2012	(53)	(129)	(310)	(11)	(25)	(528)	

9. TAXATION (CONTINUED)

Deferred taxation as at year-end represents the taxation effect of the following temporary differences, taking into consideration the offsetting of balances related to the same tax authority:

	Note	The Group	
		2012	2011
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Provision for doubtful debts		1,092	975
Impairment loss on property, plant and equipment		16	17
Unrecognised revaluation surplus on prepayments for the leasehold land and buildings determined under PRC regulations	(ii)	1,683	1,747
Accruals of expenses not yet deductible for tax purpose		1,035	1,188
Deferral and amortisation of upfront non-refundable revenue		58	109
Deferred revenue on subscriber point rewards program		103	80
Deferred revenue in relation to the provision of supporting services upon disposal of the CDMA business		20	24
Accruals of retirement benefits		16	22
Unrealised profit for the inter-company transactions		287	260
Deductible tax losses		812	3
Changes in fair value on financial assets through other comprehensive income		1,506	1,121
Others		414	246
		7,042	5,792
Deferred tax liabilities:			
Capitalisation and amortisation of direct incremental costs		(53)	(98)
Capitalised interest already deducted for tax purpose		(129)	(253)
Realised gain on changes in fair value of derivative financial instrument in 2009		(310)	(310)
Changes in fair value on financial assets through other comprehensive income		(11)	(10)
Others		(5)	(30)
		(508)	(701)
		6,534	5,091
Net deferred tax liabilities after offsetting:			
Deferred tax assets:			
Deductible tax losses carried forward		–	–
Changes in fair value on financial assets through other comprehensive income		–	–
Other		–	–
		–	–
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(20)	(17)
		(20)	(17)
		(20)	(17)

9. TAXATION (CONTINUED)

Deferred taxation as at year-end represents the taxation effect of the following temporary differences, taking into consideration the offsetting of balances related to the same tax authority: (Continued)

- (ii) The prepayments for the leasehold land and buildings held by China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") were revalued for PRC tax purposes as at 31 December 2003 and 2004. However, the resulting revaluations of the prepayments for the leasehold land and buildings were not recognised under IFRSs/HKFRSs. Accordingly, deferred tax assets were recorded by the Group under IFRSs/HKFRSs.

	The Company	
	2012	2011
Deferred tax assets:		
Changes in fair value on financial assets through other comprehensive income	1,506	1,121
Others	25	9
	1,531	1,130
Deferred tax liabilities:		
Realised gain on changes in fair value of derivative financial instrument in 2009	(310)	(310)
	1,221	820

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	The Group		The Company	
		2012	2011	2012	2011
Equity securities issued by corporates		5,567	6,951	5,442	6,837
Analysed by place of listing:					
Listed in the PRC		125	114	–	–
Listed outside the PRC	34	5,442	6,837	5,442	6,837
		5,567	6,951	5,442	6,837

For the year ended 31 December 2012, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB1,530 million (2011: decrease of approximately RMB2,629 million). The decrease, net of tax impact, of approximately RMB1,146 million (2011: decrease, net of tax impact, of approximately RMB1,973 million) was recorded in the consolidated statement of comprehensive income.

11. INVESTMENTS IN AND LOANS/AMOUNTS DUE TO/FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	The Company	
	2012	2011
Unlisted equity investments, at cost	159,789	159,774

11. INVESTMENTS IN AND LOANS/AMOUNTS DUE TO/FROM SUBSIDIARIES – COMPANY (CONTINUED)

(a) Investments in subsidiaries (Continued)

As at 31 December 2012, the details of the Company's subsidiaries are as follows:

Name	Place and date of incorporation and nature of legal entity	Percentage of equity interests held		Particulars of issued share capital	Principal activities and place of operation
		Direct	Indirect		
China United Network Communications Corporation Limited	The PRC, 21 April 2000, limited liability company	100%	–	RMB138,091,677,828	Telecommunications operation in the PRC
China Netcom Group Corporation (Hong Kong) Limited	Hong Kong, 22 October 1999, limited company	100%	–	6,699,197,200 ordinary shares, USD0.04 each	Investment holding in Hong Kong
China Unicom (Europe) Operations Limited	United Kingdom, 8 November 2006, limited company	100%	–	4,861,000 shares, GBP1 each	Telecommunications operation in United Kingdom
China Unicom (Japan) Operations Corporation	Japan, 25 January 2007, limited company	100%	–	1,000 shares, JPY366,000 each	Telecommunications operation in Japan
China Unicom (Singapore) Operations Pte Limited	Singapore, 5 August 2009, limited company	100%	–	1 share, USD1 each and 30,000,000 shares, RMB1 each	Telecommunications operation in Singapore
Billion Express Investments Limited ("Billion Express")	British Virgin Islands, 15 August 2007, limited company	100%	–	1 share, USD1 each	Investment holding and financing subsidiary of the Company
China Unicom Limited	Hong Kong, 31 August 2007, limited company	100%	–	2 ordinary shares, HKD1 each	Dormant
China Unicom (Hong Kong) Operations Limited	Hong Kong, 24 May 2000, limited company	–	100%	60,100,000 ordinary shares, HKD1 each	Telecommunications service in Hong Kong

11. INVESTMENTS IN AND LOANS/AMOUNTS DUE TO/FROM SUBSIDIARIES – COMPANY (CONTINUED)

(a) Investments in subsidiaries (Continued)

Name	Place and date of incorporation and nature of legal entity	Percentage of equity interests held		Particulars of issued share capital	Principal activities and place of operation
		Direct	Indirect		
China Netcom (Hong Kong) Operations Limited	Hong Kong, 2 May 2001, limited company	–	100%	1,000 ordinary shares, HKD1 each	Dormant
China Unicom (Americas) Operations Limited	The United States of America (the "USA"), 24 May 2002, limited company	–	100%	5,000 shares, USD100 each	Telecommunications service in the USA
Unicom Vsens Telecommunications Company Limited	The PRC, 19 August 2008, limited liability company	–	100%	RMB500,000,000	Sales of handsets, telecommunications equipments and provision of technical services in the PRC
China Unicom System Integration Limited Corporation	The PRC, 30 April 2006, limited liability company	–	100%	RMB550,000,000	Provision of information communications technology services in the PRC
China Unicom Broadband Online Limited Corporation	The PRC, 29 March 2006, limited liability company	–	100%	RMB30,000,000	Provision of Internet information services and value-added telecommunications services in the PRC
Beijing Telecommunications Planning and Designing Institute Corporation Limited	The PRC, 1 June 2007, limited liability company	–	100%	RMB264,227,115	Provision of telecommunications network construction, planning and technical consulting services in the PRC
Zhong Rong Information Service Limited Corporation	The PRC, 31 March 2008, limited liability company	–	100%	RMB50,000,000	Provision of information consulting and technology development outsourcing services in the PRC

11. INVESTMENTS IN AND LOANS/AMOUNTS DUE TO/FROM SUBSIDIARIES – COMPANY (CONTINUED)

(a) Investments in subsidiaries (Continued)

Name	Place and date of incorporation and nature of legal entity	Percentage of equity interests held		Particulars of issued share capital	Principal activities and place of operation
		Direct	Indirect		
China Information Technology Designing & Consulting Institute Company Limited	The PRC, 27 September 2008, limited liability company	–	100%	RMB 430,000,000	Provision of consultancy, survey, design and contract services relating to information projects and construction projects in the telecommunications industry in the PRC
Unicom Xingye Communication Technology Company Limited	The PRC, 30 October 2000, limited liability company	–	100%	RMB30,000,000	Provision of technical support, manufacturing, research and design services for SIM/USIM cards and other telecommunications cards in the PRC
China Unicom Information Navigation Company Limited	The PRC, 17 September 1998, limited liability company	–	100%	RMB6,825,087,800	Provision of customer services in the PRC
Huaxia P&T Project Consultation and Management Company Limited	The PRC, 5 March 1998, limited liability company	–	100%	RMB10,000,000	Provision of project consultation and management service in the PRC
Zhengzhou Kaicheng Industrial Company Limited	The PRC, 21 December 2005, limited liability company	–	100%	RMB2,200,000	Provision of property management services in PRC
Zhengzhou Information and Design Technology Publishing Company	The PRC, 17 February 2003, limited liability company	–	100%	RMB300,000	Provision of magazine publishing services in the PRC
Unicompay Company Limited (formerly known as Unicom Payment Company Limited)	The PRC, 11 April 2011 limited liability company	–	100%	RMB250,000,000	Provision of e-payment services in the PRC

11. INVESTMENTS IN AND LOANS/AMOUNTS DUE TO/FROM SUBSIDIARIES – COMPANY (CONTINUED)

(a) Investments in subsidiaries (Continued)

Name	Place and date of incorporation and nature of legal entity	Percentage of equity interests held		Particulars of issued share capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom NewSpace Limited	The PRC, 21 September 1995, limited liability company	–	100%	RMB120,000,000	Provision of mobile subscriber value-added services in the PRC
China United Network Communications Beijing NewSpace Infinite Media Advertising Limited Corporation	The PRC, 21 July 2006, limited liability company	–	100%	RMB100,000	Provision of advertising design, production, agency and publication in the PRC
Designing Techniques of Posts and Telecommunications Magazine Office Company Limited	The PRC, 15 December 2011, limited liability company	–	100%	RMB300,000	Provision of magazine publishing services in the PRC
Unicom New Horizon Telecommunications Company Limited	The PRC, 14 February 2001, limited liability company	–	100%	RMB40,233,739,557	Provision of lease service of telecommunications networks in the PRC
China Unicom (South Africa) Operations (Pty) Limited	South Africa, 19 November 2012, limited liability company	100%	–	Not applicable	Dormant

(b) Loans to/from subsidiaries

- (i) In September 2006, the Company and CUCL signed an agreement for a long-term unsecured loan to CUCL of USD995 million which was wholly repayable in 2009. In June 2011 and June 2012, the Company and CUCL extended the agreement for one year respectively and on the same terms, except as to the interest rate which was changed to the lower of 2.5% or LIBOR plus 1.2% margin. As at 31 December 2012, such loan amounted to approximately RMB6,254 million (2011: approximately RMB6,269 million).
- (ii) In April 2009, the Company and China Netcom signed an agreement for a short-term loan facility of HKD100 million to China Netcom. The loan under the agreement is interest-free and repayable in full in 2010. In 2011 and 2012, the Company and China Netcom extended the agreement for one year on the same terms. As at 31 December 2012 and 2011, China Netcom has utilised HKD88 million (equivalent to approximately RMB71 million).

11. INVESTMENTS IN AND LOANS/AMOUNTS DUE TO/FROM SUBSIDIARIES – COMPANY (CONTINUED)

(b) Loans to/from subsidiaries (Continued)

- (iii) In October 2010, Billion Express signed an agreement with the Company for a long-term unsecured loan of USD1,822 million to the Company. The loan carries interests at 1% per annum and is repayable in 2015 except for the interests which are repayable semi-annually. In addition, the Company and CUCL entered into an agreement to lend such funds to CUCL with similar terms.

In April 2011, Billion Express and the Company amended the agreement on certain terms including the interest rate which was changed to 2.3% per annum. In addition, the Company and CUCL also amended the agreement on certain terms including the interest rate which was changed to 2.47% per annum. As at 31 December 2012 and 2011, such loans amounted to approximately RMB11,452 million and RMB11,480 million, respectively.

- (iv) In February 2012, the Company and China Unicom (Americas) Operations Limited signed an agreement for an intra-group running current account arrangement. The interest rate on USD was LIBOR plus 0.3% margin. As at 31 December 2012, the balance of the running current account amounted to approximately USD6 million (equivalent to approximately RMB37 million).
- (v) In November 2012, the Company and CUCL signed an agreement for a long-term unsecured loan to CUCL of RMB10 billion. The loan carries interests at 2.2% per annum and is repayable in 2017.

(c) Amounts due to/from subsidiaries

The amounts due to/from subsidiaries, other than loans to/from subsidiaries as disclosed above, are unsecured, interest-free and repayable on demand.

12. OTHER ASSETS – GROUP

	The Group	
	2012	2011
Purchased software	6,364	5,506
Prepaid rental for premises, leased lines and electricity cables	6,102	5,337
Installation costs	799	1,022
Direct incremental costs for activating mobile subscribers	212	390
Others	1,003	846
	14,480	13,101

13. INVENTORIES AND CONSUMABLES – GROUP

	The Group	
	2012	2011
Handsets and other customer end products	4,187	3,387
Telephone cards	359	296
Consumables	1,174	887
Others	83	81
	5,803	4,651

14. ACCOUNTS RECEIVABLE – GROUP

	The Group	
	2012	2011
Accounts receivable	17,819	14,922
Less: Provision for doubtful debts	(4,066)	(3,510)
	13,753	11,412

The aging analysis of accounts receivable is as follows:

	The Group	
	2012	2011
Within one month	10,221	8,556
More than one month to three months	1,149	1,009
More than three months to one year	3,859	3,189
More than one year	2,590	2,168
	17,819	14,922

The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year.

There is no significant concentration of credit risk with respect to customer receivables, as the Group has a large number of customers.

14. ACCOUNTS RECEIVABLE – GROUP (CONTINUED)

As at 31 December 2012, accounts receivable of approximately RMB3,532 million (2011: approximately RMB2,856 million) were past due but not impaired. Such overdue amounts can be recovered based on past experience. The aging analysis of these receivables is as follows:

	The Group	
	2012	2011
More than one month to three months	1,149	1,009
More than three months to one year	1,855	1,464
More than one year	528	383
	3,532	2,856

As at 31 December 2012, accounts receivable of approximately RMB4,066 million (2011: approximately RMB3,510 million) were impaired. The Group makes such provision based on its past experience, historical collection patterns, subscribers' creditworthiness and collection trends. The Group makes a full provision for receivables aged over 3 months after the credit period for individual subscribers unless they meet certain specified credit assessment criteria. The individually impaired receivables mainly relate to subscriber service fees. The aging of these receivables is as follows:

	The Group	
	2012	2011
More than three months to one year	2,004	1,725
More than one year	2,062	1,785
	4,066	3,510

Provision for doubtful debts is analysed as follows:

	The Group	
	2012	2011
Balance, beginning of year	3,510	3,980
Provision for the year	3,154	2,658
Written-off during the year	(2,598)	(3,128)
Balance, end of year	4,066	3,510

The creation and release of provisions for impaired receivables have been recognised in the statement of income. Amounts charged to the allowance account are generally written-off when there is reliable evidence to indicate no expectation of recovering additional cash.

The maximum exposure to credit risk as at balance sheet date is the carrying value of accounts receivable mentioned above. The Group does not hold any collateral as security.

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	The Group		The Company	
		2012	2011	2012	2011
Receivable for the sales of mobile handsets	(i)	3,566	–	–	–
Prepaid rental		1,900	1,590	–	1
Deposits and prepayments		2,721	2,624	23	5
Prepaid income taxes		42	696	–	–
Advances to employees		284	285	–	–
Others		1,067	932	–	–
		9,580	6,127	23	6

- (i) The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. As stated in Note 2.24, the total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. For contractual preferential packages with guarantees, the revenue relating to the sale of the handsets is recognised when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handsets.

The aging analysis of prepayments and other current assets is as follows:

	The Group		The Company	
	2012	2011	2012	2011
Within one year	8,901	5,604	23	6
More than one year	679	523	–	–
	9,580	6,127	23	6

As at 31 December 2012, there was no significant impairment for the prepayments and other current assets.

16. SHORT-TERM BANK DEPOSITS – GROUP

	The Group	
	2012	2011
Bank deposits with maturity exceeding three months	4	287
Restricted bank deposits	28	17
	32	304

As at 31 December 2012, restricted bank deposits primarily represented deposits that were subject to externally imposed restrictions as requested by contractors in relation to payables owed to the contractors.

17. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	2012	2011
Cash at bank and in hand	18,250	14,669	153	59
Bank deposits with original maturities of three months or less	–	437	–	437
	18,250	15,106	153	496

18. SHARE CAPITAL – COMPANY

	The Company	
	2012 HKD millions	2011 HKD millions
Authorised: 30,000,000,000 ordinary shares of HKD0.10 each	3,000	3,000

Issued and fully paid:	Number of shares millions	Ordinary shares, par value of HKD0.10 each HKD millions	Share capital	Share premium	Total
Issuance of shares upon exercise of options (Note 36)	3	1	1	36	37
At 31 December 2011	23,565	2,356	2,311	173,472	175,783
Issuance of shares upon exercise of options (Note 36)	–	–	–	1	1
At 31 December 2012	23,565	2,356	2,311	173,473	175,784

19. RESERVES

(a) Nature and purpose

(i) Statutory reserves

CUCL is registered as a foreign investment enterprise in the PRC. In accordance with the Articles of Association, it is required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from profit after tax and non-controlling interests but before dividend distribution.

CUCL is required to allocate at least 10% of its profit after tax and non-controlling interests determined under the PRC Company Law to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon approval obtained from the relevant authority, to offset accumulated losses or increase capital.

Accordingly, CUCL appropriated approximately RMB641 million (2011: approximately RMB271 million) to the general reserve fund for the year ended 31 December 2012.

Appropriation to the staff bonus and welfare fund is made at the discretion of the Board of Directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRSs/HKFRSs, the appropriations to the staff bonus and welfare fund are charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2012 and 2011, no appropriation to staff bonus and welfare fund has been made by CUCL.

According to the PRC tax approval document issued by the Ministry of Finance and State Administration of Taxation to the Group, the Group's upfront connection fees were not subject to the PRC enterprise income tax and an amount equal to the upfront connection fees recognised in the retained profits had been transferred from retained profits to the statutory reserve. As at 31 December 2011, the Group made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to upfront connection fees. No more upfront connection fees will be recognised after 31 December 2011.

(ii) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H, respectively, of the Hong Kong Companies Ordinance and these reserves cannot be distributed to shareholders by way of dividend.

(iii) Investment revaluation reserve

The investment revaluation reserve represents the changes in fair value of financial assets through other comprehensive income, net of tax, until the financial assets are derecognised.

(iv) Convertible bonds reserve

The convertible bonds reserve represents the equity component of the convertible bonds at initial recognition.

19. RESERVES (CONTINUED)

(b) Profit attributable to owners of the parent

For the year ended 31 December 2012, profit attributable to owners of the parent included a profit of approximately RMB3,089 million (2011: approximately RMB4,268 million), which has been dealt with in the financial statements of the Company. As at 31 December 2012, the amount of profit distributable to owners of the parent amounted to approximately RMB2,042 million (2011: approximately RMB2,451 million).

20. LONG-TERM BANK LOANS – GROUP

		The Group	
Interest rates and final maturity		2012	2011
RMB denominated bank loans	Floating interest rate, 15% downward on the benchmark interest rate issued by the People's Bank of China for three years bank borrowings on quarterly basis with maturity through 2013	800	800
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.00% (2011: Nil to 5.00%) per annum with maturity through 2039 (2011: maturity through 2039)	386	411
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2011: 1.10% to 2.50%) per annum with maturity through 2034 (2011: maturity through 2034)	200	223
Sub-total		1,386	1,434
Less: Current portion		(850)	(50)
		536	1,384

As at 31 December 2012, long-term bank loans of approximately RMB107 million (2011: approximately RMB116 million) were guaranteed by third parties.

20. LONG-TERM BANK LOANS – GROUP (CONTINUED)

The repayment schedule of the long-term bank loans is as follows:

	The Group	
	2012	2011
Balances due:		
– not later than one year	850	50
– later than one year and not later than two years	48	848
– later than two years and not later than five years	144	150
– later than five years	344	386
	1,386	1,434
Less: Portion classified as current liabilities	(850)	(50)
	536	1,384

The fair values of the Group's non-current portion of long-term bank loans at 31 December 2012 and 2011 are as follows:

	The Group	
	2012	2011
Long-term bank loans	438	1,225

The fair value is based on cash flows discounted using rates based on the market rates ranging from 3.52% to 3.67% (2011: 4.63% to 5.41%) per annum.

21. PROMISSORY NOTES – GROUP

On 2 April 2010, CUCL issued tranche one of a promissory note in the amount of RMB3 billion, with a maturity date of 3 years from the date of issue and carries interests at 3.73% per annum.

On 20 September 2010, CUCL issued tranche two of a promissory note in the amount of RMB12 billion, with a maturity date of 3 years from the date of issue and carries interests at 3.31% per annum.

The fair value of the Group's promissory notes at 31 December 2012 amounted to approximately RMB14,914 million (2011: approximately RMB14,882 million). The fair value is computed based on the expected cash flows discounted on market rates ranging from 4.36% to 4.37% (2011: 4.71% to 4.79%) per annum.

22. CONVERTIBLE BONDS – GROUP

On 18 October 2010, Billion Express, a wholly-owned subsidiary of the Company, issued 0.75% guaranteed convertible bonds in an aggregate principal amount of USD1,838,800,000 (at the fixed exchange rate of USD1 equivalent to HKD7.7576) which are due in October 2015 at a redemption price of 100% of the principal amount. The bonds are guaranteed by the Company as to repayments, and are convertible into ordinary shares of HKD0.10 per share of the Company at an initial conversion price of HKD15.85 per share. The conversion price is subject to certain anti-dilution and change in control adjustments set out in the Trust deed dated 18 October 2010. An adjustment has been made to the conversion price from HKD15.85 to HKD15.58 as a result of the dividends paid by the Company since the convertible bonds were issued. The bondholders may exercise conversion rights at any time on or after 28 November 2010 up to the close of business on 8 October 2015 or, if such convertible bonds shall have been called for redemption by the Company before 18 October 2015, then up to the close of business on a date no later than seven days prior to the date fixed for redemption thereof. Billion Express will, at the option of a bondholder, redeem all and not some only of such bondholder's convertible bonds on 18 October 2013 at their principal amount together with interest accrued and unpaid to the date fixed for redemption. The convertible bonds are therefore classified as current liabilities as at 31 December 2012. In addition, on or at any time after 18 October 2013 and prior to 18 October 2015, Billion Express may redeem all and not some only of the convertible bonds for the time being outstanding at their principal amount together with interest accrued and unpaid to the date fixed for redemption.

During the years ended 31 December 2012 and 2011, there was no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the convertible bonds made by Billion Express.

The fair value of the liability component, which was calculated using market interest rate for a bond with the same tenure but with no conversion features, was determined upon the issuance of the convertible bonds. The difference between the face value (net of direct issue costs) and the fair value of the liability component was credited to convertible bonds reserve under equity attributable to owners of the parent.

The convertible bonds recognised in the consolidated balance sheet are calculated as follows:

	The Group	
	2012	2011
Movement of liability component:		
Beginning of year	11,118	11,558
Less: interest paid	(87)	(89)
Less: effect of exchange gain on liability component	(28)	(565)
Add: imputed finance cost	212	214
End of year	11,215	11,118

The liability component of the convertible bonds at 31 December 2012 amounted to approximately RMB11,215 million (equivalent to USD1,784 million) (2011: approximately RMB11,118 million, equivalent to USD1,765 million) and was calculated using cash flows discounted at a rate based on the borrowing rate of 1.90% per annum taking into the effect of direct issue costs.

23. CORPORATE BONDS – GROUP

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

On 3 September 2008, the Group issued another RMB5 billion 5-year corporate bonds, bearing interest at 5.29% per annum. The corporate bonds are secured by a corporate guarantee granted by State Grid Corporation of China. These corporate bonds are therefore classified as current liabilities as at 31 December 2012.

The fair values of the Group's corporate bonds at 31 December 2012 and 2011 are as follows:

	The Group	
	2012	2011
Corporate bonds	7,025	7,123

The fair value is based on cash flows discounted using rates based on the market rates ranging from 4.40% to 4.89% (2011: 4.92% to 4.93%) per annum.

24. OTHER OBLIGATIONS – GROUP

	Note	The Group	
		2012	2011
One-off cash housing subsidies	(a)	2,502	2,502
Obligations under finance lease	(b)	344	78
Others		127	94
Sub-total		2,973	2,674
Less: Current portion		(2,642)	(2,586)
		331	88

(a) The movement of one-off cash housing subsidies is as follows:

	One-off cash housing subsidies
As at 1 January 2011, 31 December 2011, and 31 December 2012	2,502

Certain staff quarters, prior to 1998, have been sold to certain of the Group's employees at preferential prices, subject to a number of eligibility requirements. In 1998, the State Council issued a circular which stipulated that the sale of quarters to employees at preferential prices should be terminated. In 2000, the State Council issued a further circular stating that cash subsidies should be made to certain eligible employees following the withdrawal of the allocation of staff quarters. However, the specific timetable and procedures for the implementation of these policies were to be determined by individual provincial or municipal governments based on the particular situation of the provinces or municipality.

24. OTHER OBLIGATIONS – GROUP (CONTINUED)

- (a) The movement of one-off cash housing subsidies is as follows: (Continued)

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who had not been allocated with quarters or who had not been allocated with quarters up to the prescribed standards before the discounted sales of quarters were terminated, the Group has determined to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. Based on the available information, the Group estimated the required provision for these cash housing subsidies amounted to RMB4,142 million, which was charged to the statement of income for the year ended 31 December 2000 (the year in which the Council circular in respect of cash subsidies was issued).

- (b) Obligations under finance lease

The obligations under finance lease represent the payables for the finance lease of telecommunications equipment. The lease payments under finance lease are analysed as follows:

	2012	2011
Total minimum lease payments under finance lease:		
– not later than one year	138	80
– later than one year and not later than two years	224	–
	362	80
Less: Future finance charges	(18)	(2)
Present value of minimum obligations	344	78
Representing obligations under finance lease:		
– current liabilities	127	78
– non-current liabilities	217	–

25. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2012	2011	2012	2011
Payables to contractors and equipment suppliers	81,701	72,068	–	–
Payables to telecommunications products suppliers	5,587	5,203	–	–
Customer/contractor deposits	3,972	3,517	–	–
Repair and maintenance expense payables	2,455	2,325	–	–
Salary and welfare payables	1,581	1,344	6	38
Interest payable	846	832	442	245
Amounts due to services providers/content providers	1,396	1,175	–	–
Accrued expenses	8,035	6,381	17	9
Others	2,913	2,407	–	–
	108,486	95,252	465	292

25. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)

The aging analysis of accounts payable and accrued liabilities is as follows:

	The Group		The Company	
	2012	2011	2012	2011
Less than six months	96,044	85,699	464	291
Six months to one year	7,293	5,483	–	–
More than one year	5,149	4,070	1	1
	108,486	95,252	465	292

26. COMMERCIAL PAPERS – GROUP

On 25 August 2011, CUCL issued tranche one of 2011 commercial papers in an amount of RMB15 billion, with a maturity date of 366 days from the date of issue and carried interest at 5.23% per annum. The commercial papers were fully repaid in August 2012.

On 20 October 2011, CUCL issued tranche two of 2011 commercial papers in an amount of RMB8 billion, with a maturity date of 366 days from the date of issue and carried interest at 5.78% per annum. The commercial papers were fully repaid in October 2012.

On 21 November 2011, CUCL issued tranche five of 2011 super and short-term commercial papers in an amount of RMB15 billion, with a maturity date of 180 days from the date of issue and carried interest at 4.65% per annum. The super and short-term commercial papers were fully repaid in May 2012.

On 16 May 2012, CUCL issued tranche one of 2012 super and short-term commercial papers in an amount of RMB15 billion, with a maturity date of 60 days from the date of issue and carried interests at 3.88% per annum. The super and short-term commercial papers were fully repaid in July 2012.

On 12 July 2012, CUCL issued tranche one of 2012 commercial papers in an amount of RMB15 billion, with a maturity date of 365 days from the date of issue and carries interests at 3.45% per annum.

On 28 August 2012, CUCL issued tranche two of 2012 super and short-term commercial papers in an amount of RMB15 billion, with a maturity date of 60 days from the date of issue and carried interests at 3.70% per annum. The super and short-term commercial papers were fully repaid in October 2012.

On 24 October 2012, CUCL issued tranche two of 2012 commercial papers in an amount of RMB15 billion, with a maturity date of 365 days from the date of issue and carries interests at 4.20% per annum.

On 25 October 2012, CUCL issued tranche three of 2012 commercial papers in an amount of RMB8 billion, with a maturity date of 365 days from the date of issue and carries interests at 4.20% per annum.

The carrying values of commercial papers approximate their fair values as at the balance sheet date.

27. SHORT-TERM BANK LOANS

		The Group		The Company	
		2012	2011	2012	2011
	Interest rates and final maturity				
RMB denominated bank loans	Fixed interest rates ranging from 3.62% to 5.27% (2011:1.09% to 4.12%) per annum with maturity through 2013 (2011: maturity through 2012)	39,780	1,000	–	600
RMB denominated bank loans	Floating interest rates, 0% downward on the benchmark interest rate issued by the People's Bank of China with maturity through 2012	–	16,810	–	–
HKD denominated bank loans	Floating interest rates of HKD HIBOR plus interest margin from 1.00% to 2.15% (2011: 0.63% to 2.15%) per annum with maturity through 2013 (2011: maturity through 2012)	29,395	14,512	29,395	14,512
Total		69,175	32,322	29,395	15,112

The carrying values of short-term bank loans approximate their fair values as at the balance sheet date.

28. REVENUE – GROUP

The tariffs for the services provided by the Group are subject to regulations by various government authorities, including the National Development and Reform Commission (“NDRC”), the Ministry of Industry and Information (“MIIT”) and the provincial price regulatory authorities.

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to approximately RMB7,339 million for the year ended 31 December 2012 (2011: approximately RMB6,352 million).

28. REVENUE – GROUP (CONTINUED)

The major components of revenue are as follows:

	2012	2011
Mobile business		
– Usage and monthly fees	61,019	54,186
– Value-added services revenue	52,102	37,880
– Interconnection fees	12,469	10,726
– Other service revenue	446	515
Total service revenue from mobile business	126,036	103,307
Fixed-line business		
– Usage and monthly fees	20,151	24,116
– Broadband, data and other Internet-related services revenue	43,132	38,500
– Interconnection fees	4,224	4,579
– Value-added services revenue	4,367	4,562
– Leased line income	8,086	6,859
– Information communication technology services revenue	2,240	1,634
– Upfront connection fees	–	15
– Other service revenue	1,013	1,377
Total service revenue from fixed-line business	83,213	81,642
Other service revenue	878	936
Total service revenue	210,127	185,885
Sales of telecommunications products	38,799	23,282
	248,926	209,167

29. NETWORKS, OPERATIONS AND SUPPORT EXPENSES – GROUP

	2012	2011
Repair and maintenance	10,426	9,581
Power and water charges	10,881	9,893
Operating leases for networks, premises, equipment and facilities	10,105	8,978
Others	1,104	997
	32,516	29,449

30. EMPLOYEE BENEFIT EXPENSES – GROUP

	Note	2012	2011
Salaries and wages		22,360	20,904
Contributions to defined contribution pension schemes		3,200	2,860
Contributions to medical insurance		1,270	1,111
Contributions to housing fund		1,743	1,524
Other housing benefits		191	185
Share-based compensation	36	14	17
		28,778	26,601

30.1 Directors' emoluments

The remuneration of every Director for the year ended 31 December 2012 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Other benefits Note(a) (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Chang Xiaobing		–	300	687	3	33	1,023
Lu Yimin		–	300	680	–	33	1,013
Tong Jilu		–	250	615	2	33	900
Li Fushen		–	250	615	–	33	898
Cesareo Alierta Izuel		244	–	–	–	–	244
Cheung Wing Lam Linus		334	–	–	–	–	334
Wong Wai Ming		342	–	–	–	–	342
John Lawson Thornton		334	–	–	–	–	334
Chung Shui Ming Timpson		334	–	–	–	–	334
Cai Hongbin		350	–	–	–	–	350
Law Fan Chiu Fun, Fanny	(b)	34	–	–	–	–	34
Total		1,972	1,100	2,597	5	132	5,806

30. EMPLOYEE BENEFIT EXPENSES – GROUP (CONTINUED)

30.1 Directors' emoluments (Continued)

The remuneration of every Director for the year ended 31 December 2011 is set out below:

Name of Director	Note	Fees (RMB'000)	Salaries and allowance (RMB'000)	Bonuses paid and payable (RMB'000)	Other benefits Note(a) (RMB'000)	Contributions to pension schemes (RMB'000)	Total (RMB'000)
Chang Xiaobing		–	300	660	5	30	995
Lu Yimin		–	300	654	–	30	984
Tong Jilu		–	250	585	3	30	868
Li Fushen	(c)	–	190	444	–	23	657
Cesareo Alierta Izuel		248	–	–	–	–	248
Cheung Wing Lam Linus		339	–	–	–	–	339
Wong Wai Ming		348	–	–	–	–	348
John Lawson Thornton		329	–	–	–	–	329
Chung Shui Ming Timpson		329	–	–	–	–	329
Cai Hongbin		335	–	–	–	–	335
Zuo Xunsheng	(d)	–	61	147	–	5	213
Total		1,928	1,101	2,490	8	118	5,645

Note:

- (a) Other benefits represent the share-based compensation cost recognised for the relevant period for the share options granted to the directors of the Company under the Company's share option schemes.
- (b) Mrs. Law Fan Chiu Fun, Fanny was appointed as an independent non-executive director on 21 November 2012.
- (c) Mr. Li Fushen was appointed as executive director on 30 March 2011.
- (d) Mr. Zuo Xunsheng resigned as executive director on 30 March 2011.

During 2012 and 2011, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2012 and 2011.

During 2012 and 2011, the Company did not incur any payment to any director for loss of office or as an inducement to any director to join the Company.

30.2 Senior management's emoluments

Of the nine senior management of the Company for the year ended 31 December 2012, four of them are directors of the Company and their remuneration has been disclosed in Note 30.1. For the remuneration of the nine senior management, seven fall within the band from RMBNil to RMB1,000,000 and two fall within the band from RMB1,000,001 to RMB1,500,000.

30. EMPLOYEE BENEFIT EXPENSES – GROUP (CONTINUED)

30.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2012, two (2011: two) of them are existing directors of the Company and their remuneration has been disclosed in Note 30.1. For the remuneration of the remaining three (2011: three), one falls within the band from RMB Nil to RMB1,000,000; one falls within the band from RMB1,000,001 to RMB1,500,000 and one falls within the band from RMB1,500,001 to RMB2,000,000 (2011: one falls within the band from RMB Nil to RMB1,000,000 and two fall within the band from RMB1,000,001 to RMB1,500,000).

The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012 (RMB'000)	2011 (RMB'000)
Salaries and allowances	3,054	3,108
Bonuses paid and payable	475	647
Contributions to pension schemes	31	30
Other benefits (Note 30.1(a))	–	–
	3,560	3,785

31. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD – GROUP

	2012	2011
Handsets and other customer end products	43,894	28,663
Telephone cards	970	901
Others	176	175
	45,040	29,739

32. OTHER OPERATING EXPENSES – GROUP

	2012	2011
Provision for doubtful debts	3,150	2,645
Cost in relation to information communications technology services	1,978	1,410
Commission expenses	21,454	17,457
Advertising and promotion expenses	4,860	4,271
Customer installation cost	3,173	2,577
Customer acquisition and retention cost	5,550	4,445
Auditors' remuneration	68	67
Property management fee	2,010	1,667
Office and administrative expenses	3,554	3,555
Transportation expense	2,081	1,988
Miscellaneous taxes and fees	796	757
Others	2,578	2,747
	51,252	43,586

33. FINANCE COSTS – GROUP

	Note	2012	2011
Finance costs:			
– Interest on bank loans repayable within 5 years		1,776	1,338
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		2,533	1,820
– Interest on convertible bonds repayable within 5 years		212	214
– Interest on related parties loans repayable within 5 years		14	20
– Interest on bank loans repayable over 5 years		2	3
– Interest on corporate bonds repayable over 5 years		90	90
– Less: Amounts capitalised in construction-in-progress	6	(1,498)	(1,151)
Total interest expense		3,129	2,334
– Exchange loss/(gain), net		75	(1,207)
– Others		460	347
		3,664	1,474

34. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA IN EACH OTHER

On 6 September 2009, the Company announced that in order to strengthen the cooperation between the Company and Telefónica, the parties entered into a strategic alliance agreement and a subscription agreement, pursuant to which each party conditionally agreed to invest an equivalent of USD1 billion in each other through an acquisition of each other's shares.

On 23 January 2011, the Company entered into an agreement to enhance the strategic alliance with Telefónica that: (a) Telefónica would purchase ordinary shares of the Company for a consideration of USD500 million through acquisition from third parties; and (b) the Company would acquire from Telefónica 21,827,499 ordinary shares of Telefónica held in treasury ("Telefónica Treasury Shares") for an aggregate purchase price of Euro374,559,882.84. On 25 January 2011, the Company completed the purchase of Telefónica Treasury Shares in accordance with the strategic agreement. During 2011, Telefónica completed its investment of USD500 million in the Company.

As at 31 December 2012, the related financial assets at fair value through other comprehensive income amounted to approximately RMB5,442 million (2011: approximately RMB6,837 million). For the year ended 31 December 2012, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB1,541 million (2011: decrease of approximately RMB2,616 million). The decrease, net of tax impact, of approximately RMB1,156 million (2011: decrease, net of tax impact, of approximately RMB1,962 million), was recorded in the consolidated statement of comprehensive income.

35. OTHER INCOME – NET – GROUP

	2012	2011
Dividend income from financial assets at fair value through other comprehensive income	415	867
Others	928	584
	1,343	1,451

36. EQUITY-SETTLED SHARE OPTION SCHEMES

36.1 Share option scheme (the “Share Option Scheme”)

On 1 June 2000, the Company adopted the Share Option Scheme pursuant to which the Board of Directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up share options to subscribe for shares up to a maximum aggregate number of shares not exceeding 10% of the total issued share capital of the Company. Pursuant to the Share Option Scheme, the nominal consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Board of Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

- (i) the nominal value of the share; and
- (ii) 80% of the average of the closing prices of shares on the SEHK on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the SEHK.

The period during which an option may be exercised will be determined by the Board of Directors at their discretion, except that no option may be exercised later than 10 years from 22 June 2000.

The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in the Chapter 17 of the Listing Rules which came into effect on 1 September 2001 with the following major amendments:

- (i) share options may be granted to employees including executive directors of the Group or any of the non-executive directors;
- (ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and
- (iii) minimum subscription price shall not be less than the higher of:
 - the nominal value of the shares;
 - the closing price of the shares of the stock exchange as stated in the stock exchange’s quotation sheets on the offer date in respect of the share options; and
 - the average closing price of the shares on the stock exchange’s quotation sheets for the five trading days immediately preceding the offer date.

On 11 May 2007, the Company further amended the Share Option Scheme with major amendments related to the exercise of options upon cessation of employment. These amendments are made in order to reduce the administrative burden on the Company to monitor outstanding options for grantees whose employment has been terminated.

On 26 May 2009, the Company further amended the Share Option Scheme with major amendments related to the exercise period.

All of the share options granted under Note 36.1 are governed by the amended terms of the Share Option Scheme as mentioned above.

36. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

36.2 Special Purpose Unicom Share Option Scheme (the “Special Purpose Share Option Scheme”)

Pursuant to the ordinary resolution passed by the shareholders on 16 September 2008, the Company adopted the Special Purpose Share Option Scheme in connection with the merger of the Company and China Netcom by way of a scheme of arrangement of China Netcom under Section 166 of the Companies Ordinance for the granting of options to holders of China Netcom options outstanding at 14 October 2008 (“Eligible Participants”). Pursuant to this scheme, no fractional options can be granted and the maximum number of shares which may be issued upon the exercise of all options granted under this scheme and any other share options schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of this scheme.

The number of options and exercise price of options granted under the Special Purpose Share Option Scheme are as follows:

- (i) The exercise price of options under this scheme is equal to (a) the exercise price of an outstanding China Netcom option held by the Eligible Participants divided by (b) the share exchange ratio 1.508.
- (ii) The total number of options granted by the Company to all Eligible Participants under this scheme shall be equal to the product of (a) the share exchange ratio and (b) the number of China Netcom options outstanding as at 14 October 2008.

The above formula ensures that the value of options granted under this scheme received by a holder of China Netcom options is equivalent to the “see-through” price of that holder’s outstanding China Netcom options.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 30 September 2014.

On 26 May 2009, the Company amended the Special Purpose Share Option Scheme relating to the exercise period. For details, please refer to Note (i) under 36.3 “Share option information” in this section.

No further options can be granted under the Special Purpose Share Option Scheme.

36.3 Share option information

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	The Company			
	2012		2011	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year	6.49	391,481,158	6.59	396,012,118
Granted	–	–	–	–
Lapsed	–	–	15.42	(1,806,000)
Exercised	6.35	(150,000)	14.77	(2,724,960)
Balance, end of year	6.49	391,331,158	6.49	391,481,158
Exercisable at end of year	6.49	391,331,158	6.49	391,481,158

36. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

36.3 Share option information (Continued)

Exercise of share options during the year ended 31 December 2012 resulted in 150,000 shares being issued (2011: 2,724,960), with exercise proceeds of approximately RMB0.77 million (2011: RMB35 million).

As at balance sheet date, information of outstanding share options is summarised as follows:

Date of options grant	Vesting period	Exercisable period (Note i)	The price per share to be paid on exercise of options	Number of share options outstanding as at 31 December 2012	Number of share options outstanding as at 31 December 2011
Share options granted under the Share Option Scheme:					
21 May 2003	21 May 2003 to 21 May 2006	21 May 2004 to 20 May 2013	HKD4.30	8,956,000	8,956,000
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2013	HKD5.92	41,024,000	41,024,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2013	HKD6.20	654,000	654,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2014	HKD6.35	151,406,000	151,556,000
Share options granted under the Special Purpose Share Option Scheme:					
15 October 2008	15 October 2008 to 17 May 2009	15 October 2008 to 16 November 2013	HKD5.57	100,361,690	100,361,690
15 October 2008	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2013	HKD8.26	88,929,468	88,929,468
				391,331,158	391,481,158

The options outstanding as at 31 December 2012 had a weighted average remaining contractual life of 0.94 years (2011: 0.94 years).

36. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

36.3 Share option information (Continued)

Note i: In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board of Directors pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the Board of Directors as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" continued to be in force, the Board of Directors further extended the exercise periods of certain share options by one year in each of March 2010, 2011, 2012 and 2013 under the relevant terms of the Share Option Scheme. As at 31 December 2012, approximately 23,440,000 share options held by Transferred Personnel remained valid.

Furthermore, in each of March 2010, 2011, 2012 and 2013, the expiry dates for certain share options were extended by one year by the Board of Directors pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable due to "Mandatory Moratorium", which is still in force, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme. The 2013 modification is not expected to have significant impact on the consolidated statement of income for the year ending 31 December 2013.

Details of share options exercised during 2012 and 2011 are as follows:

For the year ended 31 December 2012:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
15 February 2006	6.35	13.34	952,500	150,000

For the year ended 31 December 2011:

Grant date	Exercisable price HKD	Weighted average closing price per share at respective days immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares involved
30 June 2001	15.42	16.32	39,228,480	2,544,000
15 October 2008	5.57	15.62	1,007,947	180,960
			40,236,427	2,724,960

For the year ended 31 December 2012, employee share-based compensation expenses amounted to approximately RMB14 million (2011: approximately RMB17 million).

37. DIVIDENDS

At the annual general meeting held on 29 May 2012, the shareholders of the Company approved the payment of a final dividend of RMB0.10 per ordinary share for the year ended 31 December 2011 totaling approximately RMB2,356 million which has been reflected as a reduction of retained profits for the year ended 31 December 2012. As at 31 December 2012, all dividends have been paid by the Company, except for dividends payable of approximately RMB552 million to Unicom BVI.

At a meeting held on 21 March 2013, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.12 per ordinary share to the shareholders for the year ended 31 December 2012 totaling approximately RMB2,828 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2012, but will be reflected as an appropriation of retained profits in the financial statements for the year ended 31 December 2013.

	2012	2011
Proposed final dividend:		
RMB0.12 (2011: RMB0.10) per ordinary share by the Company	2,828	2,356

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from State Administration of Taxation, pursuant to which the Company qualifies as a TRE from 1 January 2008. Therefore, as at 31 December 2012, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

For the Company's non-TRE enterprise shareholders, the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-TRE enterprise shareholders thereon and reclassify the related dividend payable to withholding tax payable upon the declaration of such dividends. The requirement to withhold tax does not apply to the Company's shareholders appearing as individuals in its share register.

38. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2012 and 2011 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share for the years ended 31 December 2012 and 2011 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. All potential ordinary shares for the years ended 31 December 2012 and 2011 arose from (i) share options granted under the amended Share Option Scheme; (ii) share options granted under the amended Special Purpose Share Option Scheme; and (iii) the convertible bonds.

The potential ordinary shares which are not dilutive for the years ended 31 December 2011 arose from the convertible bonds with initial conversion price of HKD15.85, which were excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

38. EARNINGS PER SHARE (CONTINUED)

The following table sets forth the computation of basic and diluted earnings per share:

	2012	2011
Numerator (in RMB millions):		
Profit attributable to owners of the parent used in computing basic earnings per share	7,096	4,227
Imputed finance cost on the liability component of convertible bonds	212	–
Profit attributable to owners of the parent used in computing diluted earnings per share	7,308	4,227
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,565	23,564
Dilutive equivalent shares arising from share options	190	221
Dilutive equivalent shares arising from convertible bonds	909	–
Shares used in computing diluted earnings per share	24,664	23,785
Basic earnings per share (in RMB)	0.30	0.18
Diluted earnings per share (in RMB)	0.30	0.18

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits, financial assets at fair value through other comprehensive income, accounts receivable, amounts due from related parties and domestic carriers. Financial liabilities of the Group mainly include accounts payable and accrued liabilities, short-term bank loans, commercial papers, corporate bonds, promissory notes, long-term bank loans, convertible bonds, other obligations and amounts due to ultimate holding company, related parties and domestic carriers.

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Cash and cash equivalents, short-term bank deposits and financial assets at fair value through other comprehensive income denominated in foreign currencies, as summarised below, have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2012 and 2011.

	The Group					
	2012			2011		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	244	0.81	198	411	0.81	333
– denominated in US dollars	85	6.29	533	45	6.30	282
– denominated in Euro	1	8.32	11	14	8.16	114
– denominated in Japanese Yen	25	0.07	2	12	0.08	1
– denominated in Singapore dollars	0.3	5.09	2	0.1	4.87	1
– denominated in GBP	1.6	10.16	16	0.4	9.71	4
Sub-total			762			735
Short-term bank deposits:						
– denominated in HK dollars	–	0.81	–	65	0.81	53
– denominated in US dollars	–	6.29	–	30	6.30	186
Sub-total			–			239
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	654	8.32	5,442	838	8.16	6,837
Total			6,204			7,811

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	The Company					
	2012			2011		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	127	0.81	103	389	0.81	315
– denominated in US dollars	7	6.29	44	10	6.30	65
– denominated in Euro	–	8.32	–	13	8.16	110
Sub-total			147			490
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	654	8.32	5,442	838	8.16	6,837
Total			5,589			7,327

The Group did not have and does not believe it will have any difficulties in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China. The carrying amounts of the Group's cash and cash equivalents, short-term bank deposits, financial assets at fair value through other comprehensive income, other current financial assets and liabilities approximated their fair values as at 31 December 2012 and 2011 due to the nature or short maturity of those instruments.

The carrying amounts of receivables and payables which are all subject to normal trade credit terms approximated their fair value as at the balance sheet date.

In connection with the fair value of the Group's non-current portion of long-term bank loans, promissory notes and corporate bonds, please refer to the respective notes for details.

40. RELATED PARTY TRANSACTIONS – GROUP

Unicom Group is a state-owned enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

The PRC government controls a significant portion of the productive assets and entities in the PRC. The Group provides telecommunications services as part of its retail transactions, thus, is likely to have extensive transactions with the employees of other state-controlled entities, including their key management personnel and their close family members. These transactions are carried out on commercial terms that are consistently applied to all customers.

Management considers certain state-owned enterprises, which mainly include other telecommunications services operators, have material transactions with the Group in its ordinary course of business. These transactions are mainly carried out on terms comparable to those conducted with third parties or standards promulgated by relevant government authorities and have been reflected in the financial statements. The Group's telecommunications networks depend, in large part, on interconnection with the networks and on transmission lines leased from other domestic carriers. Management believes that meaningful information relating to related party transactions has been disclosed below.

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

40.1 Connected transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group and its subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Note	2012	2011
Transactions with Unicom Group and its subsidiaries:			
Leasing fee of Telecommunications Networks in Southern China	(i)	2,600	2,400
Charges for value-added telecommunications services	(i), (ii)	13	51
Rental charges for property leasing	(i), (iii)	922	954
Charges for lease of telecommunications resources	(i), (iv)	293	307
Charges for engineering design and construction services	(i), (v)	2,890	2,728
Charges for shared services	(i), (vi)	186	177
Charges for equipment procurement services	(i), (vii)	394	227
Charges for ancillary telecommunications services	(i), (viii)	1,447	1,174
Charges for comprehensive support services	(i), (ix)	240	171
Income from comprehensive support services	(i), (ix)	93	108

(i) On 29 October 2010, CUCL entered into the new agreements, "2011-2012 Network Lease Agreement" with Unicom New Horizon, and "2011 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions as disclosed in the table above. Major changes of the key terms of the new agreements are set out as follows:

- **2011-2012 Network Lease Agreement**

Pursuant to 2011-2012 Network Lease Agreement, the lease of Telecommunications Networks in Southern China has extended to another two years effective from 1 January 2011 to 31 December 2012 and is 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, taking into account, among others, the then prevailing market conditions in Southern China. The annual fee payable by CUCL for the lease for the year ended 31 December 2011 was RMB2.4 billion and for the year ended 31 December 2012 was RMB2.6 billion, respectively. The 2011-2012 Network Lease Agreement expired on 31 December 2012.

- **2011 Comprehensive Services Agreement**

2011 Comprehensive Services Agreement has a term of three years commencing on 1 January 2011 and expiring on 31 December 2013, and the service fees payable shall be calculated on the same basis as under previous agreements.

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

40.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

(a) Recurring transactions (Continued)

- (ii) UNISK (Beijing) Information Technology Corporation Limited (“UNISK”) agreed to provide the mobile subscribers of CUCL with various types of value-added services through its cellular communication network and data platform. The Group retains a portion of the revenue generated from the value-added services provided to the Group’s subscribers (and actually received by the Group) and allocates a portion of such fees to UNISK for settlement, on the condition that such proportion allocated to UNISK does not exceed the average proportion allocated to independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region. The percentage of revenue to be allocated to UNISK by the Group varies depending on the types of value-added service provided to the Group.
- (iii) CUCL and Unicom Group agreed to mutually lease premises, equipment and facilities from each other. Rentals are based on the lower of the market rates or the depreciation costs and taxes.
- (iv) Unicom Group agreed to lease to CUCL certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) and certain other telecommunications facilities for its operations. The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and facilities provided that such charges would not be higher than market rates. For maintenance service to the telecommunications facilities aforementioned, unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL and determined with reference to market rates or a cost-plus basis if there are no market rates.
- (v) Unicom Group agreed to provide engineering design, construction and supervision services and IT services to CUCL. The charges payable by CUCL for the above services are determined with reference to the market price and are settled when the relevant services are provided.
- (vi) Unicom Group and CUCL agreed to provide shared services to each other and would share the costs related to the shared services proportionately in accordance with their respective total assets value with certain adjustments.
- (vii) Unicom Group agreed to provide comprehensive procurement services for imported and domestic telecommunications equipment and other domestic non-telecommunications equipment to CUCL. Unicom Group has also agreed to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above equipment and materials procurement. The charges payable by CUCL to Unicom Group are based on contract values, market rates, government guidance price or cost-plus basis where applicable.
- (viii) Unicom Group agreed to provide ancillary telecommunications services to CUCL. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisitions and servicing and other customers’ service. The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

40.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

(a) Recurring transactions (Continued)

- (ix) Unicom Group and CUCL agreed to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities mentioned in (iv) above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services). The charges are based on market rates, government guidance price or cost-plus basis and are settled as and when the relevant services are provided.
- (x) Unicom Group is the registered proprietor of the “Unicom” trademark in English and the trademark bearing the “Unicom” logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark licence agreement between Unicom Group and the Group, the Group has been granted the right to use these trademarks on a royalty free and renewal basis.

(b) Non-recurring transactions

- (i) *Acquisition of Unicom New Horizon*
On 26 December 2012, CUCL completed the acquisition of Unicom New Horizon from Unicom Group (Note 1). Following the completion of the acquisition, the transaction between Unicom New Horizon and the Group will no longer be disclosed as a related party transaction in the consolidated financial statements as they will be eliminated on consolidation.
- (ii) *Acquisition of Unicom NewSpace*
On 1 December 2011, Broadband Online completed the acquisition of Unicom NewSpace (Note 1). The purchase of Unicom NewSpace has been accounted for using merger accounting in accordance with AG 5. Accordingly, the transactions between Unicom NewSpace and the Group were eliminated and be no longer disclosed as related party transactions in the consolidated financial statements.

(c) Amounts due from and to related parties/Unicom Group and its subsidiaries

Amounts due to related parties as at 31 December 2011 included the unsecured short-term loans from China Netcom Corporation (BVI) Limited of HKD2,630 million with interest rate at HIBOR plus 0.8% per annum (equivalent to approximately RMB2,132 million) and from Unicom Group BVI of HKD30 million with interest rate at HIBOR plus 0.1% per annum (equivalent to approximately RMB24 million), respectively. In 2012, the Company fully repaid the loans.

Amounts due to Unicom Group as at 31 December 2012 and 2011 included the consideration payable in connection with 2011 Business Combination of approximately RMB158 million.

Apart from the short-term loans as aforementioned, amounts due from and to related parties, Unicom Group, and its subsidiaries are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with related parties/Unicom Group and its subsidiaries as described in (a) above.

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

40.2 Domestic carriers

(a) Significant recurring transactions with domestic carriers

The following is a summary of significant transactions with domestic carriers in the ordinary course of business:

	Note	The Group	
		2012	2011
Interconnection revenue	(i)	14,487	13,253
Interconnection charges	(i)	16,952	14,861
Leased line revenue	(ii)	249	283
Leased line charges	(ii)	260	116
Engineering design and technical service revenue	(iii)	233	219

- (i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's networks and the networks of domestic carriers. The interconnection settlements are calculated in accordance with interconnection agreements reached between the branches of the Group and domestic carriers on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MIIT.
- (ii) Leased line charges are paid or payable to domestic carriers by the Group for the provision of transmission lines. At the same time, the Group leases transmission lines to domestic carriers in return for leased line rental income. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.
- (iii) Engineering design and technical service revenue mainly represents the amounts due from domestic carriers for the provision of engineering design and technical services based on their demands and requirements by the Group. The prices are determined based on standards promulgated by the relevant government authorities.

(b) Amounts due from and to domestic carriers

	The Group	
	2012	2011
Amounts due from domestic carriers		
– Receivables for interconnection revenue, leased line revenue and engineering design and technical service revenue	755	1,230
– Less: Provision for doubtful debts	(17)	(49)
	738	1,181
Amounts due to domestic carriers		
– Payables for interconnection charges and leased lines charges	1,163	1,344

All amounts due from and to domestic carriers are unsecured, interest-free and repayable within one year.

41. CONTINGENCIES AND COMMITMENTS

41.1 Capital commitments

As at 31 December 2012 and 2011, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	The Group			2011
	2012			
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	730	7,495	8,225	7,187
Authorised but not contracted for	154	1,316	1,470	1,630
	884	8,811	9,695	8,817

41.2 Operating lease commitments

As at 31 December 2012 and 2011, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	The Group			2011
	2012			
	Land and buildings	Equipment	Total	Total
Leases expiring:				
– not later than one year	1,532	560	2,092	4,433
– later than one year and not later than five years	3,806	1,378	5,184	4,574
– later than five years	583	162	745	601
	5,921	2,100	8,021	9,608

As at 31 December 2012 and 2011, the Company had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	The Company	
	2012	2011
Office premise lease expiring:		
– not later than one year	15	3
– later than one year and not later than five years	23	–
	38	3

41. CONTINGENCIES AND COMMITMENTS (CONTINUED)

41.3 Contingent liabilities

As aforementioned in Note 28, the tariffs for the services provided by the Group are subject to regulations by various government authorities. In 2008, the NDRC investigated the compliance with tariffs regulations of several branches of CUCL and China Netcom (Group) Company Limited, which merged with CUCL on 1 January 2009. Based on management's assessment and continuous discussions with MIIT and NDRC, management considered that the Group complied with the regulations issued by the relevant government authorities, and the likelihood of material future cash outflow as a result of the investigation is remote. Accordingly, no provisions were recorded as at 31 December 2012 and 2011.

In addition, in 2011, the NDRC investigated the alleged monopolistic conducts in the broadband internet business of the Group. Based on management's assessment and continuous discussions with NDRC, management considered the likelihood of material future cash outflow as a result of the investigation is remote. Accordingly, no provisions were recorded as at 31 December 2012 and 2011.

41.4 Guarantee

The Company provides guarantee in favour of the convertible bondholders in respect of the outstanding convertible bonds issued by Billion Express amounted to USD1,838,800,000 as at 31 December 2012 (2011: USD1,838,800,000)(Note 22).

42. EVENTS AFTER BALANCE SHEET DATE

Proposed dividend

After the balance sheet date, the Board of Directors proposed a final dividend for 2012. For details, please refer to Note 37.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 21 March 2013.

Financial Summary

For the five-year ended 31 December 2012

(All amounts in RMB millions, except per share data)

Selected financial summary for 2008 to 2012, including selected consolidated statement of income data and consolidated balance sheet data for 2008, 2009, 2010, 2011 and 2012 were prepared in accordance with IFRSs/HKFRSs.

RESULTS

Selected Statement of Income Data

	2012	2011	2010	2009	2008
Continuing operations					
Revenue	248,926	209,167	171,370	154,026	159,867
Interconnection charges	(18,681)	(16,380)	(13,727)	(12,955)	(13,038)
Depreciation and amortisation	(61,057)	(58,021)	(54,654)	(47,745)	(52,109)
Networks, operations and support expenses	(32,516)	(29,449)	(26,387)	(23,740)	(18,739)
Employee benefit expenses	(28,778)	(26,601)	(23,348)	(21,947)	(20,775)
Costs of telecommunications products sold	(45,040)	(29,739)	(10,688)	(2,689)	(2,156)
Other operating expenses	(51,252)	(43,586)	(37,597)	(34,051)	(35,859)
Finance costs	(3,664)	(1,474)	(1,749)	(1,036)	(3,269)
Interest income	240	230	143	92	265
Impairment loss on property, plant and equipment	–	–	–	–	(12,907)
Realised gain on changes in fair value of derivative financial instrument	–	–	–	1,239	–
Other income – net	1,343	1,451	1,221	962	2,143
Profit from continuing operations before income tax	9,521	5,598	4,584	12,156	3,423
Income tax expenses	(2,425)	(1,371)	(883)	(2,692)	(1,664)
Profit from continuing operations	7,096	4,227	3,701	9,464	1,759
Discontinued operations					
Profit from discontinued operations	–	–	–	–	1,438
Gain on disposal of discontinued operations	–	–	–	–	26,135
Profit for the year	7,096	4,227	3,701	9,464	29,332
Attributable to:					
Owners of the parent	7,096	4,227	3,701	9,464	29,332
Earnings per share for profit attributable to owners of the parent					
– basic (RMB)	0.30	0.18	0.16	0.40	1.23
– diluted (RMB)	0.30	0.18	0.16	0.40	1.22
Earnings per share for profit from continuing operations attributable to owners of the parent					
– basic (RMB)	0.30	0.18	0.16	0.40	0.07
– diluted (RMB)	0.30	0.18	0.16	0.40	0.07
Earnings per share for profit from discontinued operations attributable to owners of the parent					
– basic (RMB)	–	–	–	–	1.16
– diluted (RMB)	–	–	–	–	1.15

RESULTS (CONTINUED)

Selected Balance Sheet Data

	2012	2011	2010	2009	2008
Property, plant and equipment	430,997	381,859	365,654	350,976	315,526
Financial assets at fair value through other comprehensive income	5,567	6,951	6,214	7,977	95
Current assets	48,174	38,803	42,327	30,700	38,468
Accounts receivable	13,753	11,412	9,304	8,835	9,389
Cash and cash equivalents	18,250	15,106	22,597	7,895	10,315
Total assets	516,124	456,233	441,269	417,008	380,438
Current liabilities	302,320	213,927	198,233	199,818	134,398
Accounts payable and accrued liabilities	108,486	95,252	97,666	104,096	73,933
Short-term bank loans	70,025	32,372	36,785	63,971	11,996
Commercial papers	38,000	38,000	23,000	–	10,000
Current portion of promissory notes	15,000	–	–	–	–
Current portion of corporate bonds	5,000	–	–	–	–
Convertible bonds	11,215	11,118	11,558	–	–
Long-term bank loans	536	1,384	1,462	759	997
Long-term loans due to ultimate holding company	–	–	–	–	35,652
Promissory notes	–	15,000	15,000	–	–
Corporate bonds	2,000	7,000	7,000	7,000	7,000
Total liabilities	306,619	250,335	235,608	210,571	183,143
Total equity	209,505	205,898	205,661	206,437	197,295



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 the Company's competitive position; the Company's business strategies and plans, including those relating to the Company's networks, products and services, as well as sales and marketing, in particular, such networks, products and services, sales and marketing in respect of the Company's 3G business; the Company's future business condition, future financial results, cash flows, financing plans and dividends; the future growth of market demand of, and opportunities for, the Company's new and existing products and services, in particular, 3G services; and future regulatory and other developments in the PRC telecommunications industry.

The words "anticipate", "believe", "could", "estimate", "intend", "may", "seek", "will" and similar expressions, as they relate to the Company, are intended to identify certain of these forward-looking statements. The Company does not intend to update any of these forward-looking statements.

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 the Company's current views with respect to future events and are not a guarantee of the Company's 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 (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, and other relevant government authorities of the PRC;
- changes in the PRC telecommunications industry resulting from the issuance of 3G licenses by the central government of the PRC;
- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;
- changes in telecommunications and related technologies and applications based on such technologies;
- the level of demand for telecommunications services, in particular, 3G services;
- competitive forces from more liberalized markets and the Company's ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;
- effects of competition on the demand and price of the Company's telecommunications services;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;
- the results of the anti-monopoly investigation by the National Development and Reform Commission of the PRC relating to the price charged for Internet dedicated leased line access service provided by the Company to Internet service providers;
- changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans; and
- changes in the political, economic, legal and social conditions in the PRC, including the PRC government's policies and initiatives with respect to economic development in light of the recent global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the PRC telecommunications market and structural changes in the PRC telecommunications industry.

Please also see the "Risk Factors" section of the Company's latest Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission.

www.chinaunicom.com.hk

China Unicom (Hong Kong) Limited

75th Floor, The Center, 99 Queen's Road Central, Hong Kong
Tel (852) 2126 2018 Fax (852) 2126 2016

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